kuraray

Specialty Products for Global Needs

Annual Report 2012 For the year ended March 31, 2012

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

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

MANAGEMENT PHILOSOPHY

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

CORPORATE PHILOSOPHY
(Established in 1986)

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

GUIDELINES for ACTION
(Established in 1986)

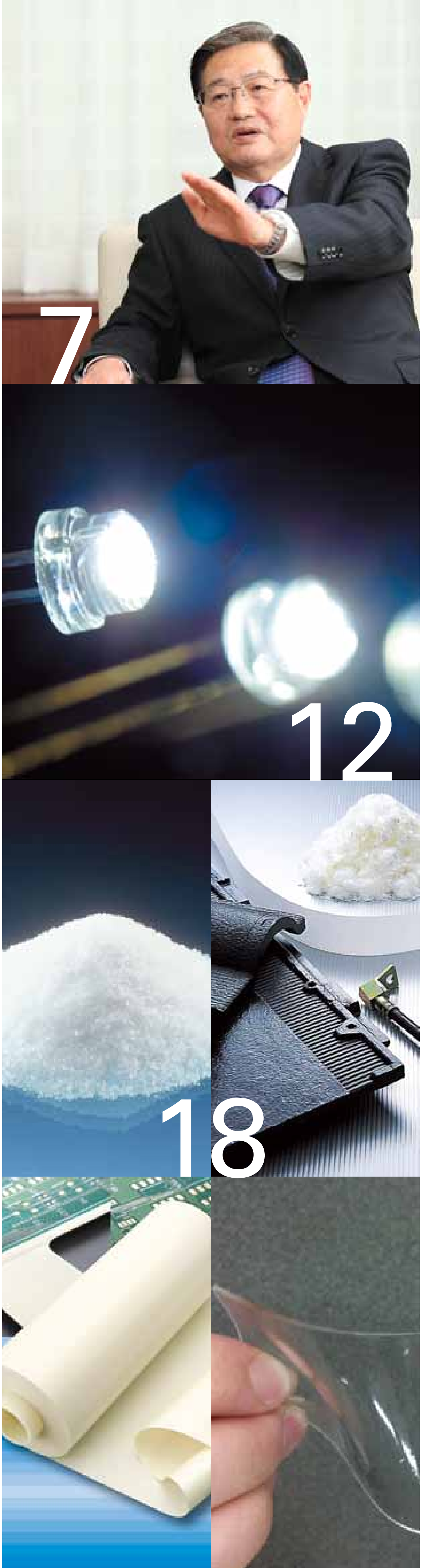
- Act on customers' needs
- Act on ideas in the working place
- Act on your own initiative

CORPORATE MISSION
(Established in 2003)

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

PRINCIPLES for BUSINESS CONDUCT (Established in 1998)

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



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

FORWARD-LOOKING STATEMENTS

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

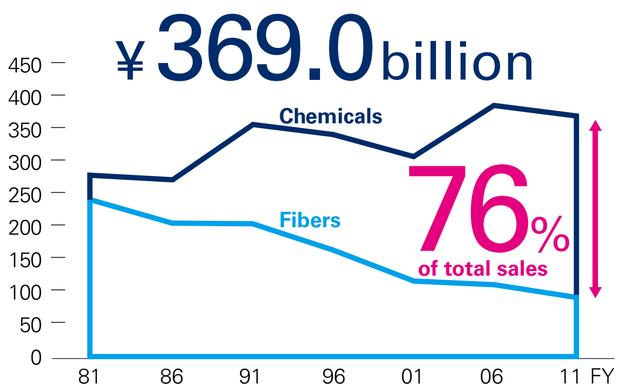
In this annual report, italicized product names are trademarks of Kuraray Co., Ltd.

From Fibers to Chemicals

Since it was established in 1926, Kuraray focused on the manufacture and sale of synthetic fibers, and also had a strong specialization in polymer and synthetic technologies, including becoming the first in the world to commercialize polyvinyl alcohol synthetic fiber *KURALON* in 1950. From the 1980s, we began to innovate our operating structure and business portfolio in response to changing market needs. Capitalizing on our unrivaled chemical technologies, we accelerated our focused development of the resins and chemicals businesses, and sales of resins and chemicals, which accounted for about 20% of net sales in 1985, now exceed 70%.

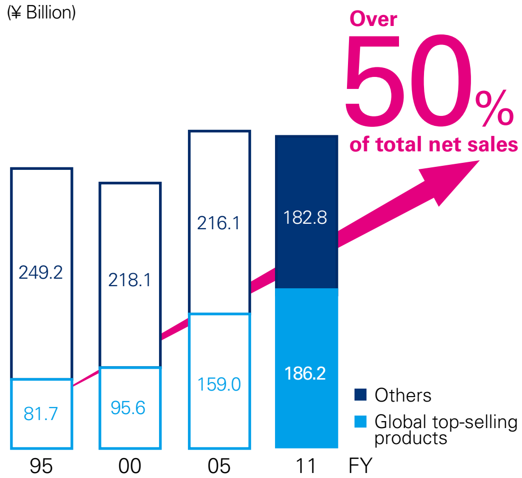
Historical Change in Business Portfolio (Net Sales)

(¥ Billion)



Expansion of Global Top-Selling Products

(¥ Billion)



Generating More Global Top-Selling Products

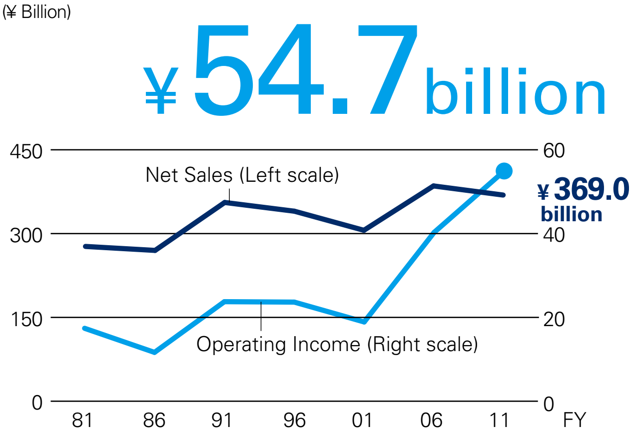
Kuraray has used its original polymer and synthetic technology-based capabilities to produce a series of innovative products. About ten Kuraray products currently hold the top share of their markets globally, including poval film, which has an 80% share of the worldwide market. Our social responsibility to "contribute to the world and individual well-being through actions that others are unable to produce" and our culture of pursuing proprietary technologies have nurtured these global top sellers. Today, products with leading worldwide market shares have grown to account for over 50% of our net sales.

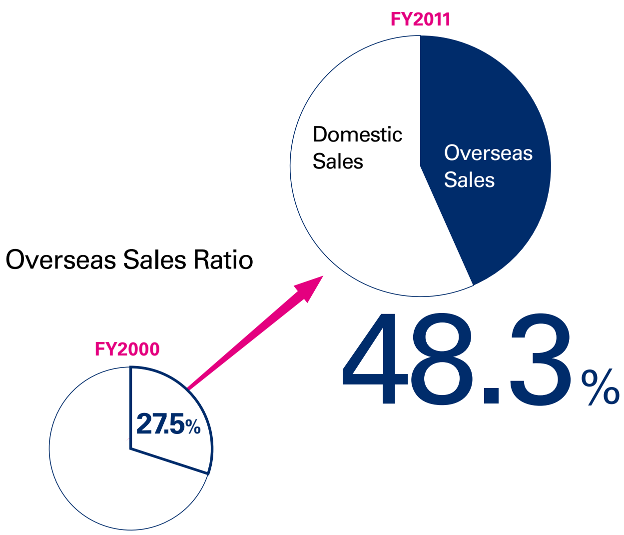
Kuraray's Progress

While drastically transforming its operating structure, Kuraray has steadily expanded its scope of operations. Our agile and aggressive strategy to date helped us achieve record results in the fiscal year ended March 2012 of ¥369.0 billion in net sales and ¥54.7 billion in operating income, for a 14.8% operating income margin. The average growth rate of operating income over the past decade was 9.0%. We will continue our progress toward further growth.

Net Sales and Operating Income

(¥ Billion)





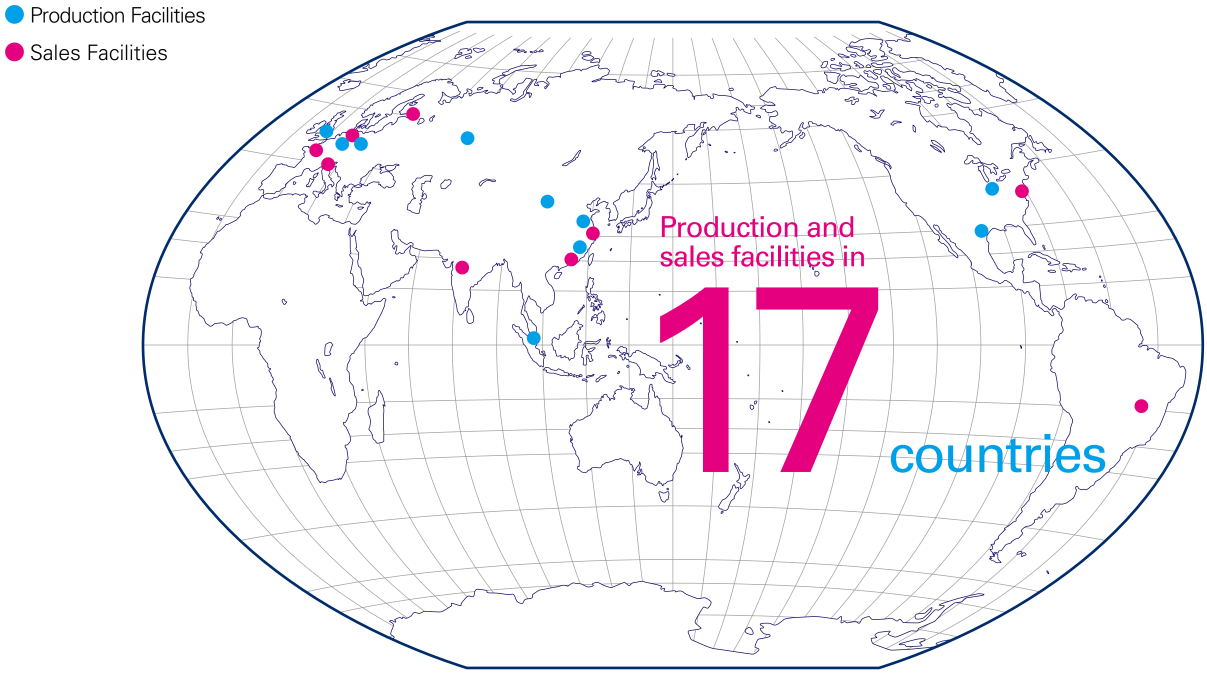
Weaving Global Expansion into Broader Growth

Centered on a product lineup developed using its proprietary technologies, Kuraray works to uncover new needs worldwide and further expand its market share. Overseas sales, which accounted for 27.5% of consolidated sales in the fiscal year ended March 2001, have grown to 48.3% in the fiscal year ended March 2012. Sales to date have focused primarily on developed nations, but today we are committed to increasing sales in emerging markets such as the BRICs, where further demand growth is forecast.

Building a Global Presence

Since establishing a foothold with the launch of local production of *EVAL* at a U.S. joint venture in 1986, Kuraray has worked to localize production and sales in response to growing markets around the world. We currently have 43 bases in 17 countries and regions outside Japan and are developing international operations driven by our proprietary technologies under the strategy of "producing in the optimal location and marketing in the optimal location." We also work to strengthen our international competitiveness by enhancing our sales offices and other initiatives in unexplored fields in countries and regions where Kuraray already operates.

Main Production Facilities and Sales Facilities outside Japan (As of July 2012)



Consolidated Financial Highlights

Kuraray Co., Ltd. and its consolidated subsidiaries

	Millions of yen					Percent change	Millions of U.S. dollars (Note 1)	Millions of Euro (Note 2)
	FY2011	FY2010	FY2009	FY2008	FY2007	FY2011/2010	FY2011	FY2011
Net sales	¥368,975	¥363,191	¥332,880	¥376,777	¥417,601	1.6%	$4,499	€3,354
Cost of sales	246,538	243,564	237,198	275,912	295,220	1.2	3,006	2,241
Selling, general and administrative expenses	67,703	66,531	65,230	71,585	74,250	1.8	825	615
Operating income	54,733	53,095	30,451	29,280	48,130	3.1	667	497
Net income	31,469	28,742	16,315	12,984	25,554	9.5	383	286
Capital expenditures	¥ 39,006	¥ 20,558	¥ 19,879	¥ 38,925	¥ 42,720	89.7%	$ 475	€ 354
Depreciation and amortization	30,737	33,536	36,489	37,147	31,485	(8.3)	374	279
Gross cash flow	62,206	62,278	52,804	50,131	57,040	(0.1)	758	565
Total research and development expenses	16,175	15,772	15,292	16,358	15,250	2.6	197	147
Total assets	¥523,247	¥507,328	¥502,815	¥471,874	¥490,365	3.1%	$6,381	€4,756
Total current assets	269,083	310,594	249,326	201,358	196,282	(13.4)	3,281	2,446
Total tangible fixed assets	152,877	145,238	163,709	181,020	192,362	5.3	1,864	1,389
Total current liabilities	81,684	86,214	76,550	69,041	89,074	(5.3)	996	742
Total noncurrent liabilities	75,248	74,288	88,446	77,816	56,457	1.3	917	684
Total net assets	366,314	346,825	337,818	325,016	344,833	5.6	4,467	3,330
Segment information (Note 4)								
Resins								
Net sales	¥148,879	¥147,429	¥136,558	¥—	¥—	1.0%	$1,815	€1,353
Operating income	49,904	50,848	39,153	—	—	(1.9)	608	453
Chemicals								
Net sales	74,872	75,700	66,680	—	—	(1.1)	913	680
Operating income	9,066	8,676	2,048	—	—	4.5	110	82
Fibers and Textiles								
Net sales	63,394	61,595	58,151	—	—	2.9	773	576
Operating income (loss)	1,103	(221)	(2,819)	—	—	—	13	10
Trading								
Net sales	112,218	115,161	102,643	—	—	(2.6)	1,368	1,020
Operating income	3,527	3,304	2,005	—	—	6.7	43	32
Others								
Net sales	66,362	58,894	50,166	—	—	12.7	809	603
Operating income	5,657	4,906	4,271	—	—	15.3	68	51

Amounts per share:	Yen						U.S. dollars (Note 1)	Euro (Note 2)
Net income:								
Primary	¥ 90.35	¥ 82.55	¥ 46.86	¥ 37.29	¥ 72.15	9.4%	$ 1.10	€0.82
Fully diluted	90.21	82.40	46.81	37.26	71.99	9.5	1.10	0.82
Cash dividends applicable to period	33.00	27.00	16.00	22.00	22.00	22.2	0.40	0.30
Shareholders' equity	¥1,033.48	985.22	961.24	924.48	981.82	4.9	12.60	9.39

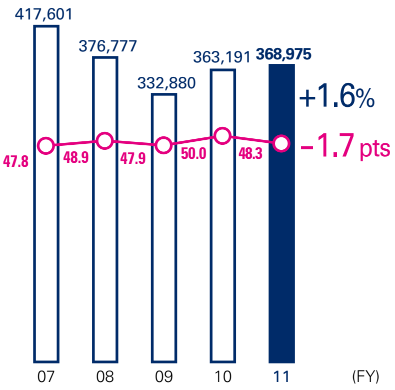
Financial ratios:					
Cost of sales ratio (%)	66.8	67.1	71.3	73.2	70.7
Equity ratio (%)	68.8	67.6	66.5	68.2	69.7
Return on equity (ROE) (%)	9.0	8.5	5.0	3.9	7.3
Return on assets (ROA) (%) (Note 5)	10.6	10.5	6.2	6.1	9.6
Payout ratio (%)	36.5	32.7	34.1	59.0	30.5
Number of employees	6,776	6,544	6,630	6,861	6,770

Notes: 1. The United States dollar amounts represent the translation of Japanese yen at the rate of ¥82 = $1.
2. Euro amounts represent the translation of Japanese yen at the rate of ¥110 = €1.
3. Certain reclassifications of previously reported amounts have been made to conform with current classifications.
4. Since fiscal 2010 (the year ended March 31, 2011), business segments have been reclassified from the three segments "Chemicals and Resins," "Fibers and Textiles" and "High-Performance Materials, Medical Products and Others" to the five segments "Resins," "Chemicals," "Fibers and Textiles," "Trading" and "Others."
The trading business has been allocated from each of the three former segments Chemicals and Resins, Fibers and Textiles, and High-Performance Materials, Medical Products and Others.
5. Return on assets = Operating income / Average total assets x 100 (%)

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

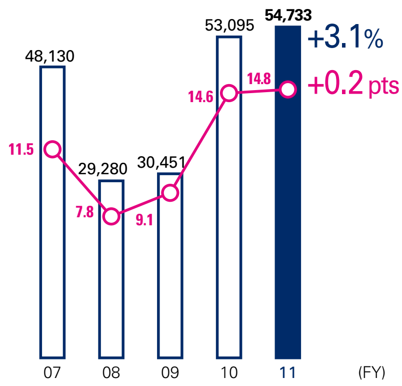
Net Sales & Overseas Sales Ratio

□ Net Sales (¥ Million, %)
○ Overseas Sales Ratio



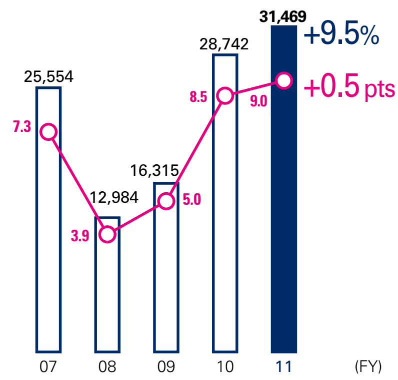
Operating Income & Operating Income Margin

□ Operating Income (¥ Million, %)
○ Operating Income Margin



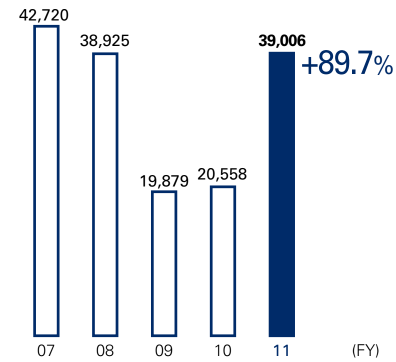
Net Income & ROE

□ Net Income (¥ Million, %)
○ ROE



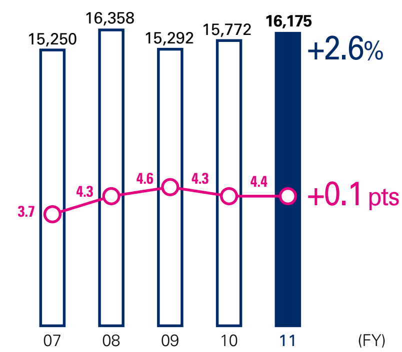
Capital Expenditures

(¥ Million)



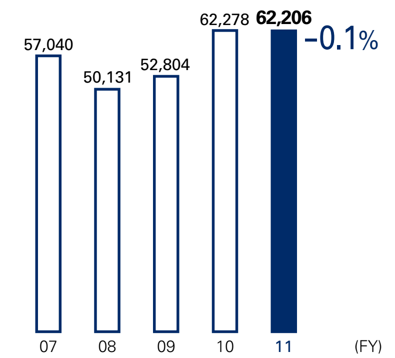
R&D Expenses & R&D Expenses Ratio

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



Gross Cash Flow*

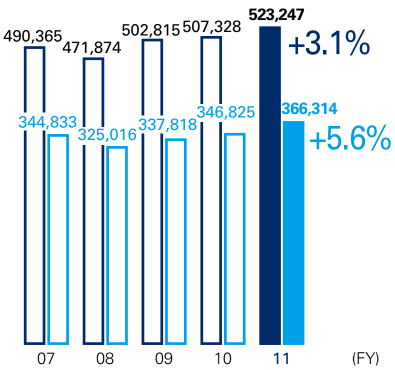
(¥ Million)



* Gross Cash Flow
= Net income + Depreciation and amortization

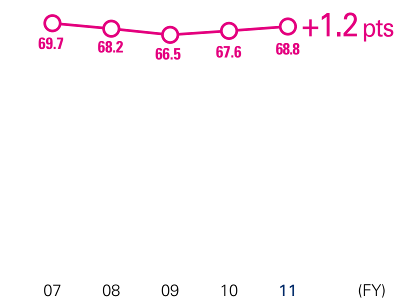
Total Assets & Total Net Assets

□ Total Assets (¥ Million)
□ Total Net Assets



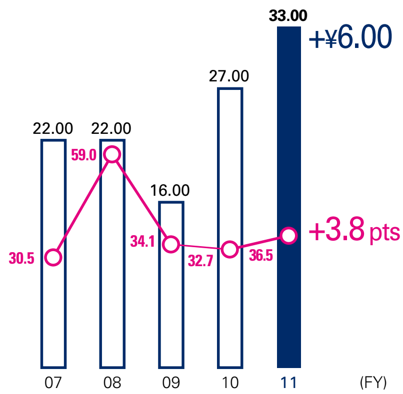
Equity Ratio

(%)



Cash Dividends per Share & Payout Ratio

□ Cash Dividends per Share (¥, %)
○ Payout Ratio



To Our Shareholders

The operating environment in the first half of the fiscal year ended March 2012 (April 1, 2011 to March 31, 2012) was characterized by robust economic conditions in China and other emerging markets along with overall steadiness in the economies of Europe and the United States, despite the negative impact of high raw material and fuel prices and the Great East Japan Earthquake. In contrast, economic conditions in the second half became challenging due mainly to a global economic slowdown in the aftermath of sovereign debt crises in Europe, the persistently strong yen and severed supply chains caused by flooding in Thailand.

Amid these circumstances, Kuraray took steps to address deteriorating economic conditions, including maintaining and revising sales prices and shifting its focus to high-value-added products. Moreover, Kuraray progressively implemented aggressive measures aimed at expanding businesses and securing future growth in line with the GS-Twins medium-term plan for the three years ended March 2012.

