kuraray

Annual Report 2014

For the year ended March 31, 2014

Commitment to Excellence

kuraray

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

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

Contents

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

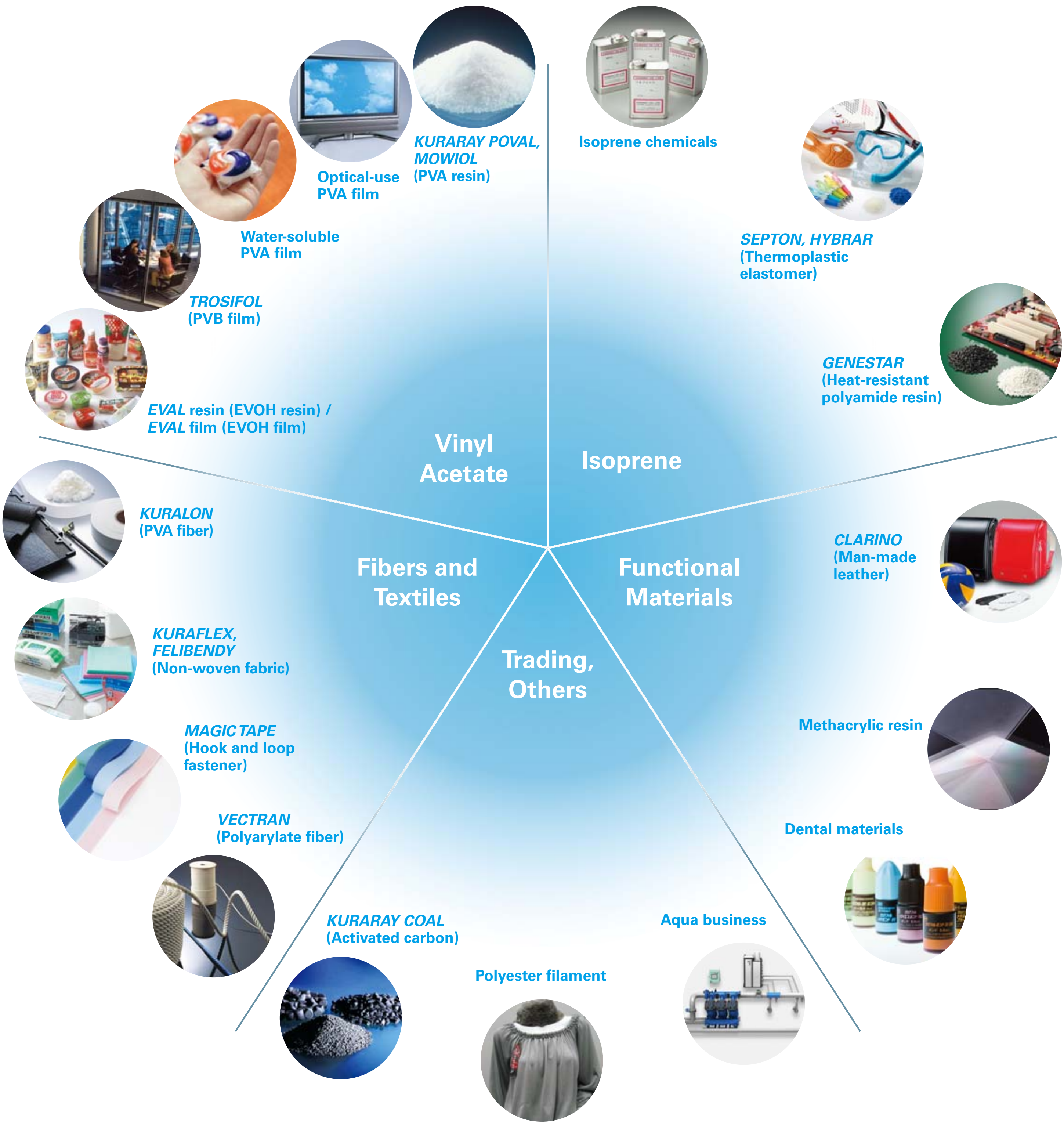
FORWARD-LOOKING STATEMENTS

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

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

Our Business Portfolio

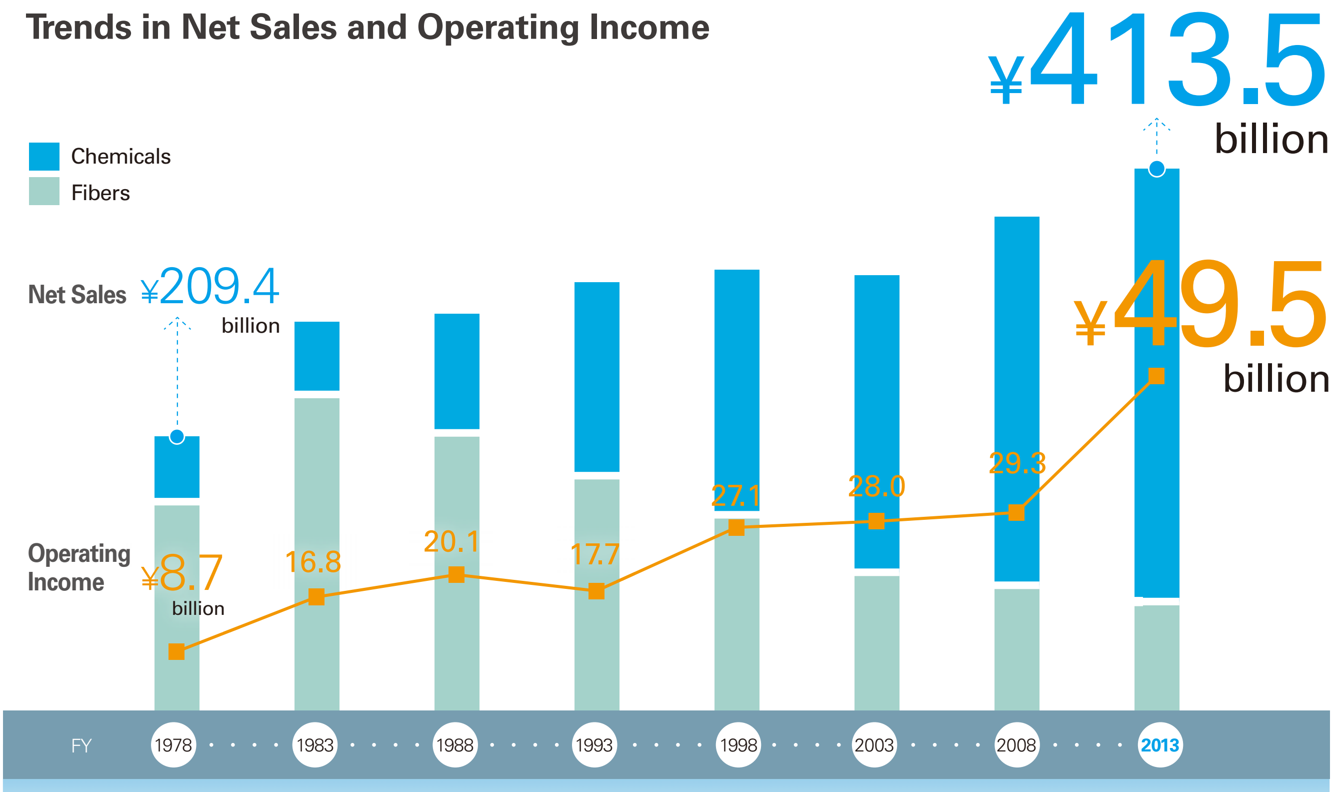
Kuraray is using its superior technology platform to expand its businesses in the fields of high-performance fibers, resins and chemicals. The Company currently operates in the six segments of Vinyl Acetate, Isoprene, Functional Materials, Fibers and Textiles, Trading, and Others, with a wide-ranging lineup of products.



Our Progress

From its establishment in 1926, Kuraray's principal business was the manufacture and sale of synthetic fibers. By accelerating the intensive development of its resins and chemicals businesses since the 1980s, Kuraray has become a global specialty chemical company, with resins and chemicals accounting for approximately 80% of net sales.

Trends in Net Sales and Operating Income



History of Commercialization of Kuraray's Proprietary Technologies

1978 Started production of **dental materials**

1983 Developed cement-reinforcing ***KURALON***

1986 Started production of ***EVAL*** in the U.S.

1990 Commercialized ***VECTRAN / SEPTON***

1999 Commercialized ***GENESTAR***
Started production of **PVA** resin in Singapore
Started production of ***EVAL*** resin in Belgium

2002 Started production of ***SEPTON*** in the U.S.

2011 Commercialized ***KURARITY***

Prior to 1978

1950 Commercialized ***KURALON***

1958 Commercialized **PVA**

1962 Commercialized **PVA film**

1964 Commercialized ***CLARINO***

1972 Commercialized ***EVAL* / Isoprene chemicals**

Our Market Share

Backed by its commitment to "contributing to the world and individual well-being through actions that others are unable to