Consequently, net sales for the period under review increased ¥5,784 million (1.6%) compared with the previous fiscal year to ¥368,975 million, operating income rose ¥1,638 million (3.1%) to ¥54,733 million, ordinary income grew ¥2,877 million (5.6%) to ¥53,940 million and net income improved ¥2,727 million (9.5%) to ¥31,469 million. It was Kuraray's second straight year of record income.

In the fiscal year ending March 2013, Kuraray launched its new medium-term management plan, GS-III for the three years ending March 2015. GS-III promotes five core management strategies: Technological innovation; Geographical expansion; Utilization of external resources; Strengthening of the global business foundation; and Environmental measures. By initiating various measures based on these core management strategies, we aim to achieve net sales of ¥550.0 billion and operating income of ¥85.0 billion in the fiscal year ending March 2015, the final year of the plan. In addition, Kuraray will strive to maintain sustained growth with a view to attaining ¥1 trillion in net sales and becoming a "specialty chemical company with a global presence," as stated in its Long-Term Corporate Vision.

Positioning the payment of dividends to shareholders as a priority management issue, Kuraray maintains a fundamental policy of ensuring dividend increases through sustained improvements in business performance. In line with the target dividend payout ratio of 30% or more of consolidated net income in the period covered by GS-Twins, the planned year-end dividend for the fiscal year ended March 2012 is ¥17 per share. As a result, with the addition of the interim payment, the full-year dividend payment for the fiscal year ended March 2012 totals ¥33 per share.

Kuraray will maintain a target dividend payout ratio of 30% to 35% or more of consolidated net income in the period covered by GS-III. Based on this target, Kuraray plans to increase the full-year dividend payment by ¥3 to ¥36 per share for the fiscal year ending March 2013, assuming planned consolidated net income of ¥35.0 billion.

On behalf of Kuraray, we would like to extend our gratitude to all shareholders for their continuing understanding and generous support.

August 2012

Y. Wakui
Yasuaki Wakui
Director and Chairman

F. Ito
Fumio Ito
Representative
Director and President

Interview with Kuraray
President Fumio Ito

Toward New Growth: Taking the Offensive to Become a ¥1 Trillion Corporation

Question 01

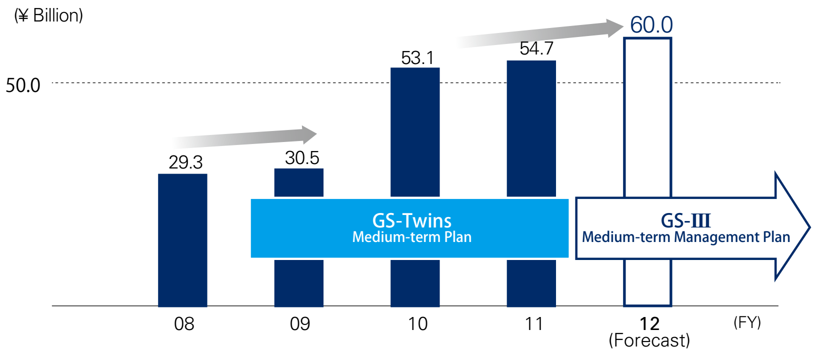
What did Kuraray achieve during the previous medium-term plan, GS-Twins?

We formulated GS-Twins (from the fiscal year ended March 2010 to the fiscal year ending March 2012) during a global recession, and initiated it as an action plan without numerical targets. We placed the highest priority on improving our profit structure as we implemented its measures and policies. The completion of improvements in the profit structure was in sight in the fiscal year ended March 2011, so we set targets for net sales of ¥450 billion and operating income of ¥50 billion. We also focused on the additional objectives of creating and expanding new business, and accelerating global strategy for core businesses.

In the fiscal year ended March 2012, the final year of GS-Twins, factors such as the strong yen kept us from achieving our target for net sales. However, we achieved record earnings, exceeding our target for operating income just as we did in the fiscal year ended March 2011.

“We achieved record earnings, exceeding our target for operating income.”

Operating Income Growth



Question 02 What was Kuraray's approach in formulating GS-III?

Based on our corporate culture of "contributing to the world and individual well-being through actions that others are unable to produce," we aim to achieve ¥1 trillion in net sales by around 2018 in order to be the "specialty chemical company with a global presence" called for in our Long-Term Corporate Vision.

The new three-year medium-term management plan GS-III we have recently initiated sets three basic policies as the steps for achieving our Long-Term Corporate Vision. The first is our plan for achieving ¥1 trillion in net sales by around 2018. The second is constructing a business base that enables new growth for the Kuraray Group. The third is achieving an outstanding management foundation from a global perspective.

Question 03 What is the rationale for the ¥1 trillion in net sales targeted by the Long-Term Corporate Vision?

In this time of rapid change, the Kuraray Group needs to attain a certain scale in order to thrive as a company with a global presence. Expanding the scale of our businesses will help us acquire human resources and market information while broadening our foundation for sales and technology. This in turn increases new business development opportunities, adds to our resources and enhances sustainability. Moreover, companies have to change as their external environment changes. This requires us to cull unprofitable businesses and expand businesses with growth potential, which we cannot do smoothly without sufficient scale.

Question 04 What are the ultimate targets of GS-III?

During GS-III, Kuraray is aiming for growth in existing businesses and enhanced performance in new businesses. In particular, the results of capital expenditures and application development decided and executed during GS-Twins, our previous medium-term plan, will be drivers for achieving our targets of ¥550 billion in net sales and ¥85 billion in operating income for the fiscal year ending March 2015, the final year of GS-III. We will concurrently study and steadily execute measures and policies for attaining post-GS-III results that lead to achieving our Long-Term Corporate Vision.

Question 05 **What are the five core management strategies of GS-III?**

The five core management strategies include environmental measures in addition to four key initiatives for growth: technological innovation, geographical expansion, utilization of external resources and strengthening of the global business foundation. Kuraray aims to achieve the targets of its medium-term management plan and achieve its Long-Term Corporate Vision by implementing measures and policies based on these five core management strategies.

■ Technological innovation aims to expand operations and achieve future growth by developing new businesses, products and applications based on highly original technologies, and enhancing product competitiveness, environmental friendliness and safety by developing process technologies. Themes include expanding general illumination and automotive applications for *GENESTAR* heat-resistant resin, fully developing films for new high-speed transmission circuits, promoting development of new liquid rubber products, and developing innovative production processes for *KURALON*.

■ Geographical expansion will involve developing markets based on our understanding of the circumstances surrounding global markets and raw materials, upgrading and diversifying our operating bases, and accelerating business expansion. Themes and plans include building a new base in the resins business in North America, constructing a new polyvinyl butyral (PVB) film plant in Asia, and establishing a subsidiary in Thailand.

■ Utilization of external resources involves accelerating business expansion through means including technology alliances with other companies, equity investments, joint development, and mergers and acquisitions (M&A). We are particularly interested in M&A in our core vinyl acetate derivatives business and isoprene-related operations, and will make decisions based on comprehensive assessment of factors including raw material issues, future outlook, and environmental issues.

■ Strengthening of the global business foundation involves strengthening indirect functions that support faster global business expansion, including human resources, CSR, and accounting and finance. Specific initiatives will include employing and cultivating global personnel, promoting quality and risk management, steadily transferring technology and reinforcing technological development, and adopting international accounting standards.

■ Environmental measures involve providing products that contribute to preserving and improving the environment with reduced environmental load. Specifically, we have adopted eco-efficiency, or sales per environmental impact, as our environmental benchmark and have set targets for the fiscal year ending March 2021 in formulating and implementing our Medium-Term Environmental Plan. Measures and policies to achieve the targets of this plan include initiatives to respond to global warming, control the emission of chemical substances, and use resources efficiently.

Environmental Measures

Under GS-III, we have adopted eco-efficiency, or sales per environmental impact, as our environmental benchmark and have set targets for the fiscal year ending March 2021 in formulating and implementing our Medium-Term Environmental Plan. We have established numerical targets for domestic offices and will work to achieve them.

Measures against global warming

> ***Net sales/GHG (global greenhouse gas) emissions: 40% improvement***

Emissions of chemical substances

> ***Net sales/chemical substance emissions: 100% improvement***

Efficient use of resources

> ***Net sales/waste materials produced: 10% improvement***

*Targets for overseas offices will be determined by reference to the above.

Question 06 What are the strategies for each business segment?

Based on our management strategy, we have formulated business strategies that include elements that contribute to achieving the performance targets of GS-III and policies for growth following GS-III.

In the Resins segment, Kuraray is the world's number one supplier in the acetate vinyl acetate derivatives business. We will add bases in new markets and upgrade bases in existing markets, while enhancing our regional strategies for growth markets, increasing cost competitiveness, and developing new products and applications. Planned themes include constructing a four-point global framework in the resins business that will entail establishing a new base in North America, a new PVB film base in Asia to aggressively develop new automotive applications, and a new base in Asia for *EVAL* gas barrier resin.

In the Chemicals segment, we will work to expand operations by fully exercising our ability to develop new specialty chemical products and applications. In addition, we will proactively study the construction of new overseas bases to ensure stable, advantageous raw material procurement and stable supply of unique "only one" products. Themes include expanding global markets for our lineup of unique "only one" isoprene chemicals, strengthening our ability to supply the thermoplastic elastomer *SEPTON*, and accelerating the development of applications for the acrylic thermoplastic elastomer *KURARITY*.

In the Fibers and Textiles segment, we will leverage our strengths in each business sector to ensure sustained profitability and develop new sectors. We will also establish innovative production processes to revitalize our business base. Themes include expanding cement additive applications and developing innovative production processes for *KURALON*, securing stable earnings by completing business structural reform for man-made leather, and rapidly expanding sales of *FELIBENDY* high-performance non-woven fabric.

In new and other businesses, we will focus on steadily developing new businesses in areas where we have technological and marketing advantages, such as environment, energy, optics, electronics, and new materials. Specifically, we will develop and commercialize new themes including equipment for recycling silicon and other valuable materials, ballast water management systems, materials for lithium-ion batteries, and concentrating lenses for solar power generation.

Question 07

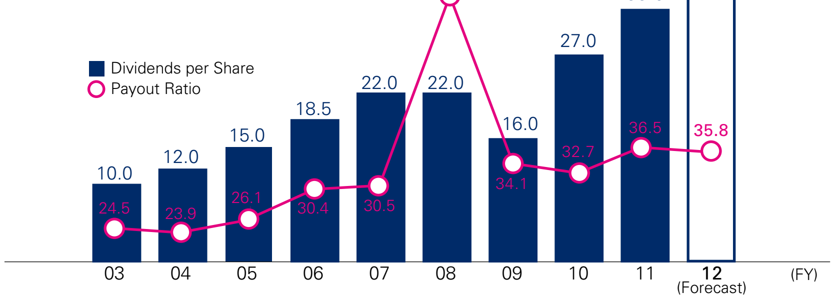
What are Kuraray's policies for capital expenditures and shareholder returns during GS-III?

During the three years of GS-III, we plan on capital expenditures of approximately ¥240 billion, or an annual average of about ¥80 billion, in order to promote business expansion initiatives. This is more than twice the level of capital expenditures during the previous medium-term plan GS-Twins. We intend to deploy more than 70 percent of these capital expenditures to strengthen and expand facilities that will support future growth. We will concentrate investment on globally strategic core businesses, including poval resin and film, *EVAL* gas barrier resin, and *SEPTON* thermoplastic elastomer.

Shareholder returns are a management priority for Kuraray. Our basic policy is to increase dividends by continuously enhancing performance. We have raised our target consolidated payout ratio under GS-III to 35 percent from 30 percent during GS-Twins.

Dividends and Payout Ratio

(¥, %)



GS-III

In GS-III, Kuraray has put forward five core management strategies: technological innovation, geographical expansion, utilization of external resources, strengthening of the global business foundation and environmental measures. In this feature, we present representative examples of our initiatives under technological innovation, geographical expansion and utilization of external resources.

Technological Innovation

In accordance with the Long-Term Corporate Vision to "contribute to the solution of issues threatening our planet and living environment with pioneering technology," the Kuraray Group will expand its operations by developing new products and new applications through technological innovations that will lead to future growth. In addition, we will ensure our competitiveness in both construction costs and production costs through process innovations, as well as contribute to the environment through energy conservation.

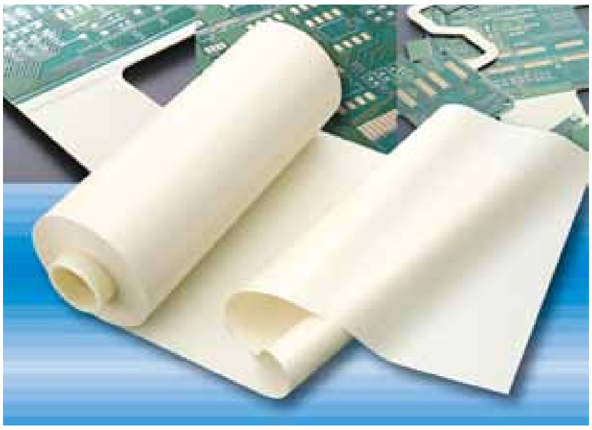
GENESTAR

Since its launch in 1999, the *GENESTAR* business has grown through market expansion focused on connector applications for mobile phones and personal computers. However, a few years ago, we created a second pillar of sales growth by broadening the range of applications to include LED reflectors. The use of *GENESTAR* in backlights for mobile phones, personal computers, tablets and LED TVs has expanded and is now firmly established, with sales volume second only to connector applications.

However, for LED TV applications, demands remain for further improvement of brightness and durability. Furthermore, thermosetting resins and ceramics that offer better performance are starting to receive recognition in the market despite their high cost. To respond to this situation, we completed the development of a new grade of *GENESTAR* that uses different materials than the original product, and have begun sales. Compared with its predecessor, the new grade has significantly improved durability (heat and light resistance). In addition to LED TV applications, we plan to introduce the new grade in LED illumination applications, where growth is expected. LEDs are used in about 20% of illumination applications, and that rate is expected to reach 80% by 2015. By introducing the new grade we will achieve further market growth and plan to achieve sales of over 40% of *GENESTAR* sales on a quantity basis for LED reflector applications alone by the fiscal year ending March 2015, the final year of GS-III.

In automotive applications, we have focused on developing markets for *GENESTAR* in small gears and fuel system parts. The move to replace metal parts with plastic is increasing with reductions in vehicle weight to increase fuel efficiency and meet stricter vehicle emissions standards that have been introduced in a growing number of countries in recent years. Amid these conditions, *GENESTAR* has been recognized for its heat resistance, low water absorption, chemical resistance and other properties and has been successively adopted for use in cooling system parts located near the engine. Accordingly, for the fiscal year ended March 2013 we expect to achieve sales for automotive applications of approximately 10% of *GENESTAR* sales on a quantity basis. Moreover, we continue to develop materials that are suitable for automotive electrical component applications, which are expected to expand as sales of hybrid and electric vehicles increase. Our current focus is the Japanese market. However, by expanding product applications and geographic markets, we aim to achieve sales for automotive electrical component applications of approximately 15% of *GENESTAR* sales on a quantity basis by the fiscal year ending March 2015.

We forecast that manufacturing capacity for *GENESTAR* will reach its limit in the fiscal year ending March 2017 with the increase in applications. We are therefore firming up plans – including location, scale and partners – for the construction of a third plant that will focus mainly on the growing automotive markets of North America and Europe.



VECSTAR

VECSTAR is a liquid crystalline polymer film developed using Kuraray's proprietary film technology. It employs polyarylate liquid crystalline polymer as a raw material and has excellent dielectric properties, low water absorption, high heat resistance and superior dimensional stability. *VECSTAR* combines the properties that are required for circuit board insulating materials in progressively smaller, higher-performance electronic devices.

VECSTAR's superior dielectric properties are especially apparent at high frequencies. When used as a circuit board insulation material, it minimizes signal loss during high-speed transmission. As a result, *VECSTAR* is increasingly replacing widely used polyimides as an insulation material in high-speed transmission flexible circuit boards for laptops.

Demand for *VECSTAR* in high-speed transmission flexible circuit boards that replace fine coaxial cable is also increasing because such circuit boards provide both space savings and low transmission loss. These circuit boards are expected to be used in high-performance laptop computers, tablet PCs, smart phones and other devices in the future.

We currently produce several hundred thousand square meters of *VECSTAR* annually at our Saijo Plant. To meet increased demand for use in high-speed transmission circuit boards, we plan to expand the existing facilities in the fiscal years ending March 2013 and 2014 to boost annual production capacity to around one million square meters.

Ballast Water Management System

In May 2012, Kuraray received certification for the *MICROFADE* ballast water management system from the Government of Japan. In collaboration with Kashiwa Co., Ltd., which has a wide business network in Japan and overseas, we will begin full-scale sales and technical support. We will also establish bases at major overseas ports to provide expendable supplies and replacement parts.

Ballast water is seawater that is pumped into special tanks to act as a weight to stabilize cargo ships. This water is often discharged into the sea in a different country from where it was drawn. The resulting adverse effect of organisms contained in the ballast water on the marine ecosystems where they are discharged has become a global issue.

To address this issue, in February 2004 the International Maritime Organization (IMO) adopted the International Convention for the Control and Management of Ship's Ballast Water and Sediments, which phases in requirements for the installation of ballast water systems in newbuilds and existing ships after the publication of the Convention. The Convention further applies stepped standards for discharge depending on the age and ballast water capacity of ocean-going vessels. All ocean-going vessels are expected to be subject to the same standards by 2017.

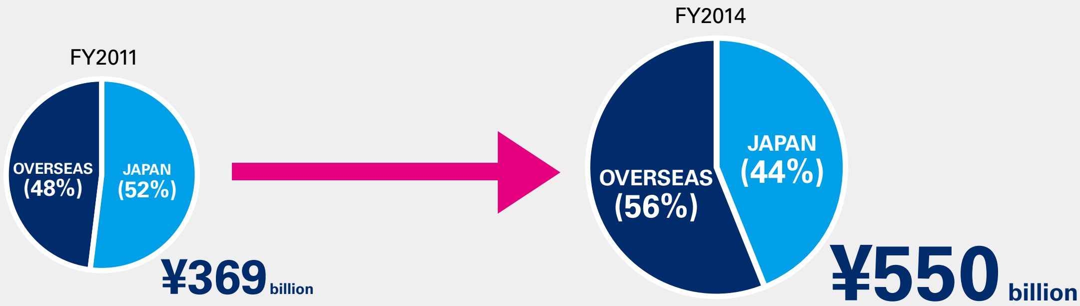
The *MICROFADE* system uses a high-precision filtration and sterilization process with a low concentration of active substances. The high-precision filter removes almost all of the small (10 to 50μm) and large (50μm and up) plankton in ballast water and any remaining plankton and microorganisms are killed with low concentrations of active substances.

A number of characteristics set *MICROFADE* apart from existing solutions, including its low energy consumption, compact design, and stable performance that is not affected by water quality, temperature, salinity or turbidity. The system can also be installed easily in a relatively short period of time, which reduces costs for ship owners. These characteristics enable Kuraray to target a wide range of newbuilds and existing ships, both big and small. In the peak year of 2017, we aim to achieve annual net sales of ¥20.0- ¥30.0 billion.

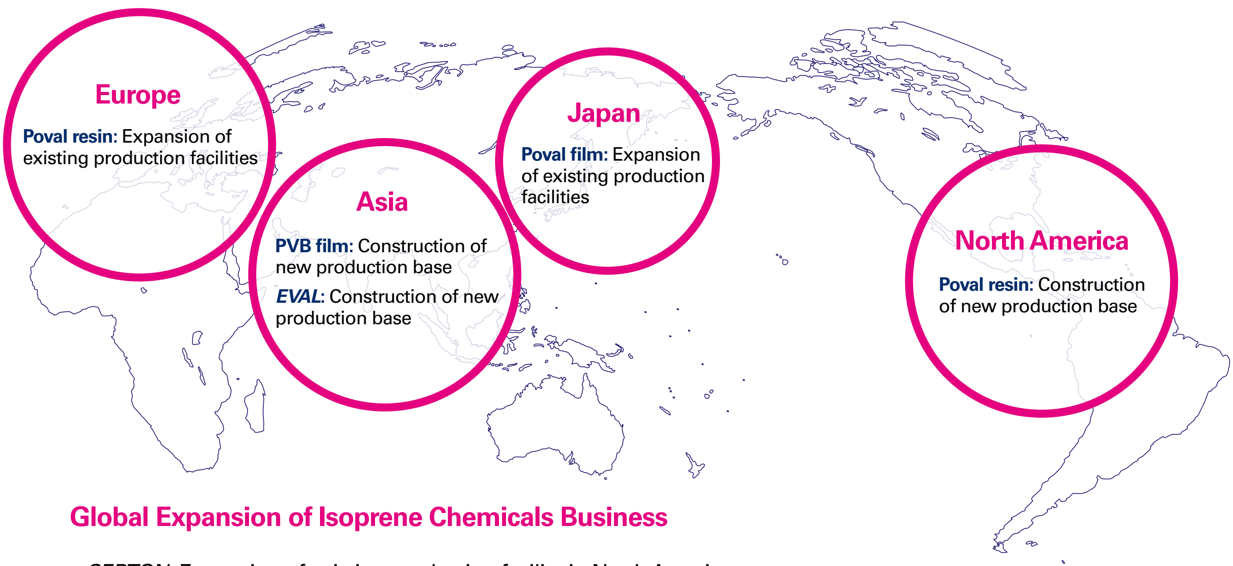
In addition to ballast water management systems, the Kuraray Group's aqua business is developing water treatment operations in Southeast Asia, China, India and elsewhere, with the aim of achieving annual net sales of more than ¥50.0 billion by 2015.

Geographical Expansion

The Kuraray Group is accelerating business growth through expansion and multipolarization of operational bases while developing markets with an eye on global product markets and raw material availability. We plan to take a balanced approach to market expansion by cultivating demand in regions such as South America, India and Asia with substantial growth potential while continuing to develop businesses in North America, Western Europe and Japan. We aim to increase overseas sales from approximately 48% of consolidated sales in the fiscal year ended March 2012 to 56% by the fiscal year ending March 2015, the final year of GS-III.



Quadripolar Global Framework for the Vinyl Acetate Derivatives Business



Global Expansion of Isoprene Chemicals Business

- *SEPTON*: Expansion of existing production facility in North America
- Isoprene chemicals and *GENESTAR*: Prepare plans for construction of new overseas production base

To implement business expansion measures, the Kuraray Group plans to allocate ¥240.0 billion for capital investment over the three years of GS-III. This represents an average of ¥80.0 billion per year. Of this, roughly 70% is earmarked for increasing production capacity.

Joint Development of Lithium-Ion Secondary Batteries

The market for lithium-ion secondary batteries (LiBs) is expected to expand rapidly, not only for use in hybrid cars and electric vehicles, but also for stationary power sources, smart communities and household applications. In ten years, annual demand for anode materials is expected to top 100,000 tons for vehicle applications alone, compared with current annual demand of several thousand tons.

Kuraray Co., Ltd. and Kureha Corporation have been jointly developing hard carbon anode material for LiBs. In December 2011, the two companies reached an agreement to jointly commercialize *BIOCARBOTRON*, a newly developed raw material derived from plants. Based on this agreement, Kuraray acquired an equity stake in and provided human resources to Kureha Battery Materials Japan Co., Ltd., (KBMJ) a joint venture established with Kureha and ITOCHU Corporation to manufacture and sell battery materials. In addition, KBMJ and Kuraray Group company Kuraray Chemical Co., Ltd. have set up a manufacturing joint venture.

Going forward, KBMJ will work to expand its business in the growing LiB market by drawing on the Kuraray Group's expertise in carbon materials gained through its activated carbon and other businesses while maximizing utilization of the vast management resources and global network of ITOCHU's lithium ion secondary battery business and Kureha's petroleum pitch-derived *CARBOTRON*® P business. We plan to establish a mass production and supply system with annual production capacity of 1,000 tons by the fiscal year ending March 2014.

Utilization of External Resources

Kuraray has created many superior original materials through in-house development. While firmly maintaining this tradition, we will work to integrate and effectively utilize external resources through M&A and alliances in areas that complement and advance our technologies.

Expansion of the Liquid Rubber Business

Global demand for liquid rubber is currently expanding, mainly for use in vehicle tires. Aiming to bolster our lineup of liquid rubber products, the Kuraray Group has focused its attention on new biomaterials. We recently developed a new material, liquid farnesene rubber (LFR), through an alliance with U.S. biotech company Amyris, Inc.*

LFR will join liquid isoprene rubber and liquid butadiene rubber in the product lineup of our liquid rubber business. However, LFR uses a biomaterial derived from sugarcane, setting it apart from existing products.

Compared to isoprene or butadiene liquid rubbers, LFR minimizes rolling resistance. When added to the rubber compound for tires, LFR helps bind the molecules of the rubber and fillers. This reduces energy loss from shape deformation and friction, which improves fuel efficiency.

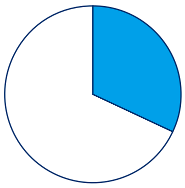
Kuraray has targeted fuel efficient tires as the main application for LFR and has been distributing samples to tire manufacturers in Japan and overseas since 2011. Due to the positive response, we expect to begin sales of LFR in the second half of the fiscal year ended March 2014. We intend to increase annual sales to ¥10.0 billion by 2018 and plan to study the construction of a new production plant in the interim.

* Amyris is a biotech company based in California. Established in July 2003 and listed on the NASDAQ stock exchange in 2010, it conducts a variety of businesses, including biofuel for jet aircraft, raw materials for rubber and antimalarial therapeutics.

Business Segments	Results by Segment

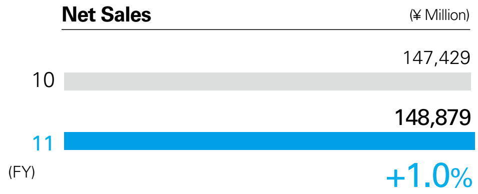
Resins

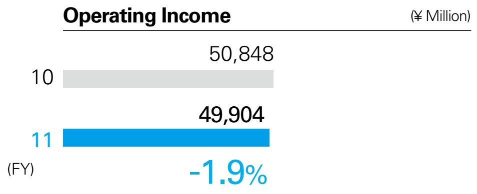
Share of Net Sales



32%

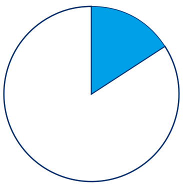
The Resins segment domestically produces poval resin and film, and *EVAL* resin. The segment also produces and sells *EVAL* resin in the United States, poval resin, PVB resin and film, and *EVAL* resin in Europe and poval resin in Asia.





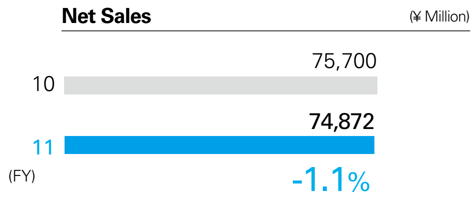
Chemicals

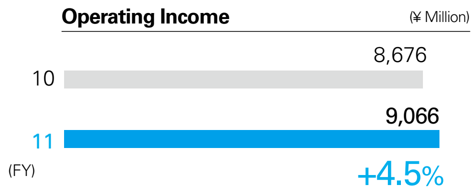
Share of Net Sales



16%

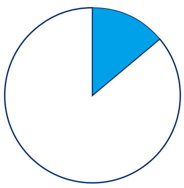
The Chemicals segment domestically produces isoprene, fine chemicals, methacrylic resin, resin finished products *GENESTAR*, *SEPTON*, *KURARITY* and other goods for sale in Japan and abroad. The segment also produces and sells the thermoplastic elastomer *SEPTON* in the United States.





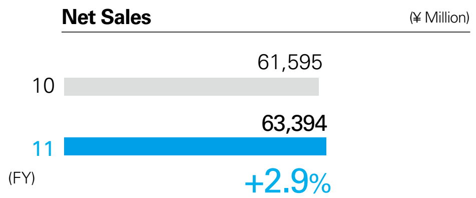
Fibers and Textiles

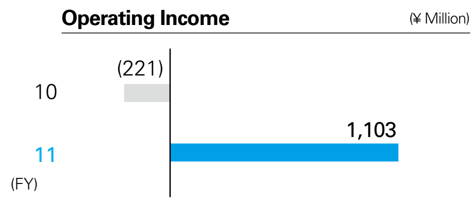
Share of Net Sales



14%

The Fibers and Textiles segment produces and sells *KURALON*, *CLARINO* man-made leather, polyester, *KURAFLEX* non-woven fabrics, hook-and-loop fasteners, and other products.





Trading, Others

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

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

Main Products

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

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

KURARAY POVAL, MOWIOL **(PVA resin)**

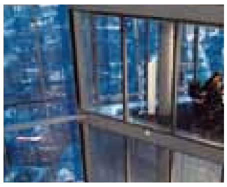
Paper / fiber processing agents, adhesives and others

MOWITAL **(PVB resin)**

Coating compounds, inks, ceramic binders

PVA film

LCD televisions, mobile phone screens and others



TROSIFOL **(PVB film)**

Interlayers for laminated safety glass and photovoltaic module encapsulation

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

Food packaging, automobile tanks / Vacuum insulation panels for fridge and others

PARAPET **(Methacrylic resin) / Methacrylic sheets**

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

Isoprene chemicals

Pharmaceutical and agrichemical intermediates, ingredients for fragrances, cosmetics

SEPTON, HYBRAR **(Thermoplastic elastomer)**

Substitute for rubber: Automobile parts, electronic parts, stationary, toys, sporting goods and others

GENESTAR **(Heat-resistant polyamide resin)**

Mobile phones, personal computers, digital cameras, LCDs, LED reflector applications, automobiles and others

Dental materials

Materials for treating cavities

KURALON **(PVA fiber) /** ***KURALON K-II*** **(New type of PVA fiber)**

Reinforcing material for cement and concrete and others

CLARINO **(Man-made leather)**

Men's and women's shoes, bags, athletic footwear and large inflatable sports balls

KURAFLEX, FELIBENDY **(Non-woven fabric)**

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

MAGIC TAPE **(Hook and loop fastener)**

Clothing, sporting goods, industrial materials and others

VECTRAN **(Polyarylate fiber)**

Rope, fishing nets, and other industrial products

Polyester staple / Polyester filament

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

KURARAY COAL **(Activated carbon)**

Water purification facilities, gas separators, capacitor materials

Silicon/ Water recycling system

Water purification, wastewater treatment and others

Resins

Demand for resins was firm across markets in Europe, the United States and Asia during the first half, but growth slowed in the second half due to the effect of the economic downturn in Europe. As a result, sales rose, while income declined.

The Fiscal Year Ended March 2012 in Review

Demand for poval resin was stagnant in the second half against the backdrop of the global economic slowdown. The sales volume of optical-use poval film was flat year on year, but income declined slightly. We decided to build a new production line with annual capacity of 3.2 million square meters at our Saijo Plant to meet growth in demand over the medium term. The new line is scheduled to commence operations in June 2013. Sales of polyvinyl butyral (PVB) film were firm. We decided to expand production in Europe to meet future growth in demand. The new facilities are scheduled to commence operations in November 2013.

Sales of *EVAL* ethylene vinyl alcohol polymer (EVOH resin) increased year on year for use in food packaging and gas tanks despite flood damage to the processing plant in Thailand. We decided to expand our annual production capacity in the United States by 12,000 tons. The new facilities are scheduled to commence operations in January 2014.

As a result, sales in the Resins segment increased 1.0% year on year to ¥148,879 million, while operating income decreased 1.9% to ¥49,904 million.

Outlook for the Fiscal Year Ending March 2013

We forecast segment sales of ¥167,000 million and operating income of ¥55,000 million in the year ending March 2013.

We will aim for further growth through aggressive expansion of the sales area and by increasing applications for *EVAL*, poval resin and PVB film. We expect demand for optical-use poval film to remain steady and will work to create high-value-added products, such as thinner and wider film, as well as maintain a stable supply.

Fibers and Textiles

Demand for KURALON was firm, and progress in restructuring the CLARINO business improved income.

The Year Ended March 2012 in Review

Sales were generally favorable for *KURALON* for use in primary cell separators and automotive brake hoses, although demand for use as an asbestos substitute in fiber-reinforced cement (FRC) was affected by the stagnant European market in the second half. Drastic restructuring of the *CLARINO* man-made leather business continued. We transferred general-purpose product manufacturing to a Chinese joint venture while concentrating manufacturing of high-value-added products with new eco-friendly processes in Japan. In addition, sales were favorable for school bag applications, and expansion of product applications using the new eco-friendly processes yielded further improvements. Sales of *KURAFLEX* nonwoven fabrics for use in wet wipes and commercial counter cloth were firm, but demand for use in industrial masks was stagnant. Meanwhile, we cultivated markets for *FELIBENDY*, a new product.

As a result, segment sales increased 2.9% year on year to ¥63,394 million, and operating income was ¥1,103 million, compared with operating loss of ¥221 million in the previous fiscal year.

Outlook for the Fiscal Year Ending March 2013

We forecast segment sales of ¥63,500 million and operating income of ¥2,000 million in the fiscal year ending March 2013.

Sales of *KURALON* are expected to remain favorable as in the previous fiscal year. We expect *CLARINO* to be profitable due to the business restructuring. We will further cultivate markets and expand sales of products made with new eco-friendly processes.

Chemicals

In the first half, production in some product categories was suspended due to the earthquake. In the second half, demand declined as a result of the stagnant global economy. As a result, segment sales and operating income were essentially the same year on year.

The Fiscal Year Ended March 2012 in Review

Sales of methacrylic resin were favorable during the first half, but were affected in the second half by the decrease in demand for use as LCD panel molding materials, and by intensified competition. In isoprene chemicals, sales of *SEPTON* thermoplastic elastomer were firm in the first half, but demand rapidly declined in various regions in the second half. Sales of fine chemicals were firm. Sales of *GENESTAR* heat-resistant polyamide resin decreased due to weak demand for LED reflector applications in LCDs. However, income grew as a result of successful applications in new areas such as automobiles. Sales of the medical business were firm with the inclusion of the dental materials business of Noritake Dental Supply Co., Limited, which was integrated into the Company in April 2011. A new plant for dental materials was completed at the Niigata Plant and is scheduled to commence operations in December 2012.

As a result, segment sales decreased 1.1% year on year to ¥74,872 million, while operating income increased 4.5% to ¥9,066 million.

Outlook for the Fiscal Year Ending March 2013

We forecast segment sales of ¥90,000 million and operating income of ¥9,500 million in the fiscal year ending March 2013.

In isoprene chemicals, demand for *SEPTON* is expected to be steady with recovery evident in Europe and the United States, where it had fallen off. Demand for methacrylic resin is expected to recover gradually. We anticipate substantial growth for *GENESTAR* as we work to further expand applications such as in lighting and automobiles. The medical business will leverage synergies from the dental materials business integration to expand sales in Japan and overseas.

Trading, Others

In the Trading segment, sales of differentiated materials in fiber-related businesses grew steadily, but demand in certain operations declined. As a result, sales decreased, while income rose.

In Others, demand was firm, primarily for activated carbon, resulting in growth of sales and income.

The Year Ended March 2012 in Review/ Outlook for the Fiscal Year Ending March 2013

In the Trading segment, demand in certain operations declined, but the use of differentiated materials in fiber-related businesses such as polyester in the apparel and materials sectors grew steadily. As a result, although segment sales declined 2.6% year on year to ¥112,218 million, operating income increased 6.7% to ¥3,527 million.

In Others, sales were firm for activated carbon for use in water purification systems and capacitors (power storage devices) and largely firm for other operations. As a result, segment sales and operating income grew substantially, increasing 12.7% year on year to ¥66,362 million and 15.3% to ¥5,657 million, respectively. In new businesses, we established a joint venture with a company in China with the aim of expanding our presence in the local aqua business. In addition, under a basic agreement concluded with KUREHA CORPORATION and ITOCHU Corporation, we are proceeding with full-fledged joint commercialization of hard carbon for use in lithium-ion secondary cells.

In the Trading segment, we forecast sales of ¥120,000 million and operating income of ¥4,000 million in the year ending March 2013. In Others, we forecast sales of ¥68,500 million and operating income of ¥6,000 million.

Corporate Governance

Basic Philosophy on Corporate Governance

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

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

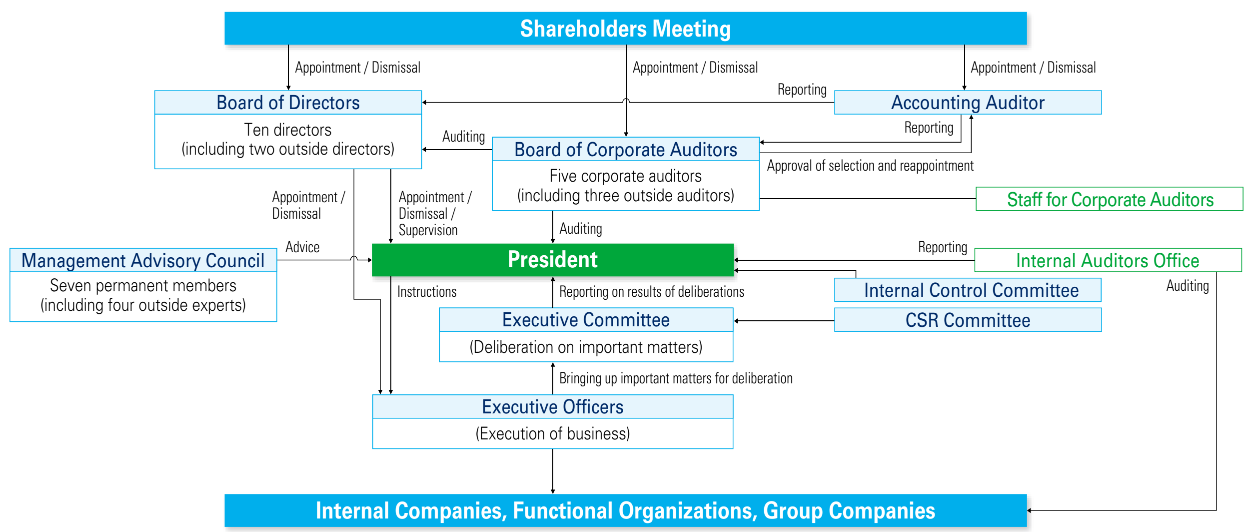
Corporate Governance Systems

1. Board of Directors and Executive Organization

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

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

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



2. Board of Corporate Auditors

The Board of Corporate Auditors consists of five corporate auditors, including three outside auditors with extensive experience in areas including finance, law and management who perform their duties from a third-party standpoint. No personal, capital, transactional or other relationship that would present a conflict of interest exists between Kuraray and the outside auditors. The corporate auditors attend meetings of the Board of Directors and other important meetings, and monitor the directors' performance of duties through inquiries conducted by such means as the examination of important documents and requests for explanations of the state of business affairs. In principle, the Board of Corporate Auditors convenes monthly. The corporate auditors regularly have meetings with the accounting auditor, PricewaterhouseCoopers Aarata, and the Internal Auditors Office (consisting of eight members), which conducts internal audits. In these meetings, they receive reports on audit content and share information concerning audit planning, implementation, and related matters. The corporate auditors also serve as corporate auditors of core subsidiary companies to ensure subsidiary audits are performed appropriately and attend periodic Group Auditor Liaison Meetings consisting of the subsidiary auditors to deepen their understanding of each company.

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

3. Management Advisory Council

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

4. Status of Accounting Auditor

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

Internal Control

Basic Philosophy on Internal Control

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

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

Board of Directors, Corporate Auditors and Executive Officers

Kuraray Co., Ltd. and its consolidated subsidiaries
(As of June 26, 2012)

BOARD OF DIRECTORS

Yasuaki Wakui

Director and Chairman

April 1965	Entered Kuraray Co., Ltd.
June 1996	Director
June 1999	Managing Director
June 2000	Representative Director and President
April 2008	Representative Director and Chairman
June 2012	Director and Chairman (Current position)

Fumio Ito

Representative Director and President

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

Yasuhiro Yamamoto

Representative Director and Primary Executive Officer

President of Chemicals Company

April 1972	Entered Kuraray Co., Ltd.
April 2004	General Manager, Chemicals Division, Chemicals Company
June 2007	Executive Officer
April 2010	President of Chemicals Company (Current position)
June 2010	Director and Senior Executive Officer
June 2012	Representative Director and Primary Executive Officer (Current position)

Setsuo Yamashita

Representative Director and Primary Executive Officer

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

April 1975	Entered Kuraray Co., Ltd.
April 2005	General Manager, Technology Development Center, Technology Division
April 2008	General Manager, Kurashiki Plant
June 2009	Executive Officer
April 2010	General Manager of New Business Development Division
June 2010	Director
April 2011	Deputy Officer Responsible for Technology and Development Unit
June 2011	Senior Executive Officer
April 2012	Chief Technology Officer (CTO) and Officer Responsible for New Business Development Division (Current position)
June 2012	Representative Director and Primary Executive Officer (Current position)

Keiji Murakami

Director and Senior Executive Officer

President of Resin Company

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

Kazuhiro Tenkumo

Director and Senior Executive Officer

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

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

Yuichi Kawarasaki

Director and Senior Executive Officer

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

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

Kunio Yukiyoshi

Director and Senior Executive Officer

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

April 1975	Entered Kuraray Co., Ltd.
April 2008	General Manager, Poval Film Division, Specialty Resin and Film Company
April 2010	General Manager, Kurashiki Plant
June 2010	Executive Officer
April 2012	Officer Responsible for Technology Division, Plants in Japan General Manager, Technology Division (Current position)
June 2012	Director and Senior Executive Officer (Current position)

Kensaku Aomoto[1]

Director

April 1963	Entered The Export-Import Bank of Japan ("EIB")
June 1989	Director General, Loan Department IV, EIB
April 1991	Director General, Policy Planning and Coordination Department, EIB
January 1995	Senior Executive Director, EIB
June 1998	Deputy Governor, EIB
June 2000	President (Chief Executive Officer), Japan Institute for Overseas Investment
June 2008	Director, Kuraray Co., Ltd. (Current position)

Takafusa Shioya[1]

Director

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

1. Directors Kensaku Aomoto and Takafusa Shioya are independent outside Directors.

CORPORATE AUDITORS

Standing Corporate Auditors

Yoichi Ninagawa

Mitsuaki Manabe

Corporate Auditors

Hiroki Yamada[2]

Mie Fujimoto[2]

Yoshimitsu Okamoto[2]

2. Corporate Auditors Yoshimitsu Okamoto, Hiroki Yamada and Mie Fujimoto are independent outside Corporate Auditors.

EXECUTIVE OFFICERS

Senior Executive Officers

Nobuo Fujii
Officer Responsible for General Affairs and HR Division, Purchasing and Logistics Division, Global Business Management Division, and Overseas Affiliated Companies, General Manager of Purchasing and Logistics Division

Sadaaki Matsuyama
General Manager of Medical Division, President of Kuraray Noritake Dental Inc.

Executive Officers

Kohei Maeda
General Manager of Accounting and Finance Division

Noritsugu Nagatomo
Officer Responsible for Environmental Business Development and Promotion Division, President of KURARAY AQUA CO., LTD.

Matthias Gutweiler
President of Kuraray Europe GmbH

Osamu Yamada
General Manager of Niigata Plant

Shuichi Takemoto
General Manager of CSR Division

Tomoyuki Aya
General Manager of Isoprene Chemicals Division

Masanori Onodera
General Manager of Okayama Plant

Yukiatsu Komiya
General Manager of Kashima Plant

Shinichi Yasue
General Manager of Poval Film Division

Hiroaya Hayase
General Manager of Poval Resin Division

Hisaichi Watanabe
General Manager of Clarino Division

Kazuhiko Kugawa
General Manager of EVAL Division

Kazuhiro Nakayama
General Manager of Kurashiki Plant and Technology Development Center

Kenichi Abe
General Manager of Corporate Management Planning Division

Masaaki Ito
General Manager of Methacrylate Division

Yoshimasa Sano
General Manager of Elastomer Division

George Avdey
President of Kuraray America, Inc.

Financial Review

Kuraray Co., Ltd. and its consolidated subsidiaries

Business Environment

In the period under review (the fiscal year ended March 31, 2012), the economies in emerging nations including China were strong and the European and United States economies were firm overall. However, the operating environment of the Kuraray Group was affected by raw material and fuel price hikes and the impact of the Great East Japan Earthquake in the first half of the period. In addition, the Group faced harsh business conditions that included the global economic slowdown against the backdrop of the financial crisis in Europe, the rapid appreciation of the yen and the disruption of supply chains caused by the Thai flood disaster in the second half.

Confronting these challenges, the Kuraray Group took various measures to respond to the economic slowdown including price maintenance and revisions and a shift to high-value-added products. In addition, the Group continued to steadily expand businesses and took proactive measures for further growth based on its GS-Twins medium-term business plan.

Sales

Consolidated net sales for the fiscal year ended March 31, 2012 (April 1, 2011 to March 31, 2012) grew ¥5,784 million ($70 million), or 1.6%, compared with the previous fiscal year to ¥368,975 million ($4,499 million). On the other hand, operating income increased ¥1,638 million ($19 million), or 3.1%, to ¥54,733 million ($667 million); ordinary income rose ¥2,877 million ($35 million), or 5.6%, to ¥53,940 million ($657 million); and net income climbed ¥2,727 million ($33 million), or 9.5%, to ¥31,469 million ($383 million). Consequently, Kuraray achieved record-high earnings for the second consecutive fiscal year.

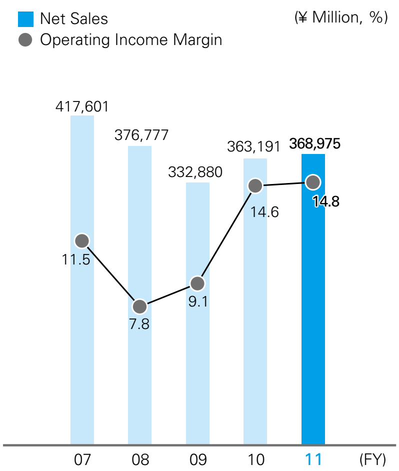
Results by Business Segment

Resins

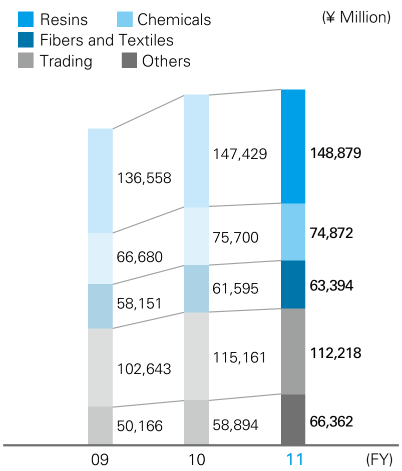
Demand for resins was stable across Europe, the United States and Asia during the first half of the period under review, but demand slowed in the second half due to the effect of the economic slowdown in Europe. As a result, sales in this segment rose 1.0% year on year to ¥148,879 million ($1,815 million), whereas operating income decreased 1.9% to ¥49,904 million ($608 million).

Demand for poval resin was sluggish in the second half, affected by the global economic slowdown. Sales volume of optical-use poval film was flat year on year, but profit improved slightly. To better prepare for anticipated growth in demand in this business over the medium term, Kuraray decided to build a new production line at its Saijo Plant, which will add annual production capacity of 32 million square meters. This new line is scheduled to begin production in June 2013. Sales of polyvinyl

Net Sales & Operating Income Margin



Net Sales by Business Segment



* Due to the reclassification of segments, figures for fiscal 2008 and earlier are not presented.

butyral (PVB) film were stable. To better prepare for anticipated growth in demand in this business, Kuraray decided to expand its production line in Europe. The expanded plant is scheduled to begin production in November 2013.

Sales of *EVAL* ethylene vinyl alcohol polymer (EVOH resin) increased year on year for use in food packaging and gas tanks. To prepare for anticipated growth in demand in this business, Kuraray decided to expand its production capacity in the U.S. by adding annual capacity of 12,000 tons. This new line is scheduled to begin production in January 2014.

Chemicals

Despite the suspension of production in some product categories due to the earthquake in the first half of the period under review, sales in this segment remained favorable overall. However, overall demand declined in the second half as a result of the malaise in the global economy. As a result, sales in this segment decreased 1.1% year on year to ¥74,872 million ($913 million), whereas operating income increased 4.5% year on year to ¥9,066 million ($110 million).

Sales of methacrylic resin were favorable during the first half of the period but were affected by the decrease in demand for use as molding materials for LCD panels, coupled with increased competition, in the second half.

In isoprene chemicals, demand for *SEPTON* thermoplastic elastomer rapidly declined in various regions in the second half of the period, although sales were steady in the first half. The performance of fine chemicals remained steady throughout the period. Kuraray completed and started production at a mass-production facility for acrylic thermoplastic elastomer *KURARITY*.

Sales of *GENESTAR* heat-resistant polyamide resin declined year on year due to weak demand for LED reflector applications. However, Kuraray secured overall profit growth by pioneering new applications such as use for automobiles.

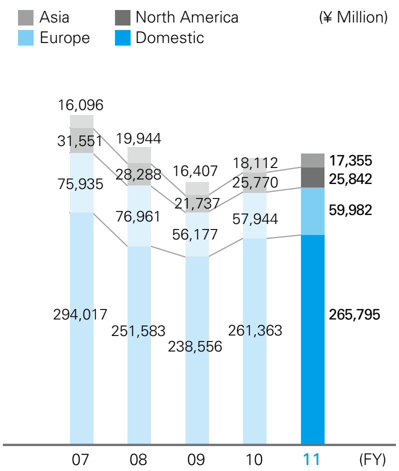
Kuraray Medical Inc.'s performance remained stable due to the inclusion of the dental materials business of Noritake Dental Supply Co., Limited, which was integrated into the Company in April 2011. A new plant was completed at the Niigata Plant, and it is scheduled to begin production in December 2012, after the certification procedure is finished.

Fibers and Textiles

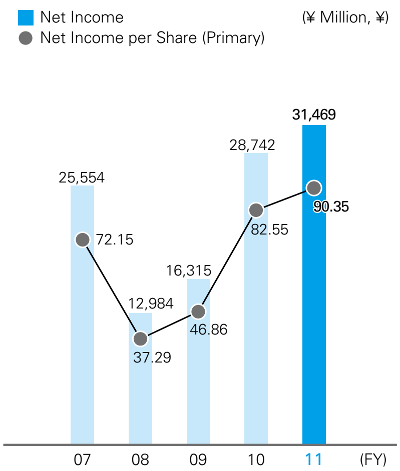
Although sales of *KURALON* were stable, demand for certain other products remained stagnant. As a result, sales in this segment grew 2.9% year on year to ¥63,394 million ($773 million) and operating income increased to ¥1,103 million ($13 million) (from an operating loss of ¥221 million for the previous fiscal year).

Sales were generally favorable for *KURALON* for use in primary cell separators and automotive brake hoses although

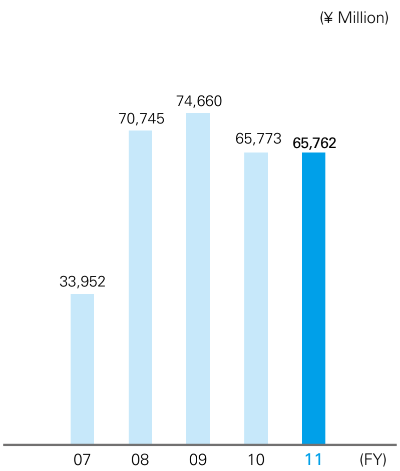
Net Sales by Geographic Segment



Net Income & Net Income per Share (Primary)



Interest-Bearing Debt



demand for this product for use as an asbestos substitute in fiber-reinforced cement (FRC) was affected by the stagnant European market in the second half of the period under review.

Sales of *CLARINO* man-made leather were healthy for schoolbag applications. The use of new processed products expanded for new applications, and business restructuring brought about some improvements.

Sales of *KURAFLEX* nonwoven fabrics for use in wet wipes and commercial counter cloth were stable despite stagnant demand for use of these products in industrial masks. Meanwhile, Kuraray worked to tap into the market for *FELIBENDY*, a new product.

Trading

Although certain operations in this segment saw a decline in demand, sales of differentiated materials in such fiber-related businesses as polyester grew favorably. As a result, sales in this segment were down 2.6% year on year to ¥112,218 million ($1,368 million), whereas operating income increased 6.7% to ¥3,527 million ($43 million).

Others

Sales of activated carbon for use in water purification systems and capacitors (electricity storage devices) were steady, and other items also saw stable demand growth. As a result, sales in this segment climbed 12.7% to ¥66,362 million ($809 million), whereas operating income rose 15.3% to ¥5,657 million ($68 million).

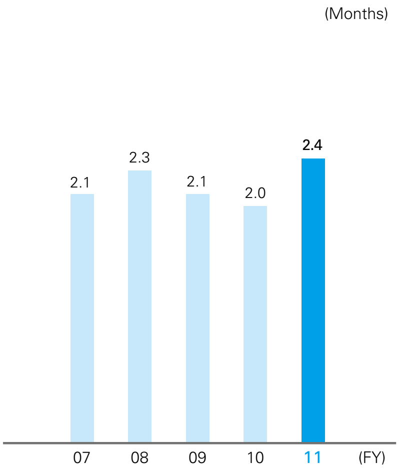
In the aqua business, Kuraray established a joint venture with a local enterprise aiming to prepare for full-fledged business development in China. As for new business, the Company is deliberating on a joint venture project to produce hard carbon for use in lithium-ion secondary cells based on a basic agreement with KUREHA CORPORATION and ITOCHU Corporation.

Financial Position

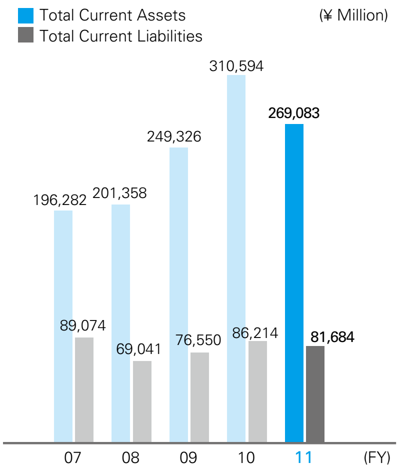
As of March 31, 2012, cash and cash equivalents increased ¥5,388 million ($65 million) to ¥34,811 million ($424 million). Notes and accounts receivable, trade increased ¥4,492 million ($54 million) to ¥80,627 million ($983 million). Inventories (merchandise and finished goods, work-in-process, and raw materials and supplies) increased ¥13,043 million ($159 million) to ¥74,431 million ($907 million), and inventory turnover (the number of months' sales in inventory) was 2.4 months. Current assets decreased ¥41,511 million ($506 million) or 13.4% to ¥269,083 million ($3,281 million). Working capital (current assets less current liabilities) decreased ¥36,981 million ($450 million) to ¥187,399 million ($2,285 million).

The current ratio (current assets divided by current liabilities)

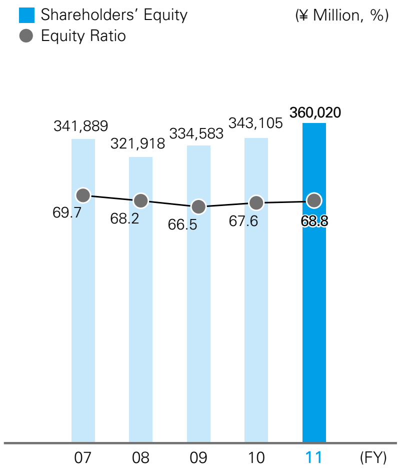
Number of Months' Sales in Inventory



Total Current Assets & Total Current Liabilities



Shareholders' Equity* & Equity Ratio



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

decreased to 329.4% from fiscal 2010's 360.3%. Tangible fixed assets increased ¥7,639 million ($93 million) to ¥152,877 million ($1,864 million). This included factors such as an increase in construction in progress of ¥11,193 million ($136 million) to ¥23,060 million ($281 million). Investments and other assets increased by ¥51,356 million ($626 million) to ¥87,282 million ($1,064 million). Total assets increased ¥15,919 million ($194 million) to ¥523,247 million ($6,381 million), and return on assets (operating income divided by average total assets for the period) was up 0.1 points from the previous fiscal year to 10.6%.

Current liabilities decreased ¥4,530 million ($55 million) to ¥81,684 million ($996 million), due primarily to an increase in notes and accounts payable of ¥2,637 million ($32 million) to ¥32,945 million ($401 million).

Noncurrent liabilities increased ¥960 million ($11 million) to ¥75,248 million ($917 million). Regarding net assets, from fiscal 2006 onward, Japanese accounting standards require presentation of net assets instead of shareholders' equity.

Net assets increased ¥19,489 million ($237 million) to ¥366,314 million ($4,467 million). Subtracting minority interests and subscription rights to shares totaling ¥6,294 million ($76 million), shareholders' equity was ¥360,020 million ($4,390 million), and the equity ratio for the period was 68.8%, up 1.2% from March 31, 2011.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥42,586 million ($519 million) in the fiscal year ended March 31, 2012, a decrease of ¥27,024 million ($329 million) compared with the previous fiscal year. Major components included income before income taxes of ¥50,729 million ($618 million), depreciation and amortization of ¥30,737 million ($374 million), an increase in notes and accounts receivable, trade of ¥4,773 million ($58 million), an increase in inventories of ¥14,389 million ($175 million) and income taxes paid of ¥19,376 million ($236 million).

Cash Flows from Investing Activities

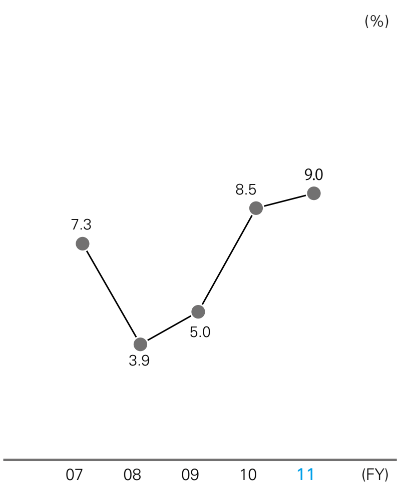
Net cash used in investing activities totaled ¥25,023 million ($305 million). Major components included a net decrease in invested assets including investment securities of ¥12,866 million ($156 million) and the purchase of tangible fixed assets and intangible fixed assets of ¥36,817 million ($448 million).

Cash Flows from Financing Activities

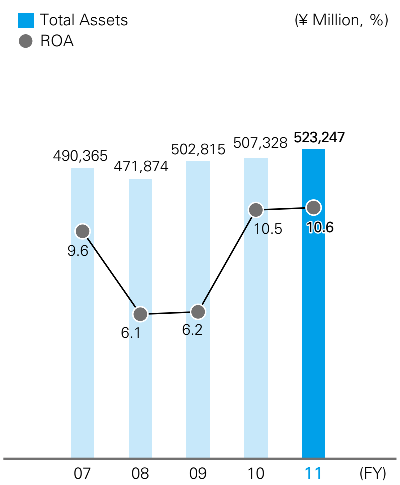
Net cash used in financing activities was ¥11,628 million ($141 million). Major components included a net decrease in interest-bearing liabilities of ¥862 million ($10 million) and cash dividends paid of ¥10,448 million ($127 million).

Taking into account the effect of exchange rate changes on cash and cash equivalents and the increase in cash equivalents

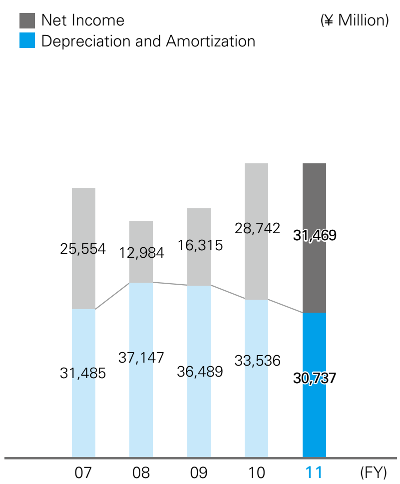
ROE



Total Assets & ROA



Gross Cash Flow



from newly consolidated subsidiaries, in addition to the aforementioned factors, cash and cash equivalents at the end of the fiscal year increased ¥5,388 million ($65 million) from the end of the previous fiscal year to ¥34,811 million ($424 million).

Capital Expenditure

Capital investment by the Kuraray Group (Kuraray and consolidated subsidiaries) amounted to ¥39,006 million ($475 million) in fiscal 2011, mainly for expansion of production facilities for optical-use poval film and construction of a new dental materials plant. By segment, capital investment amounted to ¥18,637 million ($227 million) in the Resins segment, ¥11,813 million ($144 million) in the Chemicals segment, ¥3,493 million ($42 million) in the Fibers and Textiles segment, ¥27 million ($0.3 million) in the Trading segment, and ¥3,166 million ($38 million) in the Others segment. General (non-segment) capital investment amounted to ¥1,867 million ($22 million).

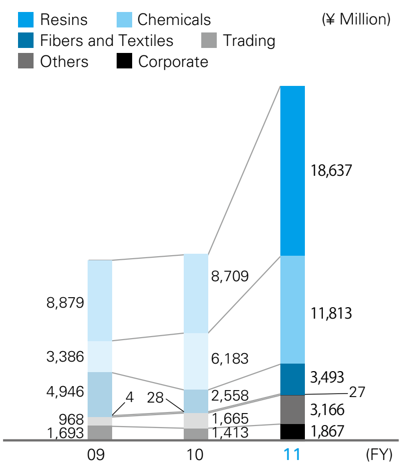
Outlook

We forecast that our operating environment in the next fiscal year will face unpredictable conditions that may include lingering uncertainty of the European economy and further raw material and fuel price hikes, although economic recovery is expected in the United States and emerging nations.

Effective from fiscal 2012, the Company started a new medium-term business plan called "GS-III" (fiscal years 2012 to 2014). This action plan aims to achieve sustainable growth by accelerating the development of new products and applications through technological innovations and by expanding businesses in markets and business areas of high growth potential in Japan and overseas.

Taking into account the aforementioned circumstances, our forecasts for the year ending March 31, 2013, are net sales of ¥400.0 billion, operating income of ¥60.0 billion, ordinary income of ¥58.5 billion and net income of ¥35.0 billion. We assume average exchanges rates of ¥83 to the U.S. dollar and ¥110 to the euro, as well as a domestic naphtha price of ¥58.5 thousand per kiloliter.

Capital Expenditure by Business Segment



* Due to the reclassification of segments, figures for fiscal 2008 and earlier are not presented.

Risks that could have a significant impact on the Kuraray Group's performance (results of operations and financial position) are discussed below. Forward-looking statements in the following section represent the Kuraray Group's best judgment as of March 31, 2012.

(i) Risks associated with changes in the business environment

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

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

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

(ii) Risks associated with accidents and disasters

The Kuraray Group has manufacturing facilities in Japan, Europe, North America and Asia. Many of these facilities are large-scale chemical plants. Although risk management is in place by geographically spreading the locations of important production plants and arranging appropriate property and casualty insurance, in the event of serious security-related incidents, release of pollutants or natural disasters, there are risks that could cause personal injury or property damage to employees or third parties, or damage to the assets of the Kuraray Group, or a halt to manufacturing operations for long periods.

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

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

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

Meanwhile, we supply many products that play significant roles in assuring the quality of the final products in areas such as automotive products, electric and electronic materials, medical products and food packaging. As such, in the event of a large-scale product recall caused by defective quality, there are risks of major financial losses including liability losses that cannot be fully covered by the existing product liability insurance.

Also, despite our utmost effort of compliance with laws and regulations at each of our facilities, there are risks that major breach of legal compliance could interrupt our business activities.

(iv) Changes in exchange rates

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

(v) Other risks

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

Consolidated Balance Sheets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2011 and 2012	Millions of yen Fiscal 2011	Fiscal 2010	Thousands of U.S. dollars Fiscal 2011
ASSETS			
I Current assets:			
1 Cash and deposits	¥ 31,464	¥ 34,221	$ 383,707
2 Notes and accounts receivable — trade*6	80,627	76,135	983,256
3 Short-term investment securities	71,995	127,128	877,987
4 Merchandise and finished goods	50,361	40,534	614,158
5 Work-in-process	9,528	8,122	116,195
6 Raw materials and supplies	14,542	12,732	177,341
7 Deferred tax assets	5,560	6,046	67,804
8 Other	5,783	6,475	70,524
9 Allowance for doubtful accounts	(781)	(802)	(9,524)
Total current assets	269,083	310,594	3,281,500
II Noncurrent assets:			
1 Tangible fixed assets:			
(1) Buildings and structures, net*2	34,536	33,701	421,170
(2) Machinery, equipment and vehicles, net*2	71,578	79,216	872,902
(3) Land*2	19,971	17,976	243,548
(4) Construction in progress	23,060	11,867	281,219
(5) Other, net*2	3,730	2,477	45,487
Total tangible fixed assets*1	152,877	145,238	1,864,353
2 Intangible fixed assets:			
(1) Goodwill	11,538	12,725	140,707
(2) Other	2,465	2,842	30,060
Total intangible fixed assets	14,004	15,568	170,780
3 Investments and other assets:			
(1) Investment securities*3 and 5	70,029	19,577	854,012
(2) Long-term loans receivable	572	1,189	6,975
(3) Deferred tax assets	4,688	4,725	57,170
(4) Prepaid pension cost	5,822	6,243	71,000
(5) Other	6,262	4,378	76,365
(6) Allowance for doubtful accounts	(93)	(186)	(1,134)
Total investments and other assets	87,282	35,926	1,064,414
Total noncurrent assets	254,163	196,733	3,099,548
TOTAL ASSETS	¥523,247	¥507,328	$6,381,060

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

March 31, 2011 and 2012	Millions of yen Fiscal 2011	Fiscal 2010	Thousands of U.S. dollars Fiscal 2011
LIABILITIES			
I Current liabilities:			
1 Notes and accounts payable — trade*6	¥ 32,945	¥ 30,308	$ 401,768
2 Short-term loans payable	13,781	12,738	168,060
3 Current portion of bonds	—	10,000	—
4 Accrued expenses	5,265	5,193	64,207
5 Income taxes payable	9,075	10,369	110,670
6 Provision for bonuses	6,657	6,670	81,182
7 Provision for loss on disaster	68	300	829
8 Other provision	59	1	719
9 Other*6	13,829	10,632	168,646
Total current liabilities	81,684	86,214	996,146
II Noncurrent liabilities:			
1 Bonds payable	10,000	—	121,951
2 Long-term loans payable	41,981	43,035	511,963
3 Deferred tax liabilities	4,531	4,918	55,256
4 Provision for retirement benefits	5,617	14,641	68,500
5 Provision for directors' retirement benefits	194	167	2,365
6 Provision for environmental measures	1,106	1,122	13,487
7 Asset retirement obligations	2,224	2,222	27,121
8 Other	9,593	8,179	116,987
Total noncurrent liabilities	75,248	74,288	917,658
TOTAL LIABILITIES	156,933	160,502	1,913,817
NET ASSETS			
I Shareholders' equity:			
1 Capital stock	88,955	88,955	1,084,817
2 Capital surplus	87,147	87,147	1,062,768
3 Retained earnings	246,733	225,743	3,008,939
4 Treasury stock	(40,732)	(40,856)	(496,731)
Total shareholders' equity	382,103	360,989	4,659,792
II Accumulated other comprehensive income:			
1 Valuation difference on available-for-sale securities	2,763	2,280	33,695
2 Deferred gains or losses on hedges	(32)	(14)	(390)
3 Foreign currency translation adjustment	(24,419)	(19,916)	(297,792)
4 Pension liability adjustment	(396)	(233)	(4,829)
Total accumulated other comprehensive income	(22,084)	(17,884)	(269,317)
III Subscription rights to shares	1,151	560	14,036
IV Minority interests	5,143	3,159	62,719
TOTAL NET ASSETS	366,314	346,825	4,467,243
TOTAL LIABILITIES AND NET ASSETS	¥523,247	¥507,328	$6,381,060

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

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Consolidated Statements of Income

Years ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
I Net sales	¥368,975	¥363,191	$4,499,695
II Cost of sales[*2]	246,538	243,564	3,006,560
Gross profit	122,437	119,626	1,493,134
III Selling, general and administrative expenses:			
1 Selling expenses	18,553	18,663	226,256
2 General and administrative expenses[*2]	49,149	47,867	599,378
Total selling, general and administrative expenses[*1]	67,703	66,531	825,646
Operating income	54,733	53,095	667,475
IV Non-operating income:			
1 Interest income	415	375	5,060
2 Dividends income	2,055	1,418	25,060
3 Equity in earnings of affiliates	5	18	60
4 Other	1,201	1,094	14,646
Total non-operating income	3,677	2,906	44,841
V Non-operating expenses:			
1 Interest expenses	1,072	1,135	13,073
2 Personnel expenses for seconded employees	673	652	8,207
3 Special retirement expenses	507	349	6,182
4 Other	2,217	2,800	27,036
Total non-operating expenses	4,470	4,939	54,512
Ordinary income	53,940	51,062	657,804
VI Extraordinary income:			
1 Gain on change in equity[*3]	845	—	10,304
2 Gain on transfer of business[*4]	—	225	—
Total extraordinary income	845	225	10,304
VII Extraordinary loss:			
1 Impairment loss[*5]	2,473	343	30,158
2 Loss on disaster[*6]	997	653	12,158
3 Provision for loss on disaster	69	300	841
4 Loss on disposal of tangible fixed assets[*7]	293	384	3,573
5 Loss on valuation of investment securities[*8]	222	574	2,707
6 Business structure improvement losses[*9]	—	1,588	—
7 Loss on adjustment for changes of accounting standard for asset retirement obligations	—	1,548	—
Total extraordinary loss	4,056	5,392	49,463
Income before taxes and minority interests	50,729	45,895	618,646
Income taxes — current	18,205	15,115	222,012
Income taxes — deferred	504	1,915	6,146
Total income taxes	18,710	17,031	228,170
Income before minority interests	32,019	28,864	390,475
Minority interests	549	122	6,695
Net income	¥ 31,469	¥ 28,742	$ 383,768

Consolidated Statements of Comprehensive Income

Years ended March 31, 2011 and 2012

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
I Income before minority interests	¥32,019	¥28,864	$390,475
II Other comprehensive income			
1 Valuation difference on available-for-sale securities	484	(1,486)	5,902
2 Deferred gains or losses on hedges	(17)	89	(207)
3 Foreign currency translation adjustment	(4,502)	(11,686)	(54,902)
4 Pension liability adjustment	(163)	11	(1,987)
5 Shares of other comprehensive income of associates accounted for using equity method	(1)	(0)	(12)
Total other comprehensive income[*1]	(4,200)	(13,072)	(51,219)
III Comprehensive income	27,818	15,791	339,243
Comprehensive income attributable to			
1 Owners of the parent	27,269	15,669	332,548
2 Minority interests	549	122	6,695

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

Consolidated Statements of Changes in Net Assets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

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

Fiscal 2011 (Year ended March 31, 2012)	Thousands of U.S. dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2011	$1,084,817	$1,062,768	$2,752,963	$(498,243)	$4,402,304
Changes of items during the period					
Cash dividends			(127,414)		(127,414)
Net income			383,768		383,768
Purchase of treasury stock				(73)	(73)
Disposal of treasury stock		(378)		1,585	1,195
Transfer to capital surplus from retained earnings		378	(378)		—
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	—	255,963	1,500	257,475
Balance at March 31, 2012	$1,084,817	$1,062,768	$3,008,939	$(496,731)	$4,659,792

	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	Pension liability adjustment	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2011	$27,804	$(170)	$(242,878)	$(2,841)	$(218,097)	$ 6,829	$38,524	$4,229,573
Changes of items during the period								
Cash dividends								(127,414)
Net income								383,768
Purchase of treasury stock								(73)
Disposal of treasury stock								1,195
Transfer to capital surplus from retained earnings								—
Net changes of items other than shareholders' equity	5,890	(207)	(54,902)	(1,987)	(51,219)	7,207	24,812	(19,817)
Total changes of items during the period	5,890	(207)	(54,902)	(1,987)	(51,219)	7,207	24,812	237,658
Balance at March 31, 2012	$33,695	$(390)	$(297,792)	$(4,829)	$(269,317)	$14,036	$62,719	$4,467,243

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

Fiscal 2010 (Year ended March 31, 2011)	Millions of yen Shareholders' equity Capital stock	 Capital surplus	 Retained earnings	 Treasury stock	 Total shareholders' equity
Balance at April 1, 2010	¥88,955	¥87,192	¥204,070	¥(41,068)	¥339,150
Transfer to pension liability adjustment from retained earnings			244		244
Changes of items during the period					
Cash dividends			(7,310)		(7,310)
Net income			28,742		28,742
Purchase of treasury stock				(13)	(13)
Disposal of treasury stock		(48)		225	176
Transfer to capital surplus from retained earnings		3	(3)		—
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	(44)	21,427	211	21,594
Balance at March 31, 2011	¥88,955	¥87,147	¥225,743	¥(40,856)	¥360,989

	Millions of yen Accumulated other comprehensive income Valuation difference on available-for-sale securities	 Deferred gains or losses on hedges	 Foreign currency translation adjustment	 Pension liability adjustment	 Total accumulated other comprehensive income	 Subscription rights to shares	 Minority interests	 Total net assets
Balance at April 1, 2010	¥ 3,767	¥(103)	¥ (8,230)	—	¥ (4,566)	¥186	¥3,048	¥337,818
Transfer to pension liability adjustment from retained earnings				¥(244)	(244)			—
Changes of items during the period								
Cash dividends								(7,310)
Net income								28,742
Purchase of treasury stock								(13)
Disposal of treasury stock								176
Transfer to capital surplus from retained earnings								—
Net changes of items other than shareholders' equity	(1,487)	89	(11,686)	11	(13,072)	374	110	(12,587)
Total changes of items during the period	(1,487)	89	(11,686)	11	(13,072)	374	110	9,006
Balance at March 31, 2011	¥ 2,280	¥ (14)	¥(19,916)	¥(233)	¥(17,884)	¥560	¥3,159	¥346,825

Consolidated Statements of Cash Flows

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2011 and 2012	Millions of yen Fiscal 2011	Millions of yen Fiscal 2010	Thousands of U.S. dollars Fiscal 2011
I Net cash provided by (used in) operating activities:			
1 Income before taxes and minority interests	¥ 50,729	¥ 45,895	$ 618,646
2 Depreciation and amortization	30,737	33,536	374,841
3 Increase (decrease) in allowance for doubtful accounts	(110)	(140)	(1,341)
4 Increase (decrease) in provision for retirement benefits	641	651	7,817
5 Impairment loss	2,473	343	30,158
6 Increase (decrease) in provision for loss on disaster	69	300	841
7 Loss on disposal of tangible fixed assets	293	384	3,573
8 Loss on valuation of investment securities	222	574	2,707
9 Loss on adjustment for changes of accounting standard for asset retirement obligations	—	1,548	—
10 Loss (gain) on change in equity	(845)	—	(10,304)
11 Loss (gain) on transfer of business	—	(225)	—
12 Interest and dividends income	(2,470)	(1,793)	(30,121)
13 Interest expenses	1,072	1,135	13,073
14 Decrease (increase) in notes and accounts receivable — trade	(4,773)	(2,580)	(58,207)
15 Decrease (increase) in inventories	(14,389)	(6,767)	(175,475)
16 Increase (decrease) in notes and accounts payable — trade	2,944	4,579	35,902
17 Contribution to pension trust fund	(10,000)	—	(121,951)
18 Decrease (increase) in prepaid pension cost	420	423	5,121
19 Other, net	3,495	1,156	42,621
Sub-total	60,510	79,023	737,926
20 Interest and dividends income received	2,526	1,818	30,804
21 Interest expenses paid	(1,073)	(1,148)	(13,085)
22 Insurance income	—	566	—
23 Income taxes paid	(19,376)	(10,648)	(236,292)
Net cash provided by (used in) operating activities	42,586	69,611	519,341
II Net cash provided by (used in) investment activities:			
1 Net decrease (increase) in time deposits	3,145	6,782	38,353
2 Net decrease (increase) in short-term investment securities	32,985	(25,004)	402,256
3 Purchase of investment securities	(50,374)	(459)	(614,317)
4 Proceeds from sales and redemption of investment securities	27,109	22	330,597
5 Purchase of tangible fixed assets and intangible fixed assets	(36,817)	(18,697)	(448,987)
6 Payments for disposal of tangible fixed assets and intangible fixed assets	(1,391)	(626)	(16,963)
7 Proceeds from sales of tangible fixed assets and intangible fixed assets	120	112	1,463
8 Purchase of investments in a subsidiary resulting in change in scope of consolidation	(104)	—	(1,268)
9 Proceeds from transfer of business	—	102	—
10 Other, net	302	(936)	3,682
Net cash provided by (used in) investment activities	(25,023)	(38,705)	(305,158)
III Net cash provided by (used in) financing activities:			
1 Net increase (decrease) in short-term loans payable	1,417	1,924	17,280
2 Net increase (decrease) in commercial paper	—	(6,000)	—
3 Proceeds from issuance of standard bonds	10,000	—	121,951
4 Redemption of standard bonds	(10,000)	—	(121,951)
5 Repayment of long-term loans payable	(2,279)	(4,645)	(27,792)
6 Cash dividends paid to minority shareholders	(24)	(11)	(292)
7 Proceeds from sales of treasury stock	85	112	1,036
8 Purchase of treasury stock	(6)	(13)	(73)
9 Cash dividends paid	(10,448)	(7,310)	(127,414)
10 Other, net	(373)	(411)	(4,548)
Net cash provided by (used in) financing activities	(11,628)	(16,355)	(141,804)
IV Effect of exchange rate changes on cash and cash equivalents	(550)	(1,539)	(6,707)
V Net increase (decrease) in cash and cash equivalents	5,382	13,010	65,634
VI Cash and cash equivalents, beginning of year	29,423	16,412	358,817
VII Increase in cash and cash equivalents from newly consolidated subsidiaries	4	—	48
VIII Increase in cash and cash equivalents resulting from merger	0	—	0
IX Cash and cash equivalents, end of year[*1]	¥ 34,811	¥ 29,423	$ 424,524

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 translation of those filed with MOF.

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

The United States dollar amounts included herein provided solely for the convenience of readers outside Japan and are stated, at the rate of ¥82=$1, the approximate exchange rate prevailing on March 31, 2012. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into United States dollars at this or any other rate.

2. Scope of consolidation

(1) Number of consolidated subsidiaries

	Fiscal 2011	Fiscal 2010
Number of consolidated subsidiaries	31	28

Newly established Kuraray Noritake Dental Holdings Inc. and Noritake Dental Supply Co., Ltd., in which Kuraray made a share acquisition, have been included in the scope of consolidation from this fiscal year.

KURASHIKI KOKUSAI HOTEL LTD., which was an affiliate company accounted for using the equity method until the previous fiscal year, has been included in the scope of consolidation from this fiscal year as it became a subsidiary in September 2011 with additional share acquisition. The deemed date of acquisition is the end of the second quarter of the fiscal year (September 30, 2011).

(Major consolidated subsidiaries)

KURARAY TRADING Co., LTD., KURARAY CHEMICAL CO., LTD., Kuraray Plastics Co., Ltd., KURARAY ENGINEERING CO., LTD., KURARAY LIVING CO., LTD., Kuraray Techno Co., Ltd., KURARAY BUSINESS SERVICE CO., LTD., KURARAYKURAFLEX CO., LTD., TECHNO SOFT CO., LTD., Kuraray Travel Service Corporation, KURARAY SAIJO CO., LTD., KURARAY TAMASHIMA COMPANY, LIMITED., Iruma Country Club Co., Ltd., KURASHIKI KOKUSAI HOTEL LTD., KURARAY FASTENING CO., LTD., OKAYAMA RINKOH CO., LTD., Kuraray Noritake Dental Holdings Inc., Kuraray Medical Inc., Noritake Dental Supply Co., Ltd., Kyosei Chemical Co., Ltd., Kuraray Holdings U.S.A., Inc., Kuraray America, Inc., Kuraray Europe GmbH, EVAL Europe N.V., Kuraray Hong Kong Co., Ltd., Kuraray Asia Pacific Pte. Ltd., Kuraray (Shanghai) Co., Ltd., and 4 other consolidated subsidiaries.

(2) Names of major unconsolidated subsidiaries

(Major unconsolidated subsidiaries)

Kuraray Okayama Spinning CO., LTD.

(Reasons for excluding from the scope of consolidation)

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

3. Scope of application of equity method affiliates and subsidiaries

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

	Fiscal 2011	Fiscal 2010
Number of unconsolidated subsidiaries accounted for using the equity method	1	3

(Name of unconsolidated subsidiaries)

Kuraray Okayama Spinning CO., LTD.

KC Processing Co., Ltd., which had been an unconsolidated subsidiary accounted for using the equity method until the previous fiscal year, is excluded from this fiscal year because it was merged by absorption by KURARAY CHEMICAL CO., in April, 2011.

Kuraflex Ibaraki Co. Ltd., which had been an affiliate company accounted for using the equity method until the previous fiscal year, is excluded from this fiscal year because the liquidation was completed in June, 2011.

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

4. Fiscal years of consolidated subsidiaries

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

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

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 on "Net assets", at the 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 material, and work-in-process are principally stated at the lower of cost or net realizable value.

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

(2) Depreciation method of significant depreciable assets

a) Tangible fixed assets (excluding lease assets)

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

The estimated useful lives of assets are primarily as follows:

- Buildings and structures .... 31 to 50 years
- Machinery and equipment .... 4 to 9 years

b) Intangible assets (excluding lease assets)

Amortization is primarily computed using the straight-line method.

The numbers of years for amortization are primarily as follows:

- Goodwill............ 15 years

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

c) Lease assets

Amortization is primarily computed using the straight-line method.

(3) Accounting for significant allowance

a) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide for doubtful accounts principally at an amount of 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 bonus is stated at the estimated amount of the bonuses to be paid to employees base on services provided for the fiscal year.

c) Provision for loss on disaster

In order to provide for expenditures for restoration from the disaster by the Great East Japan Earthquake, a provision is made base on the estimates as of the end of the current consolidated fiscal year.

d) Provision for retirement benefits

In order to provide for employee retirement benefits, a provision is made based on the retirement benefit liabilities as of the end of the fiscal year the forecasted pension assets.

The 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 next year in which each respective gain or loss occurred.

(Additional information)

During this fiscal year, the Company made a ¥10,000 million (US$121,951 thousand) contribution in cash to its pension trust fund in order to make its fund sounder financially. The balance of provision for retirement benefits decreased by the same amount accordingly.

e) 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.

f) Provision for environmental measures

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

(4) Significant hedge accounting

a) Hedge accounting

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

b) Hedging instruments and hedged items

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

c) Hedging policy

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

d) Assessment method for hedge accounting

The Company and its consolidated subsidiaries evaluate the effectiveness of their hedging activities be reference to the accumulated gains or losses on the hedging instruments and the related hedged items.

Interest rate swap contracts, which meet certain conditions, are evaluated for effectiveness at the commencement of the hedge.

(5) Amortization of goodwill

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

(6) Cash and cash equivalents

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

(7) Other accounting policies

Accounting for consumption tax

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

2 Significant Changes in Accounting Policies Concerning the Preparation of Consolidated Financial Statements

(Changes in Accounting Policies Accompanying Revision of Accounting Standards)

Effective from the current consolidated fiscal year, Kuraray has applied the "Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, June 30, 2010) and the "Guidance on Accounting Standard for Earnings per Share" (ASBJ Guidance No. 4, June 30, 2010).

In calculating diluted net income per share, the calculation method has been changed as follows: With regard to stock options, of which rights are ascertained after the completion of a certain period for an employee's services, the amount assumed to be subscribed through the exercise of relevant rights on stock options shall include a portion of the fair value of the stock options pertaining to future services to be provided by the employee to the company.

The impact of this change on per share information is stated in "22. Per Share Information."

3 Accounting Standards Not Yet Applied

- "Tentative Audit Treatment of Depreciation" (Audit and Assurance Practice Committee, Revised Auditing and Assurance Practice Committee Statement No. 81, February 14, 2012)

(1) Summary

The accounting standard was revised to address revision to the rate of amortization for the declining balance method of depreciation under the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" (Law No. 114 of 2011).

(2) Effective Date for Application

Kuraray will apply the accounting standard in the fiscal years ending on or after April 1, 2012.

(3) Expected Effect of Application of the Relevant Accounting Standard, etc.

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

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

(1) Summary

The main revisions relating to recognition and measurement are as below.

① Abolition of the option of deferred recognition for actuarial differences and prior service costs (immediate recognition of actuarial differences)

② Change in the method of calculation of retirement benefit expenses

(2) Effective Date

Kuraray applies "Tentative Accounting Treatment for Overseas Subsidiaries in the Preparation of Consolidated Financial Statements"

(Accounting Standards Board of Japan, Guidance No. 18, February 19, 2010) in the preparation of its consolidated financial statements, using the financial statements prepared by some of its overseas subsidiaries in accordance with International Financial Reporting Standards.

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

(3) Impact of Application of the Relevant Accounting Standard, etc.

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

4 Changes in Presentation

(Consolidated Statements of Income)

For the fiscal year ended March 31, 2012, "Special retirement expenses", which was included in "Other" under "Non-operating expenses" in the previous fiscal year, is separately presented because its amount exceeded 10 percent of the total non-operating expenses. The consolidated financial statements for the previous fiscal year were reclassified in order to reflect this change in presentation method.

As a result, ¥3,150 million (US$38,414 thousand) included in "Other" under "Non-operating expenses" was reclassified into "Special retirement expenses" of ¥349 million (US$4,256 thousand) and "Other" of ¥2,800 million (US$34,146 thousand) in the Consolidated Statements of Income for the previous fiscal year.

For the fiscal year ended March 31, 2012, "Rent income", which was separately presented under "Non-operating income" in the previous fiscal year, is included in "Other" under "Non-operating income" because its amount has declined in significance. The consolidated financial statements for the previous fiscal year were reclassified in order to reflect this change in presentation method.

As a result, ¥276 million (US$3,365 thousand) which was separately presented in "Rent income" was reclassified into "Other" under "Non-operating income" in the Consolidated Statements of Income for the previous fiscal year.

(Consolidated Statements of Cash Flows)

For the fiscal year ended March 31, 2012, "Increase (decrease) in provision for environmental measures", which was separately presented under "Net cash provided by (used in) operating activities" in the previous fiscal year, is included in "Other, net" under "Net cash provided by (used in) operating activities" because its amount has declined in significance. The consolidated financial statements for the previous fiscal year were reclassified in order to reflect this change in presentation method.

As a result, (¥153 million (US$1,865 thousand)) which was separately presented in "Increase (decrease) in provision for environmental measures" was reclassified into "Other, net" under "Net cash provided by (used in) operating activities" in the Consolidated Statements of Cash Flows for the previous fiscal year.

5 Additional Information

Effective the fiscal year ended March 31, 2012, the Company and its consolidated subsidiaries applied "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, December 4, 2009) to accounting changes and error corrections made on or after April 1, 2011.

6 Notes to Consolidated Balance Sheets

*1. Accumulated depreciation of tangible fixed assets

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Accumulated depreciation of tangible fixed assets	¥528,585	¥505,480	$6,409,573

*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 2011	Fiscal 2010	Fiscal 2011
Buildings and structures	¥2,027	¥2,026	$24,719
(Deduction for this fiscal year)	(0)	(6)	(0)
Machinery, equipment, and vehicles	941	924	11,475
(Deduction for this fiscal year)	(17)	(2)	(207)
Land	1,257	1,257	15,329
Other	36	38	439
(Deduction for this fiscal year)	(—)	(2)	(—)

*3. Investments in unconsolidated subsidiaries and affiliates

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Investment securities (equity)	¥3,263	¥3,269	$ 39,792

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 2011	Fiscal 2010	Fiscal 2011
Social welfare corporation			
Ishii Kinen Aizenen			
(Joint and several guarantee)	¥1,676	¥1,808	$20,439
Kuraray chemical (Ningxia) Environmental Industry Co., Ltd.	—	12	—
(Foreign currency-dominated guarantees for 1 company)	(—)	(CNY 1,000,000)	(—)
Total	¥1,676	¥1,821	$20,439

*5. Security assets and secured liabilities

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Investment securities	¥46	¥46	$ 560

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

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

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Notes and accounts receivable — trade	¥3,788	¥ —	$ 46,195
Notes and accounts payable — trade	3,584	—	43,707
Other (current liabilities)	549	—	6,695

7 Notes to Consolidated Statements of Income

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Freight and storage	¥12,207	¥12,413	$148,865
Provision for doubtful accounts	10	204	121
Research and development	15,182	14,710	185,146
Salaries and legal welfare expense	11,563	11,671	141,012
Provision for bonuses	3,661	3,670	44,646
Provision for retirement benefits for employees	1,053	1,041	12,841
Provision for directors' retirement benefits	40	56	487

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
	¥16,174	¥15,771	$197,243

*3. The gain is incurred due to the change in equity in Kuraray Medical Inc., a consolidated subsidiary of Kuraray.

*4. The gain is mainly attributable to the transfer of the blood purification business.

*5. Impairment loss

The significant component of impairment loss is as follows:

Fiscal 2011

				Impairment loss	
Location	Assets	Usage	Type	Millions of yen	Thousands of U.S. dollars
Okayama Minami-Ku	Business assets	Plant and equipment for man-made leather	Plant and equipment	¥1,924	$23,463

Fiscal 2010

				Impairment loss
Location	Assets	Usage	Type	Millions of yen
Kamisu, Ibaraki Prefecture	Assets to be scrapped (expected to be idle due to the operation of new manufacturing facilities resulting from full scale production)	Demonstration facility for mass production of acrylic thermoplastic elastomer	Plant and equipment	¥196

(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 lent assets, idle assets, and assets associated with discontinued or reorganized businesses are assessed individually. Other head office and research facilities are shared assets.

(Method for calculating the recoverable amount)

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

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

*7. Removal costs of idle facilities

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

*9. Mainly realized loss on foreign currency translation adjustments resulting from liquidation of overseas subsidiaries

8 Notes to Consolidated Statements of Comprehensive Income

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

	Millions of yen Fiscal 2011	Thousands of U.S. dollars Fiscal 2011
Valuation difference on available-for-sale securities		
Amount recorded during the period	¥ 298	$ 3,634
Reclassification adjustments	103	1,256
Before tax effect adjustments	401	4,890
Tax effect	82	1,000
Valuation difference on available-for-sale securities	484	5,902
Deferred gains or losses on hedges		
Amount recorded during the period	(37)	(451)
Reclassification adjustments	10	121
Before tax effect adjustments	(27)	(329)
Tax effect	10	121
Deferred gains or losses on hedges	(17)	(207)
Foreign currency translation adjustment		
Amount recorded during the period	(4,502)	(54,902)
Reclassification adjustments	—	—
Before tax effect adjustments	(4,502)	(54,902)
Tax effect	—	—
Foreign currency translation adjustment	(4,502)	(54,902)
Pension liability adjustment		
Amount recorded during the period	(294)	(3,585)
Reclassification adjustments	30	365
Before tax effect adjustments	(263)	(3,207)
Tax effect	100	1,219
Pension liability adjustment	(163)	(1,987)
Shares of other comprehensive income of associates accounted for using equity method		
Amount recorded during the period	0	0
Reclassification adjustments	(1)	(12)
Shares of other comprehensive income of associates accounted for using equity method	(1)	(12)
Total other comprehensive income	¥(4,200)	$(51,219)

9 Notes to Consolidated Statements of Changes of Net Assets

Fiscal 2011

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

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

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

2. Subscription rights to shares

The Company granted its directors, executive officers, employees, and directors and employees of its subsidiaries the subscription rights to the Company shares as stock option. The balance of the subscription rights to shares as of March 31, 2012 is ¥1,151 million (US$14,036 thousand).

3. Dividends

(1) Amount of dividends paid

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 22, 2011	Common stock	4,875 (US$59,451 thousand)	14.00 (US$0.17)	March 31, 2011	June 23, 2011
Board of directors held on October 31, 2011	Common stock	5,572 (US$67,951 thousand)	16.00 (US$0.19)	September 30, 2011	December 1, 2011

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

Resolution	Type of share	Amount of dividends (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 22, 2012	Common stock	5,922 (US$72,219 thousand)	Retained earnings	17.00 (US$0.20)	March 31, 2012	June 25, 2012

Fiscal 2010

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

	Number of shares as of March 31, 2010 (thousands of shares)	Increase in the number of shares (thousands of shares)	Decrease in the number of shares (thousands of shares)	Number of shares as of March 31, 2011 (thousands of shares)
Number of outstanding shares				
Common stock	382,863	—	—	382,863
Total	382,863	—	—	382,863
Number of treasury stocks				
Common stock (Notes 1, 2)	34,790	11	190	34,611
Total	34,790	11	190	34,611

Notes: 1. The increase in treasury stock (common stock) is attributable to the purchase less-than-one unit shares (11 thousand shares).
2. The decrease in treasury stock (common stock) is attributable to a transfer of shares upon the exercise of subscription rights (189 thousand shares) and the acquisition of less-than-one unit shares by the shareholders (1 thousand shares).

2. Subscription rights to shares

The Company granted its directors, executive officers, employees, and directors and employees of its subsidiaries the subscription rights to the Company shares as stock option. The balance of the subscription rights to shares as of March 31, 2011 is ¥560 million.

3. Dividends

(1) Amount of dividends paid

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 24, 2010	Common stock	2,784	8.00	March 31, 2010	June 25, 2010
Board of directors held on October 28, 2010	Common stock	4,526	13.00	September 30, 2010	December 1, 2010

(2) Dividends whose effective date is after the end of Fiscal 2010 and record date is included in the Fiscal 2010.

Resolution	Type of share	Amount of dividends (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 22, 2011	Common stock	4,875	Retained earnings	14.00	March 31, 2011	June 23, 2011

10 Notes to Consolidated Statements of Cash Flows

*1. Cash and cash equivalents at March 31, 2012 and 2011 are reconciled to the accounts reported in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Cash on hand and in banks	¥31,464	¥34,221	$383,707
Time deposits with a deposit period of 3 months or more	(3,651)	(6,797)	(44,524)
Marketable securities with original maturities of 3 months or less	6,999	1,999	85,353
Cash and cash equivalents	¥34,811	¥29,423	$424,524

11 Leases

1. Finance lease transactions

(1) Lease transactions as a lessee

Financial leases without transfer of ownership

1) Details of lease assets

a) Tangible fixed assets

Fiscal 2011

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").

Fiscal 2010

Mainly, vehicles used at plants including forklifts ("Machinery and equipment"), OA equipment including personal computers and printers, and servers ("Other").

b) Intangible fixed assets

Software ("Other intangible fixed assets")

2) Depreciation method of lease assets

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

(2) Lease transactions as a lessor

Financial lease transactions without transfer of ownership that commenced on or before March 31, 2008 are accounted for on a basis similar to operating lease. 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) Acquisition cost, accumulated depreciation, and net book value for leased assets at March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Acquisition cost			
Buildings and structures	¥196	¥196	$2,390
Machinery and equipment	49	49	597
Total	¥245	245	$2,987
Accumulated depreciation			
Buildings and structures	¥ 85	¥ 81	$1,036
Machinery and equipment	43	41	524
Total	¥128	123	$1,560
Net book value			
Buildings and structures	¥110	¥114	$1,341
Machinery and equipment	5	7	60
Total	¥116	¥122	$1,414

2) Future lease payment obligations at March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Due within one year	¥ 14	¥ 14	$ 170
Due after one year	121	136	1,475
Total	¥136	¥151	$1,658

3) Lease revenue, depreciation expense for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Lease revenue	¥15	¥15	$182
Depreciation expense	5	6	60

2. Operating leases

Lease transactions as a lessee:

Future lease payment obligations under operating leases at March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Due within one year	¥1,452	¥1,442	$17,707
Due after one year	3,211	3,287	39,158
Total	¥4,663	¥4,730	$56,865

12 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 receivables — trade are exposed to customer credit risk. Trade receivables denominated in foreign currencies are exposed to foreign currency exchange fluctuation risk.

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

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

Loans, bonds and lease obligations related to finance lease transactions, used to raise funds for working capital and capital expenditures have maturities of at the longest 15 years from the balance sheet date. The debts bearing floating interest rates are exposed to interest rate fluctuation risk, although a part of the exposure is hedged through use of derivatives (interest rate swaps).

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

(3) Risk management for financial instruments

a. Credit Risk Management (customers' default risk)

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

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

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

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

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

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

c. Liquidity Risk Management on Fund Raising

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

(4) Supplementary explanation concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in computing the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in the note "14. Derivative Financial Instruments" are not indicative of market risk exposure to derivative transactions.

2. Fare values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2012 and 2011 are as follows: Financial instruments whose fair values are not readily determinable are excluded from the following table:

Fiscal 2011

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

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	$ 383,707	$ 383,707	$ —
(2) Notes and accounts receivable — trade	983,256		
Allowance for doubtful accounts	(9,524)		
	973,719	973,719	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	1,647,914	1,647,914	—
Total assets	3,005,353	3,005,353	—
(1) Notes and accounts payable — trade	401,768	401,768	—
(2) Long-term loans payable (*1)	539,146	554,829	15,670
Total liabilities	940,926	956,597	15,670
Derivative transactions (*2)	1,097	1,097	—

Fiscal 2010

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥ 34,221	¥ 34,221	¥ —
(2) Notes and accounts receivable — trade	76,135		
Allowance for doubtful accounts	(802)		
	75,333	75,333	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	139,840	139,840	—
Total assets	249,395	249,395	—
(1) Notes and accounts payable — trade	30,308	30,308	—
(2) Long-term loans payable (*1)	46,349	47,653	1,303
Total liabilities	76,658	77,961	1,303
Derivative transactions (*2)	492	492	—

(*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 parenthesis.

Notes: 1. Calculation method of fair values of financial instruments and securities and derivative transactions

Assets:

(1) Cash and deposits and (2) Notes and accounts receivable — trade

These assets are recorded using book values because fair values approximate book values because of their short-term maturities.

(3) Short-term investment securities and investment securities

The fair values of these assets are determined using the quoted market price on applicable stock exchanges. Other instruments are determined using the quoted price obtained from financial institutions.

Liabilities:

(1) Notes and accounts payable — trade

These payables are recorded using book values because fair values approximate book values because of their short-term maturities.

(2) Long-term loans payable

The fair values of long-term loans payable are determined by discounting the aggregated values of the principal and interest using an assumed interest rate based on the interest rate that would be applied to a new loan of a similar nature.

Long-term loans payable bearing floating interest rates are hedged using interest rate swap contracts and the fair values of these loans payable are determined by discounting the aggregated values of the principal and interest accounted for together with the related interest rate swap contracts using a reasonably estimated interest rate based on the interest rate that would be applied to a new loan of a similar nature.

Derivative financial instruments:

Please see the note "14. Derivative Financial Instruments."

2. Financial instruments whose fair values are not readily determinable

Category	Millions of yen		Thousands of U.S. dollars
	Carrying amount		
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Unlisted equity securities	¥6,895	¥6,865	$84,085

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 2011

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

	Thousands of U.S. Dollars			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	$ 383,707	$ —	$ —	$ —
Notes and accounts receivable — trade	983,256	—	—	—
Short-term investment securities and investment securities:				
o/w securities with contractual maturities:				
(1) Bonds (Corporate)	48,792	36,719	36,585	—
(2) Bonds (Others)	146,268	—	—	—
(3) Others	1,171,341	48,780	—	—
Total	$2,733,378	$85,500	$36,585	$ —

Fiscal 2010

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥ 34,221	¥ —	¥ —	¥ —
Notes and accounts receivable — trade	76,135	—	—	—
Short-term investment securities and investment securities:				
o/w securities with contractual maturities:				
(1) Bonds (Corporate)	1,000	—	—	—
(2) Bonds (Others)	22,981	—	—	—
(3) Others	103,146	—	—	—
Total	¥237,485	¥ —	¥ —	¥ —

4. Redemption schedule of bonds, long-term loans payable and lease obligations after the balance sheet date:
Please see Note 23. Supplementary Schedule.

13 Securities

1. Available-for-sale securities with market value

Fiscal 2011

	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	¥ 10,112	¥ 5,377	¥4,734	$123,317	$65,573	$57,731
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	3,011	3,000	11	36,719	36,585	134
Others	—	—	—	—	—	—
Others	40,050	40,000	50	488,414	487,804	609
Subtotal	53,174	48,377	4,797	648,463	589,963	58,500
Securities with book value not exceeding their acquisition cost						
Equity securities	2,958	3,548	(589)	36,073	43,268	(7,182)
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	7,001	7,001	—	85,378	85,378	—
Others	11,994	11,994	—	146,268	146,268	—
Others	60,000	60,000	—	731,707	731,707	—
Subtotal	81,954	82,544	(589)	999,439	1,006,634	(7,182)
Total	¥135,129	¥130,921	¥4,207	$1,647,914	$1,596,597	$51,304

Note: Unlisted equity securities amounting to ¥3,631 million (US$44,280 thousand) are excluded from the above table, because there is no market price and it is very difficult to identify fair values.

Fiscal 2010

	Millions of yen		
	Book value (estimated fair value)	Cost	Net
Securities with book value exceeding their acquisition cost			
Equity securities	¥ 9,560	¥ 5,114	¥4,446
Bonds			
Government and municipal	—	—	—
Corporate	—	—	—
Others	—	—	—
Others	27,146	26,937	209
Subtotal	36,707	32,051	4,655
Securities with book value not exceeding their acquisition cost			
Equity securities	3,151	4,010	(859)
Bonds			
Government and municipal	—	—	—
Corporate	1,000	1,000	—
Others	22,981	22,981	—
Others	76,000	76,000	—
Subtotal	103,133	103,992	(859)
Total	¥139,840	¥136,044	¥3,796

Note: Unlisted equity securities amounting to ¥3,596 million are excluded from the above table, because there is no market price and it is very difficult to identify fair values.

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

Fiscal 2011

	Millions of yen			Thousands of U.S. dollars		
Category	Proceeds from sales	Total gain	Total loss	Proceeds from sales	Total gain	Total loss
Other	¥27,052	¥114	¥—	$329,902	$1,390	$—
Total	¥27,052	¥114	¥—	$329,902	$1,390	$—

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

Fiscal 2010

Disclosure is omitted due to less materiality.

3. Impairment loss on securities

The Company recognized impairment loss on securities (equity securities under available-for-sale securities) in an amount of ¥222 million (US$2,707 thousand).

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

14 Derivative Financial Instruments

1. Derivative transactions to which hedge accounting is not applied

(1) Currencies

Fiscal 2011

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

Category	Classification	Thousands of U.S. dollars			
		Nominal amount	Nominal amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Currency swap contracts:				
	Yen into Euro obligation	$ 41,658	$27,768	$ 8,317	$ 8,317
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	9,621	1,682	(268)	(268)
	U.S. dollar into Yen obligation	200,463	—	(2,268)	(2,268)
	Total	$251,743	$29,451	$ 5,756	$ 5,756

Notes: 1. Market values of swap transactions at the end of the fiscal year are calculated using prices quoted by financial institutions. Market values of forward foreign exchange contracts at the end of the fiscal year are calculated using forward exchange rates.

2. Hedge accounting was not applied to the transactions above because the Company employed the generally accepted accounting method for derivative transactions in derivative transactions for financial transactions between consolidated companies as well as derivative transactions to cover anticipated foreign currency transactions, except for imports and exports.

Fiscal 2010

Category	Classification	Millions of yen			
		Nominal amount	Nominal amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Currency swap contracts:				
	Yen into Euro obligation	¥4,554	¥3,416	¥666	¥666
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	249	249	1	1
	Total	¥4,804	¥3,665	¥668	¥668

Notes: 1. Market values of swap transactions at the end of the fiscal year are calculated using prices quoted by financial institutions. Market values of forward foreign exchange contracts at the end of the fiscal year are calculated using forward exchange rates.

2. The amounts include currency swap contracts entered into in order to hedge inter-company transactions for loan transactions, which are not accounted for by hedge accounting, but by the primary method of accounting for the instruments in accordance with the Accounting Standard for Financial Instruments.

2. Derivative transactions to which hedge accounting is applied

(1) Currencies

Fiscal 2011

Hedge accounting method	Classification	Major hedged items	Fiscal 2011 (As of March 31, 2012)					
			Millions of yen			Thousands of U.S. dollars		
			Notional amount	Notional amount over one year	Market value	Notional amount	Notional amount over one year	Market value
Primary method	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Accounts receivable – trade	¥5,327	¥ —	¥(242)	$64,963	$ —	$(2,951)
	Yen into Euro obligation	Accounts receivable – trade	2,085	—	(91)	25,426	—	(1,109)
	U.S. dollar into Yen obligation	Accounts payable – trade	76	—	(3)	926	—	(36)
Total			¥7,489	¥ —	¥(337)	$91,329	$ —	$(4,109)

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

Hedge accounting method	Classification	Major hedged items	Fiscal 2011 (As of March 31, 2012)					
			Millions of yen			Thousands of U.S. dollars		
			Notional amount	Notional amount over one year	Market value	Notional amount	Notional amount over one year	Market value
Receivables or payables are translated using forward foreign exchange contract rates.	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Accounts receivable - trade	¥637	¥ —	Note	$7,768	$ —	Note
	Yen into Euro obligation	Accounts receivable - trade	84	—	Note	1,024	—	Note
	U.S. dollar into Yen obligation	Accounts payable - trade	73	—	Note	890	—	Note
Total			¥795	¥ —	Note	$9,695	$ —	Note

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

Hedge accounting method	Classification	Major hedged items	Fiscal 2011 (As of March 31, 2012)					
			Millions of yen			Thousands of U.S. dollars		
			Notional amount	Notional amount over one year	Market value	Notional amount	Notional amount over one year	Market value
Cash flow hedges for forecasted transactions	Currency swap contracts:							
	Yen into Euro obligation	Forecasted transactions in foreign currencies	¥3,416	¥2,277	(67)	$41,658	$27,768	$(817)
	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Forecasted transactions in foreign currencies	1,646	—	0	20,073	—	0
	Yen into Euro obligation	Forecasted transactions in foreign currencies	904	—	0	11,024	—	0
	Euro into Yen obligation	Forecasted transactions in foreign currencies	701	—	20	8,548	—	243
Total			¥6,668	¥2,277	(45)	$81,317	$27,768	$(548)

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

Fiscal 2010

Hedge accounting method	Classification	Major hedged items	Millions of yen Nominal amount	 Nominal amount over one year	 Market value
Primary method	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	Accounts receivable — trade	¥4,591	¥ —	¥(70)
	Yen into Euro obligation	Accounts receivable — trade	1,682	—	(78)
	U.S. dollar into Yen obligation	Accounts payable — trade	86	—	1
	U.S. dollar into Euro obligation	Accounts receivable — trade	164	—	(4)
Total			¥6,524	¥ —	¥(151)

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

Hedge accounting method	Classification	Major hedged items	Millions of yen Nominal amount	 Nominal amount over one year	 Market value
Receivables or payables are translated using forward foreign exchange contract rates.	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	Accounts receivable — trade	¥ 942	¥ —	Note
	Yen into Euro obligation	Accounts receivable — trade	68	—	Note
	U.S. dollar into Yen obligation	Accounts payable — trade	207	—	Note
Total			¥1,218	¥ —	Note

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

Hedge accounting method	Classification	Major hedged items	Millions of yen Nominal amount	 Nominal amount over one year	 Market value
Cash flow hedges for forecasted transactions	Currency swap contracts:				
	Yen into Euro obligation	Forecasted transactions in foreign currencies	¥4,554	¥3,416	(24)
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	Forecasted transactions in foreign currencies	1,871	—	(3)
	Yen into Euro obligation	Forecasted transactions in foreign currencies	1,430	—	(1)
	Euro into Yen obligation	Forecasted transactions in foreign currencies	565	—	5
Total			¥8,422	¥3,416	(24)

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

(2) Interest rate

Fiscal 2011

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

Hedge accounting method	Classification	Major hedged items	Thousands of U.S. dollars		
			Nominal amount	Nominal amount over one year	Market value
Interest rate swaps meeting certain conditions	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	$6,560	$ —	Note

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

Fiscal 2010

Hedge accounting method	Classification	Major hedged items	Millions of yen		
			Nominal amount	Nominal amount over one year	Market value
Interest rate swaps meeting certain conditions	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	¥2,132	¥576	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.

15 Retirement Benefits

1. Summary of retirement benefit plan

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

Some consolidated subsidiary adopts a jointly-established employee pension fund plan (multi-employer plan), and record required contribution amounts as retirement benefit expenses.

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

(1) Accumulated funds for the plan

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011 (As of March 31, 2011)	Fiscal 2010 (As of March 31, 2010)	Fiscal 2011 (As of March 31, 2011)
Plan assets	¥ 63,181	¥ 63,828	$ 770,500
Amount of benefit obligation as a result of pension’s financial calculation	87,849	92,696	1,071,329
Difference	¥(24,667)	¥(28,867)	$ (300,817)

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

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

Fiscal 2010 (As of March 31, 2010) 2.0%

(3) Supplementary explanation

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011 (As of March 31, 2012)	Fiscal 2010 (As of March 31, 2011)	Fiscal 2011 (As of March 31, 2012)
Balance of prior service cost	¥16,269	¥21,234	$198,402
Deficient amount carried forward	4,324	—	52,731
Adjustment to asset appraisal value (Note 1)	4,073	9,745	49,670
General reserve	—	2,111	—

(Note 1) "Adjustment to asset appraisal value" is determined by deducting the fair value from the appraisal value for the purpose of fiscal management of fixed assets.

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

2. Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011 (As of March 31, 2012)	Fiscal 2010 (As of March 31, 2011)	Fiscal 2011 (As of March 31, 2012)
a. Retirement benefit obligations:	¥(37,857)	¥(37,165)	$(461,670)
b. Plan assets:	26,905	18,519	328,109
c. Unfunded retirement benefit obligations: (a+b)	(10,951)	(18,645)	(133,548)
d. Unrecognized actuarial gains or losses:	11,815	11,009	144,085
e. Unrecognized prior service cost:	(659)	(762)	(8,036)
f. Net retirement benefit obligations recognized in the consolidated balance sheets: (c+d+e)	204	(8,398)	2,487
g. Prepaid pension costs:	5,822	6,243	71,000
h. Provision for retirement benefits: (f-g)	¥ (5,617)	¥(14,641)	$ (68,500)

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

3. Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011 (As of March 31, 2012)	Fiscal 2010 (As of March 31, 2011)	Fiscal 2011 (As of March 31, 2012)
a. Service costs: (Note)	¥1,624	¥1,368	$19,804
b. Interest costs:	755	727	9,207
c. Expected return on plan assets:	(583)	(654)	(7,109)
d. Amortization of actuarial gains or losses:	1,259	1,270	15,353
e. Amortization of prior service costs:	(103)	(103)	(1,256)
f. Retirement benefit expenses: (a+b+c+d+e)	2,953	2,608	36,012
g. Defined contribution pension plans installment:	517	645	6,304
Total	¥3,470	¥3,254	$42,317

Note: The retirement benefit expense for consolidated subsidiaries which adopt the simplified method is included in "Service costs."

4. Assumptions used in accounting for the defined benefit plan are as follows

	Fiscal 2011	Fiscal 2010
a. Method of attributing the projected benefit obligations to periods of service	Straight-line	
b. Discount rate	Mainly 1.4%	Mainly 2.0%
c. Expected rate of return on plan assets	Mainly 1.0% or 3.3%	Mainly 3.3%
d. Amortization period for prior service cost	Mainly 15 years (On a straight-line basis over a certain period, which falls within the average remaining years of service of the eligible employees.)	
e. Amortization period for actuarial gains or losses	Mainly 15 years (On a straight-line basis over a certain period, which falls within the average remaining years of service of the eligible employees, allocated proportionally commencing the next year in which each respective gain or loss occurred.)	

16 Stock-Based Compensation Plans

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Cost of goods manufactured	¥263	¥133	$3,207
Selling, general and administrative expense	345	283	4,207
Non-operating expense	7	21	85

2. Details including size and changes of stock options

(1) Stock options plans

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

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

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

	Stock options October 2010	Stock options May 2011
Number of eligible persons by position	Directors: 25 Employees: 3,924 Directors or employees of the Company's subsidiaries: 2,010	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 14
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	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 officer of the Company or presidents of the significant subsidiaries of the Company (Kuraray Engineering Co., Ltd., Kuraray Chemical Co., Ltd., Kuraray Trading Co., Ltd., Kuraray Plastics Co., Ltd., Kuraray Techno Co., Ltd., Kuraray America, Inc., Kuraray Europe GmbH and EVAL Europe N.V.) can exercise even after retirement. Other conditions are prescribed in the "Contracts on Subscription Rights to Shares" to be entered between the Company and eligible persons who were granted subscription rights to shares	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.

(2) Size and changes of stock options

Stock options which exist in this fiscal year are converted into shares.

1) Number of stock options

	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008
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	201,000	1,195,500	26,000	40,500
Vested	—	—	—	—
Exercised	54,000	42,000	1,000	1,500
Forfeited	2,000	20,000	—	—
At the end of the fiscal year	145,000	1,133,000	25,000	39,000

	Stock options June 2009	Stock options June 2010	Stock options October 2010	Stock options May 2011
Unvested stock options (shares)				
At the beginning of the fiscal year	—	—	3,671,000	—
Granted	—	—	—	89,500
Forfeited	—	—	106,000	—
Vested	—	—	9,000	89,500
At the end of the fiscal year	—	—	3,556,000	—
Vested stock options (shares)				
At the beginning of the fiscal year	64,000	60,500	362,000	—
Vested	—	—	9,000	89,500
Exercised	3,500	3,000	—	3,500
Forfeited	—	—	—	—
At the end of the fiscal year	60,500	57,500	371,000	86,000

2) Price information

	Yen			
	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008
Exercise prices	¥ 825	¥ 918	¥ 1	¥ 1
Weighted-average exercise date stock price	1,146	1,160	1,169	1,169
Fair value at the grant date	—	—	1,318	1,264

	Yen			
	Stock options June 2009	Stock options June 2010	Stock options October 2010	Stock options May 2011
Exercise prices	¥ 1	¥ 1	¥1,078	¥ 1
Weighted-average exercise date stock price	1,169	1,169	—	1,169
Fair value at the grant date	947	1,054	247	1,174

	U.S. dollars			
	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008
Exercise prices	$10.06	$11.19	$ 0.01	$ 0.01
Weighted-average exercise date stock price	13.97	14.14	14.25	14.25
Fair value at the grant date	—	—	15.95	15.41

	U.S. dollars			
	Stock options June 2009	Stock options June 2010	Stock options October 2010	Stock options May 2011
Exercise prices	$ 0.01	$ 0.01	$13.15	$ 0.01
Weighted-average exercise date stock price	14.25	14.25	—	14.25
Fair value at the grant date	11.54	12.85	3.01	14.31

3. Method to estimate fair value of stock options

The fair value of the May 2011 stock options, which were granted in fiscal 2011, are estimated as follows.

1) Valuing method: Black-Scholes model

2) Major basic figures and estimating method

	May 2011 stock option
Stock price volatility (Note 1)	27.9%
Expected remaining life (Note 2)	1 year
Expected dividend (Note 3)	¥27.00/share (US$0.32)
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 10, 2010 to the week that contains May 9, 2011.
2. Calculated by subtracting the average period of service of directors and executive officers who are currently in office as of the day of grant from the past average period of service of directors and executive officers.
3. Based on the dividend paid for the fiscal year ended March 2011.
4. Government bond yield over a period corresponding to the expected remaining life.

4. Method to estimate number of vested stock options

a) Stock options October 2010

Under the conditions for the allotment of rights to stock options, rights to stock options granted to persons newly appointed to the position of executive officer, etc., (executive officers, etc. referred to at 2. (1) Proviso to conditions for rights allotment below) are allotted on the date when such persons were appointed to the position of executive officer.

Because it is difficult to estimate the reasonable number of stock options granted to other persons to be forfeited in future, only the actual forfeited options are reflected in the estimates.

b) Stock options May 2011

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

17 Income Taxes

1. The significant components of deferred tax assets and liabilities at March 31, 2012 and 2011 are as follows

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Deferred tax assets:			
Provision for retirement benefits	¥ 5,088	¥ 5,436	$ 62,048
Impairment loss	2,246	2,485	27,390
Provision for bonuses	2,381	2,476	29,036
Write-down of investment securities	936	1,750	11,414
Write-down of inventories	273	1,023	3,329
Other	8,181	7,449	99,768
Subtotal deferred tax assets	19,107	20,621	233,012
Valuation allowance	(2,599)	(3,204)	(31,695)
Total deferred tax assets	16,508	17,416	201,317
Deferred tax liabilities:			
Prepaid pension cost	(2,078)	(2,522)	(25,341)
Reserve for reduction entry	(1,991)	(2,414)	(24,280)
Unrealized gain on revaluation of securities	(1,241)	(1,237)	(15,134)
Other	(5,478)	(5,389)	(66,804)
Total deferred tax liabilities	(10,789)	(11,562)	(131,573)
Net deferred tax assets (liabilities)	¥ 5,718	¥ 5,853	$ 69,731

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Current assets:			
Deferred tax assets	¥ 5,560	¥ 6,046	$ 67,804
Noncurrent assets:			
Deferred tax assets	4,688	4,725	57,170
Noncurrent liabilities:			
Deferred tax liabilities	(4,531)	(4,918)	(55,256)

2. Reconciliation of the differences between the normal effective tax rate and the income tax rate in the accompanying consolidated statements of income at March 31, 2012 and 2011 are as follows

	Fiscal 2011	Fiscal 2010
Normal effective tax rate	40.4%	40.4%
Non-taxable income	(0.8)	(0.6)
Tax credit primarily for research and development expenses	(1.8)	(1.9)
Decrease in deferred tax assets at fiscal year-end due to change in tax rate	1.2	—
Other	(2.1)	(0.8)
Income tax rate per statements of income	36.9%	37.1%

3. Revision to the amounts of deferred tax assets and deferred tax liabilities due to change in effective statutory tax rate

Following the promulgation on December 2, 2011 of the "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures" and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake," the effective statutory tax rate used to calculate deferred tax assets and liabilities related to temporary differences expected to reverse was reduced from 40.4% in the previous fiscal year to 38.2% for the temporary differences expected to be reversed in the fiscal years beginning on or after April 1, 2012 until March 31, 2015, and 35.3% for the ones to be reversed in the fiscal years beginning on or after April 1, 2015.

As a result, net deferred tax assets (after deducting deferred tax liabilities) decreased ¥422 million (US$5,146 thousand), income taxes — deferred and valuation difference on available-for-sale securities increased ¥600 million (US$7,317 thousand) and ¥179 million (US$2,183 thousand), respectively. Deferred gains or losses on hedges decreased ¥1 million (US$12 thousand).

18 Business Combination

Fiscal 2011

(Transactions under common control)

Based on the resolution of the Board of Directors' meeting held on January 28, 2011, Kuraray took over a part of the business of Kuraray Medical Inc. (hereinafter "Kuraray Medical"), a wholly owned consolidated subsidiary, through the company split, effective on April 1, 2011.

1. Names of combining companies or targeted businesses, details of the businesses, legal form of the business combination, name of the company after the business combination and overview of the transaction including the purpose of the transaction
   (1) Names of combining companies or targeted businesses, details of the businesses and overview of the transaction including the purpose of the transaction
   Kuraray took over the entire assets, liabilities, rights and obligations (including those related to the artificial bone graft business) except for those related to dental materials of Kuraray Medical, its wholly owned subsidiary, in order to enhance Kuraray Medical's flexibility and competitiveness as an operating company specializing in the dental materials business.
   (2) Name of company after the business combination
   Kuraray Co., Ltd.
   (3) Legal form of business combination
   The business combination was conducted in the form of an absorption-type company split with Kuraray as the succeeding company.
2. Overview of accounting methods used
   As the said absorption-type company split was treated as transactions under common control; all were eliminated completely as intra-company transactions. Therefore, the accounting treatment had no impact on the consolidated financial statements.

(Business combination through acquisition)

On January 28, 2011, Kuraray Co., Ltd. (hereinafter "Kuraray"), a wholly owning parent company of Kuraray Medical Inc. (hereinafter "Kuraray Medical"), and NORITAKE CO., LIMITED (hereinafter "NORITAKE"), a 100% owner of Noritake Dental Supply Co., Limited (hereinafter"Noritake Dental") signed a basic agreement regarding the integration of the dental materials businesses of their respective wholly owned subsidiaries with the aim of generating a synergy effect from the establishment of a business alliance in the areas of development, production and sales in order to increase their market presence both in Japan and overseas.

Under the basic agreement, Kuraray and NORITAKE established a joint holding company on April 13, 2011, with Kuraray Medical and Noritake Dental becoming wholly-owned subsidiaries of the holding company.

The three companies, the holding company, Kuraray Medical and Noritake Dental, entered into a merger agreement as of January 31, 2012, and they were integrated in as of April 1, 2012. The details of the integration are described in Subsequent Events.

1. Name and business of acquired company, date of business combination, legal form of business combination, name of the company after combination, percentage of voting rights acquired and main reasons for the decision on acquiring the company
   (1) Name and business of acquired company
   Name of acquired company
   Noritake Dental Supply Co., Ltd.
   Description of business
   Development, production and sales of ceramics for crowns, dental plaster and CAD/CAM devices
   (2) Date of business combination
   April 13, 2012

(3) Legal form of business combination
Establishment of an intermediate holding company through a joint share transfer

(4) Name of the company after the combination
Kuraray Noritake Dental Holdings Inc. (hereinafter "Holdings")

(5) Percentage of voting rights acquired
The percentage of parent companies' voting rights in the Holdings is as follows.

Kuraray	66.7%
NORITAKE	33.3%

(6) Main reasons for the decision on acquiring the company
As Kuraray, the shareholder of Kuraray Medical holds a majority of voting rights in the holding company (Holdings), the company is deemed as an acquiring company, and Noritake Dental an acquired company from the standpoint of accounting for business combinations.

2. Terms of performance of the acquired company included in the consolidated financial statements
As the deemed acquisition date of the company is April 1, 2011, business results for the period from April 1, 2011 to March 31, 2012 are included in the consolidated financial statements.

3. Acquisition costs of the acquired company and their breakdown

Acquisition value	¥2,250 million (US$27,439 thousand)
Expenses directly required for acquisition	—
Total	¥2,250 million (US$27,439 thousand)

4. Transfer ratios by share class, their calculation method, the number of shares allotted and their estimated value

(1) Transfer ratios by share class
0.83375 Holdings common stock was allotted per each (1.0) Kuraray Medical common stock, and 0.208125 Holdings common stock was allotted per each (1.0) Noritake Dental common stock.

(2) Calculation method for share transfer ratios
In calculating share transfer ratios, the comparable company method was employed for the estimation of share value. The value was determined after due consideration between relevant parties.

(3) The number of shares allotted and their estimated value

The number of shares exchanged	333 shares
Estimated value	¥2,250 million (US$27,439 thousand)

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

(1) Amount of goodwill ¥1,483 million (US$18,085 thousand)

(2) Reason for its recognition
The total net asset value of the acquired company as at the business combination was lower than the cost of acquisition, therefore the difference was recognized as goodwill.

(3) Amortization method and amortization period
The goodwill will be amortized over 15 years using a straight-line method.

6. The amounts and breakdown of allocated assets and assumed liabilities on the date of business combination

(1) Assets (¥ million)

Current assets	784	(US$9,560 thousand)
Fixed assets	271	(US$3,304 thousand)
Total assets	1,055	(US$12,865 thousand)

(2) Liabilities (¥ million)

Current liabilities	276	(US$3,365 thousand)
Non current liabilities	13	(US$158 thousand)
Total liabilities	289	(US$3,524 thousand)

19 Asset Retirement Obligations

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

Overview of asset retirement obligations

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

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

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

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

Calculation method for the amount of asset retirement obligations

The Company

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

Consolidated subsidiaries

Consolidated subsidiaries determine the amounts of asset retirement obligations using discount rates ranging from 2.3% to 6.0% for the net cash flows, estimating the period of use to be 30 to 60 years after acquisition.

Increase or decrease of the total amount of asset retirement obligations during the fiscal year ended March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Beginning balance (Note)	¥2,222	¥2,377	$27,097
Increase due to acquisition of tangible fixed assets	—	21	—
Increase due to decisions to remove	96	73	1,170
Adjustments due elapse	41	41	500
Decrease due to payment for the obligations	(90)	(156)	(1,097)
Other increase (decrease)	(45)	(134)	(548)
Ending balance	¥2,224	¥2,222	$ 27,121

Note: "Beginning balance" for fiscal 2010 resulted from application of "Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18, issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008) effective the fiscal year ended March 31, 2011.

20 Segment Information

Segment information

1. Overview of reporting segment

The Company's reporting segments are composed of those individual 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.

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

Consequently, the Company has created four reporting segments —"Resins," "Chemicals," "Fibers and Textiles" and "Trading"—categorized by product group based on the respective in-house companies and trading segments.

The Resins segment manufacturers and markets functional resins and film, including PVA, PVB and *EVAL*. The Chemicals segment produces and sells methacrylic resin, thermoplastic elastomer *Septon* and *Kurarity* isoprene-related products, *GENESTAR*, and medical products. The Fibers and Textiles segment manufactures and sells synthetic fibers and textiles, man-made leather, non-woven fabrics and others. The Trading segment conducts processing and sales activities for synthetic fibers and man-made leather, and it conducts planning and marketing for the products produced by the Kuraray Group and other companies.

2. Method for calculating sales, income and loss, assets, and other amounts by reporting segment

The accounting method applied to reported operating segments is the same as that stated in "1. Significant Accounting Policies." Profits from operating segments are operating income, and intersegment income and transfers are based on the prevailing markets prices.

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

	Millions of yen								
	Fiscal 2011								
	Reporting Segment								
	Resins	Chemicals	Fibers and Textiles	Trading	Total	Other Business	Total	Adjustment	Consolidated Financial Statements
Net sales									
(1) Outside customers	¥119,125	¥47,509	¥46,702	¥108,492	¥321,830	¥47,145	¥368,975	¥ —	¥368,975
(2) Inter-segment	29,754	27,363	16,691	3,725	77,534	19,216	96,751	(96,751)	—
Total	148,879	74,872	63,394	112,218	399,365	66,362	465,727	(96,751)	368,975
Segment income (loss)	49,904	9,066	1,103	3,527	63,601	5,657	69,259	(14,525)	54,733
Segment assets	159,031	86,394	54,796	36,082	336,305	49,678	385,983	137,263	523,247
Other items									
Depreciation and amortization (except for goodwill)	13,675	5,834	5,107	30	24,647	2,244	26,892	1,744	28,636
Impairment loss	—	233	2,063	—	2,296	66	2,363	109	2,473
Amortization of goodwill	2,001	98	—	—	2,100	—	2,100	—	2,100
Balance of goodwill at the end of current period	10,153	1,384	—	—	11,538	—	11,538	—	11,538
Gain on negative goodwill	—	—	—	—	—	141	141	—	141
Investments in associates accounted for using equity method	—	—	102	—	102	—	102	—	102
Increase in tangible fixed assets and intangible fixed assets	18,637	11,813	3,493	27	33,971	3,166	37,138	1,867	39,006

	Thousands of U.S. dollars								
	Fiscal 2011								
	Reporting Segment								
	Resins	Chemicals	Fibers and Textiles	Trading	Total	Other Business	Total	Adjustment	Consolidated Financial Statements
Net sales									
(1) Outside customers	$1,452,743	$ 579,378	$569,536	$1,323,073	$3,924,756	$574,939	$4,499,695	$ —	$4,499,695
(2) Inter-segment	362,853	333,695	203,548	45,426	945,536	234,341	1,179,890	(1,179,890)	—
Total	1,815,597	913,073	773,097	1,368,512	4,870,304	809,292	5,679,597	(1,179,890)	4,499,695
Segment income (loss)	608,585	110,560	13,451	43,012	775,621	68,987	844,621	(177,134)	667,475
Segment assets	1,939,402	1,053,585	668,243	440,024	4,101,280	605,829	4,707,109	1,673,939	6,381,060
Other items									
Depreciation and amortization (except for goodwill)	166,768	71,146	62,280	365	300,573	27,365	327,951	21,268	349,219
Impairment loss	—	2,841	25,158	—	28,000	804	28,817	1,329	30,158
Amortization of goodwill	24,402	1,195	—	—	25,609	—	25,609	—	25,609
Balance of goodwill at the end of current period	123,817	16,878	—	—	140,707	—	140,707	—	140,707
Gain on negative goodwill	—	—	—	—	—	1,719	1,719	—	1,719
Investments in associates accounted for using equity method	—	—	1,243	—	1,243	—	1,243	—	1,243
Increase in tangible fixed assets and intangible fixed assets	227,280	144,060	42,597	329	414,280	38,609	452,902	22,768	475,682

Notes: 1. The "Other Business" category incorporates operations not included in reporting segments, including activated carbon, water treatment related business and engineering.
2. Adjustment is as follows: Included within segment income (loss) of ¥14,525 million (US$177,134 thousand) is the elimination of inter-segment transactions of ¥510 million (US$6,219 thousand) and corporate expenses of ¥14,015 million (US$170,914 thousand). Corporate expenses mainly comprise headquarters' general and administrative expenses and the Company's basic research expenses.
3. The total amounts of segment income (loss) is adjusted to operating income described in the Consolidated Statements of Income.
4. Adjustment is as follows: Included within segment assets of ¥137,263 million (US$1,673,939 thousand) is the elimination of Intersegment transactions of ¥31,279 million (US$381,451 thousand) and corporate assets of ¥168,542 million (US$2,055,390 thousand). Major corporate assets are surplus fund, long-term investment fund, assets related to basic research and corporate administrative divisions of the Company.

	Millions of yen								
	Fiscal 2010								
	Reporting Segment								
	Resins	Chemicals	Fibers and Textiles	Trading	Total	Other Business	Total	Adjustment	Consolidated Financial Statements
Net sales									
(1) Outside customers	¥116,905	¥47,312	¥42,813	¥111,932	¥318,963	¥44,227	¥363,191	¥ —	¥363,191
(2) Inter-segment	30,524	28,387	18,782	3,229	80,924	14,666	95,590	(95,590)	—
Total	147,429	75,700	61,595	115,161	399,887	58,894	458,782	(95,590)	363,191
Segment income (loss)	50,848	8,676	(221)	3,304	62,608	4,906	67,515	(14,419)	53,095
Segment assets	150,556	76,627	52,927	35,278	315,389	43,053	358,443	148,885	507,328
Other items									
Depreciation and amortization (except for goodwill)	14,778	6,556	6,069	31	27,436	1,979	29,415	2,063	31,478
Impairment loss	—	264	20	—	284	—	284	59	343
Amortization of goodwill	2,057	—	—	—	2,057	—	2,057	—	2,057
Balance of goodwill at the end of current period	12,725	—	—	—	12,725	—	12,725	—	12,725
Investments in associates accounted for using equity method	—	—	104	—	104	330	434	—	434
Increase in tangible fixed assets and intangible fixed assets	8,709	6,183	2,558	28	17,479	1,665	19,145	1,413	20,558

Notes: 1. The "Other Business" category incorporates operations not included in reporting segments, including activated carbon, water treatment related business and engineering.
2. Adjustment is as follows: Included within segment income (loss) of ¥14,419 million is the elimination of inter-segment transactions of ¥52 million and corporate expenses of ¥14,472 million. Corporate expenses mainly comprise headquarters' general and administrative expenses and the Company's basic research expenses.
3. The total amounts of segment income (loss) is adjusted to operating income described in the Consolidated Statements of Income.
4. Adjustment is as follows: Included within segment assets of ¥148,885 million is the elimination of intersegment transactions of ¥27,940 million and corporate assets of ¥176,825 million. Major corporate assets are surplus fund, long-term investment fund, assets related to basic research and corporate administrative divisions of the Company.

Related information

1. Information about products and services

	Millions of yen				
	Fiscal 2011				
	Resins	Chemicals	Fibers and Textiles	Other Business	Total
Net sales for outside customers	¥148,971	¥74,501	¥88,837	¥56,665	¥368,975

	Thousands of U.S. dollars				
	Fiscal 2011				
	Resins	Chemicals	Fibers and Textiles	Other Business	Total
Net sales for outside customers	$1,816,719	$908,548	$1,083,378	$691,036	$4,499,695

Notes: Principal products of each segment are as follows:
Resins: Poval resin and film, *EVAL* resin and others.
Chemicals: *Septon and Kurarity* thermoplastic elastomer, isoprene chemicals, methacrylic resin, *GENESTAR* heat-resistant polyamide resin, medical products and others.
Fibers and textiles: *Vinylon*, *CLARINO* man-made leather, *KURAFLEX* non-woven fabrics, *MAGIC TAPE* hook and loop fasteners, polyester and others.
Other Business: Activated carbon, environmental business and engineering and others.

	Millions of yen				
	Fiscal 2010				
	Resins	Chemicals	Fibers and Textiles	Other Business	Total
Net sales for outside customers	¥149,813	¥77,108	¥81,997	¥54,271	¥363,191

Notes: Principal products of each segment are as follows:
Resins: Poval resin and film, *EVAL* resin and others.
Chemicals: *Septon* thermoplastic elastomer, isoprene chemicals, methacrylic resin, *GENESTAR* heat-resistant polyamide resin, medical products and others.
Fibers and textiles: *Vinylon*, *CLARINO* man-made leather, *KURAFLEX* non-woven fabrics, *MAGIC TAPE* hook and loop fasteners, polyester and others.
Other Business: Activated carbon, environmental business and engineering and others.

2. Information about geographic areas

Fiscal 2011

(1) Net sales

(Millions of yen)

Japan	North America	Europe	Asia	Other Area	Total
¥190,940	¥23,787	¥64,145	¥80,699	¥9,403	¥368,975

(Thousands of U.S. Dollars)

Japan	North America	Europe	Asia	Other Area	Total
$2,328,536	$290,085	$782,256	$984,134	$114,670	$4,499,695

Notes: 1. The segmentation of country or region is based on the geographical proximity.
2. Major countries and regions included in each category are as follows:
(1) North America .... United States of America and Canada
(2) Europe .... Germany and France
(3) Asia .... Korea and China
(4) Other .... Latin America and Africa

(2) Tangible fixed assets

(Millions of yen)

Japan	United States	Other overseas	Total
¥117,580	¥16,409	¥18,886	¥152,877

(Thousands of Dollars)

Japan	United States	Other overseas	Total
$1,433,902	$200,109	$230,317	$1,864,353

Fiscal 2010

(1) Net sales

(Millions of yen)

Japan	North America	Europe	Asia	Other Area	Total
¥181,826	¥23,817	¥62,870	¥85,105	¥9,570	¥363,191

(2) Tangible fixed assets

(Millions of yen)

Japan	United States	Other overseas	Total
¥105,538	¥18,456	¥21,244	¥145,238

3. Information about major customers

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

Information about impairment loss of fixed assets by reporting segment

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

Fiscal 2010: This information is omitted since similar information is disclosed in the segment information.

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

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

Fiscal 2010: This information is omitted since similar information is disclosed in the segment information.

Information about gain on negative goodwill

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

Fiscal 2010: Not applicable

21 Related Party Disclosures

Fiscal 2011: Not applicable

Fiscal 2010: Not applicable

22 Per Share Information

	Yen		U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Net assets per share	¥1,033.48	¥985.22	$12.60
Basic net income per share	90.35	82.55	1.10
Diluted net income per share	90.21	82.44	1.10

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2011	Fiscal 2010	Fiscal 2011
Basic net income per share			
Net income	¥31,469	¥28,742	$383,768
Net income unallocated to common stock	—	—	—
Net income allocated to common stock	31,469	28,742	383,768
Average number of common stock outstanding during the fiscal year (thousands shares)	348,304	348,174	
Diluted net income per share			
Adjustment made on net income	—	—	
Increase of common stocks (thousands shares)	551	494	
(New subscription rights to shares (thousands shares))	(551)	(494)	
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.	—	Stock options based on resolution of June 24, 2010 ordinary general meeting of shareholders No. of share subscription rights: 8,066 No. of shares: 4,033,000	—

Note: As stated in Changes in Accounting Policies, the changes in accounting policies in the current consolidated fiscal year have been applied retrospectively, and the Consolidated Financial Statement for the previous consolidated fiscal year is following this retrospective application of the changes in accounting policies. As a result, diluted net income per share for the previous consolidated fiscal year rose ¥0.04 (US$0.0004) compared with before the retrospective application of the changes in accounting policies.

23 Supplementary Schedule

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	No. 3 Unsecured bonds	January 31, 2005	10,000 (US$121,951 thousand)	—	0.99%	None	December 20, 2011
	No. 4 Unsecured bonds	December 9, 2011	—	10,000 (US$121,951 thousand)	1.24%	None	December 9, 2021
	Total	—	10,000 (US$121,951 thousand)	10,000 (US$121,951 thousand)	—	—	—

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

Supplementary schedule of loans payable

(Millions of yen)

Category	Balance as of March 31, 2012	Balance as of March 31, 2011	Average interest rate (%)	Due date
Short-term loans	11,552 (US$140,878 thousand)	9,424	0.5	—
Current portion of long-term loans due within one year	2,229 (US$27,182 thousand)	3,314	2.6	—
Current portion of long-term lease due within one year (Note 2)	368 (US$4,487 thousand)	315	—	—
Long-term loans (Excluding current portion) (Note 3)	41,981 (US$511,963 thousand)	43,035	1.7	From April 2013 to July 2019
Lease liabilities (Excluding current portion) (Notes 2, 3)	1,893 (US$23,085 thousand)	425	—	From April 2013 to Nov. 2026
Total	58,023 (US$707,597 thousand)	56,515	—	—

Notes: 1. The average interest rate is calculated based on the interest rate and the ending balance.
2. The average interest rate on lease liabilities is not reported, since interest payment equivalents included in total lease payments are allocated to each consolidated fiscal year using the straight-line method.
3. Repayments of long-term loans and lease liabilities (excluding those due within one year) within 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 year but within 3 years	Due after 3 year but within 4 years	Due after 4 year but within 5 years
Long-term loans	¥23,973	¥5,951	¥ 34	¥ 11
Lease liabilities	¥ 277	¥ 230	¥178	¥130

(Thousands of U.S. dollars)

Category	Due after 1 year but within 2 years	Due after 2 year but within 3 years	Due after 3 year but within 4 years	Due after 4 year but within 5 years
Long-term loans	$292,353	$72,573	$ 414	$ 134
Lease liabilities	$ 3,378	$ 2,804	$2,170	$1,585

Supplementary schedule of asset retirement obligation

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

Other

Quarterly information in fiscal 2011

Accumulated	First quarter From April 1 to June 30, 2011	Second quarter From July 1 to September 30, 2011	Third quarter From October 1 to December 31, 2011	Fiscal 2011
Net sales (Millions of yen)	89,921	185,635	275,738	368,975
Income (loss) before income taxes (Millions of yen)	14,912	27,933	41,380	50,729
Net income (loss) (Millions of yen)	9,341	17,214	25,442	31,469
Net income (loss) per share (Yen)	26.82	49.43	73.05	90.35

Quarterly	First quarter From April 1 to June 30, 2011	Second quarter From July 1 to September 30, 2011	Third quarter From October 1 to December 31, 2011	Fourth quarter From January 1 to March 31, 2012
Net income (loss) per share (Yen)	26.82	22.61	23.62	17.30

Accumulated	First quarter From April 1 to June 30, 2011	Second quarter From July 1 to September 30, 2011	Third quarter From October 1 to December 31, 2011	Fiscal 2011
Net sales (Thousands of U.S. dollars)	1,096,597	2,263,841	3,362,658	4,499,695
Income (loss) before income taxes (Thousands of U.S. dollars)	181,853	340,646	504,634	618,646
Net income (loss) (Thousands of U.S. dollars)	113,914	209,926	310,268	383,768
Net income (loss) per share (U.S. dollars)	0.32	0.60	0.89	1.10

Quarterly	First quarter From April 1 to June 30, 2011	Second quarter From July 1 to September 30, 2011	Third quarter From October 1 to December 31, 2011	Fourth quarter From January 1 to March 31, 2012
Net income (loss) per share (U.S. dollars)	0.32	0.27	0.28	0.21

24 Subsequent Events

(Transactions under common control)

1. Outline of business combination

As described in 18. Business Combination, the integration of Kuraray Noritake Dental Holdings Inc. (hereinafter "Holdings"), Kuraray Medical Inc. (hereinafter "Kuraray Medical") and Noritake Dental Supply Co., Limited (hereinafter "Noritake Dental") took place on April 1, 2012 in accordance with the basic agreement concluded on January 28, 2011 to integrate the dental materials businesses and the merger agreement concluded on January 31, 2012.

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

Name of company	Description of business
Holdings	Business administration of subsidiaries and associated operations
Kuraray Medical	Development, manufacturing and sales of dental materials
Noritake Dental	Development, manufacturing and sales of ceramics for crowns, dental plaster and CAD/CAM devices

(2) Date of business combination

April 1, 2012

(3) Legal form of business combination

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

(4) Name of the company after the combination

Kuraray Noritake Dental Inc.

2. Summary of accounting method implemented

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

(Business combination through acquisition)

Kuraray Holdings U.S.A., Inc. (hereinafter "KHU"), a consolidated subsidiary of Kuraray, decided to purchase a U.S. based polyvinyl alcohol ("poval") film manufacturing and sales company MONOSOL HOLDINGS, INC. and its three wholly owned subsidiaries

(“MonoSol”). KHU concluded a share purchase agreement with MonoSol Holdco, LLC, a parent company of MONOSOL HOLDINGS, INC. on May 12, 2012, and acquired the shares under this contract on June 26, 2012.

MonoSol is a leading company of poval films for various industrial applications such as packaging films for unit dose detergent products as well as agrochemicals and dyes, mold-release films for artificial marble and other applications.

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

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

① Name and business of acquired company
Name of acquired company: MONOSOL HOLDINGS, INC. and three wholly owned subsidiaries
Business: packaged detergents, agricultural chemicals and dyes; manufacturing and sales of industrial-use poval film for applications including artificial marble mold release sheets

② Date of business combination
June 26, 2012

③ Legal form of business combination
Cash purchase of shares

④ Name of acquired company after business combination
MONOSOL HOLDINGS, INC.
MONOSOL, LLC
MONOSOL AF, LTD.
AQUAFILM LIMITED

⑤ Percentage of voting rights acquired
100%

⑥ Reason for decision on the acquiring company
KHU proposed to acquire MonoSol’s shares with cash.

(2) Acquisition cost of the acquired company

Acquisition price	USD 393,559,000
Acquisition cost	USD 393,559,000

This is a tentative share acquisition cost as of the end of the first quarter of the fiscal year ending March 31, 2013. The acquisition cost is currently under review because the acquisition contract provided for adjustment of the purchase price based on issues including changes in working capital.

(3) Amount of goodwill, reason for its recognition, amortization method and amortization period

① Amount of goodwill
USD 353,841 thousand
This is a tentative amount, because the acquisition price has not been completely allocated.

② Reason for its recognition
The goodwill resulted from a reasonable estimate of future excess earnings.

③ Amortization method and amortization period
The straight-line method will be used to amortize goodwill over the effective period. The amortization period will be determined considering the result of purchase price allocation.

(Significant capital expenditure)

The Board of Directors’ meeting held on May 16, 2012 approved new capital expenditure for Kuraray America, Inc., a consolidated subsidiary.

(1) Purpose
To establish new facilities in order to meet demand in North America and Latin America, where economic growth is marked, as well as to provide a stable global supply of high-quality products based on Kuraray’s production technology.

(2) Description of capital expenditure

Location:	Harris County, Texas, U.S.A.
Description of facility:	PVA resin manufacturing facility

(3) Launch date
Completion scheduled for September 2014

(4) Production capacity
40,000 tons/year

(Grant of subscription rights to shares)

At the meetings of the Board of Directors held on April 26 and May 16, 2012, the Company resolved to grant directors and executive officers of the Company subscription rights to shares as a stock option in accordance with Article 238, paragraphs 1 and 2 and Article 240, paragraph 1 of the Companies Act.

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

We have audited the accompanying consolidated financial statements of Kuraray Co., Ltd. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at March 31, 2012, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

1. We draw attention to Note 24 to the financial statements which describes Kuraray Holdings U.S.A., Inc., a consolidated subsidiary of Kuraray, decided to purchase a U.S. based polyvinyl alcohol ("poval") film manufacturing and sales company MONOSOL HOLDINGS, INC. and its three wholly owned subsidiaries. Kuraray Holdings U.S.A., Inc. concluded a share purchase agreement with MonoSol Holdco, LLC, a parent company of MONOSOL HOLDINGS, INC. on May 12, 2012, and acquired the shares under this contract on June 26, 2012.

2. We draw attention to Note 24 to the financial statements which describes the Board of Directors' meeting held on May 16, 2012 approved new capital expenditure for Kuraray America, Inc., a consolidated subsidiary.

Our opinion is not qualified in respect of these matters.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2012 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers Aarata

August 6, 2012

PricewaterhouseCoopers Aarata
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Group Companies

(As of July 1, 2011)

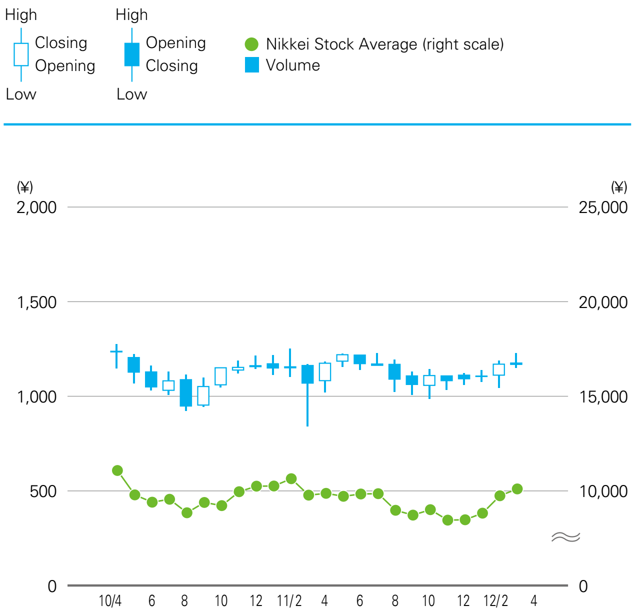
Company	Head office	Capital (¥ million)	Activities
JAPAN			
KURARAY TRADING Co., LTD.	Osaka	¥ 2,200	Import, export, manufacture, and sales of textile products, chemicals, etc.
KURARAY CHEMICAL CO., LTD.	Osaka	600	Manufacture and sales of activated carbon and related products
KURARAY ENGINEERING CO., LTD.	Osaka	150	Plant design and construction
Kuraray Noritake Dental Inc.	Tokyo	300	Manufacture and sales of medical products
Kuraray Plastics Co., Ltd.	Osaka	180	Manufacture and sales of plastics
KURARAYLIVING CO., LTD.	Osaka	101.8	Manufacture and sales of packaging materials
Kuraray Techno Co., Ltd.	Osaka	100	Production subcontracting, Temporary personnel service
KURARAY BUSINESS SERVICE CO., LTD.	Osaka	100	Information system service
KURARAYKURAFLEX CO., LTD.	Osaka	100	Manufacture and sales of nonwoven fabric products
KURARAY FASTENING CO., LTD.	Osaka	100	Manufacture and sales of *MAGIC TAPE*
OKAYAMA RINKOH CO., LTD.	Okayama	98	Warehousing, distribution, and processing
TECHNO SOFT CO., LTD.	Osaka	50	Consulting for improved management
Kuraray Travel Service Corporation	Osaka	20	Travel and insurance agency
KURARAY SAIJO CO., LTD.	Ehime	10	Manufacture of synthetic fiber
KURARAY TAMASHIMA COMPANY LIMITED	Okayama	10	Manufacture of synthetic fiber
Iruma Country Club Co., Ltd.	Saitama	40	Golf course management
Kyosei Chemical Co., Ltd.	Tokyo	50	Manufacture of pigments and dyes
OKAYAMA RINKOH WAREHOUSE AND TRANSPORT CO., LTD.	Okayama	98	Forwarding (transportation)
Kuraray Okayama Spinning CO., LTD.	Okayama	50	Manufacture of synthetic fiber
THE KURASHIKI KOKUSAI HOTEL, LTD.	Okayama	450	Hotel management
KURARAY AQUA CO., LTD.	Tokyo	175	Sales of materials for water treatment; design, construction and sales of water treatment plants and facilities
OVERSEAS			
Kuraray Holdings U.S.A., Inc.	Texas, U.S.A.	US$55.0 million	Holding company, coordination of U.S. subsidiaries
Kuraray America, Inc.	Texas, U.S.A.	US$10.1 million	Import and sales of Kuraray products in the U.S., Manufacture and sales of *EVAL* resins and *SEPTON*
Kuraray South America Ltda.	Saō Paulo, Brazil	R$3.5 million	Market development and sales promotion of Kuraray Group products in South America
Kuraray Europe GmbH	Frankfurt, Germany	€31.1 million	Import and sales of Kuraray products in Europe, Manufacture and sales of poval and butyral resins and PVB film
EVAL Europe N.V.	Antwerp, Belgium	€29.7 million	Manufacture and sales of *EVAL* resins in Europe
OOO TROSIFOL	Nizhniy Novgorod, Russia	RUR78.9 million	Manufacture and sales of PVB film
Kuraray Dental Benelux B.V.	IJmuiden, Netherlands	€1.8 million	Import and sales of medical products in Benelux countries and market development
Kuraray Europe Italia S.r.l.	Milano, Italy	€10,000	Import and sales of medical products in Italy and market development
Kuraray Nordic Ab Oy	Vantaa, Finland	€50,000	Import and sales of Kuraray products in Northern Europe and market development
Kuraray China Co., Ltd.	Shanghai, China	US$3.0 million	Business expansion, market entry planning and other supplemental activities
Kuraray (Shanghai) Co., Ltd.	Shanghai, China	US$5.0 million	Import and sales of Kuraray products in China
Kuraray Magictape (Shanghai) Co., Ltd.	Shanghai, China	US$0.8 million	Manufacture and sales of fastening materials
Kuraray Methacrylate (Zhang Jia Gang) Co., Ltd.	Jiangsu, China	US$9.6 million	Manufacture and sales of methacrylic resin sheet
Kuraray Chemical (Ningxia) Environmental Industry Co., Ltd.	Ningxia, China	¥495 million	Manufacture and sales of activated carbon
Hexin Kuraray Micro Fiber Leather (Jiaxing) Co., Ltd.	Zhejiang, China	US$16.7 million	Manufacture and sales of man-made leather
Kuraray Hong Kong Co., Ltd.	Hong Kong, China	HK$4.6 million	Processing and sales of Kuraray products in China and Southeast Asia
Kuraray Trading (Shanghai) Co., Ltd.	Shanghai, China	US$0.6 million	Import, export, and sales of fiber and textile products and chemicals
Kuraray Asia Pacific Pte. Ltd.	Singapore	US$27.7 million	Manufacture and sales of poval resins
Kuraray India Private Limited	Delhi, India	Rupees72.0 million	Import and sales of Kuraray products in India and market development

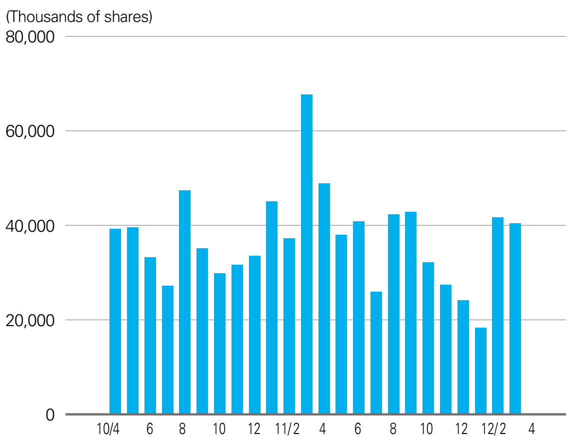
KURARAY CO., LTD.

Established:	June 24, 1926
Capital:	¥88,955 million
Shares Authorized:	1,000,000,000 shares
Issued:	348,356,793 shares
Number of Shareholders:	31,978
Head Offices:	Tokyo, Osaka

Share Price Movement

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





Shareholder Register Agent for Common Stock

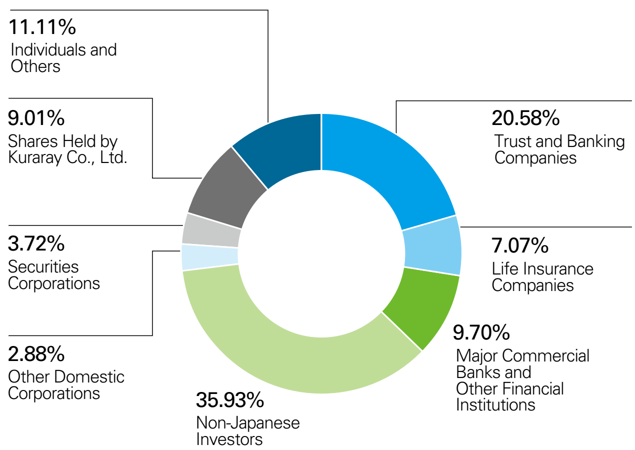
Sumitomo Mitsui Trust Bank, Limited
Stock Transfer Agency Business Planning Department
1-4-1, Marunouchi, Chiyoda-ku, Tokyo, Japan

Principal Shareholders

Name or Company Name	Number of Shares Held (thousands)	Percentage of Shares Held
The Master Trust Bank of Japan, Ltd. -Trust Account-	23,466	6.13%
Japan Trustee Services Bank, Ltd. -Trust Account-	22,091	5.77%
Nippon Life Insurance Company	13,061	3.41%
National Mutual Insurance Federation of Agricultural Cooperatives	11,002	2.87%
SSBT OD05 OMNIBUS ACCOUNT -TREATY CLIENTS-	7,704	2.01%
Meiji Yasuda Life Insurance Company	6,453	1.69%
MELLON BANK TREATY CLIENTS OMNIBUS	5,686	1.49%
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	5,289	1.38%
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS	5,067	1.32%
THE CHASE MANHATTAN BANK, N.A. LONDON SECS LENDING OMNIBUS ACCOUNT	4,568	1.19%

Note: Although the Company owns 34,506,810 shares of treasury stock, it is excluded from the major shareholders listed above.

Breakdown of Issued Shares by Type of Shareholder



(As of March 31, 2012)

KURARAY CO., LTD.

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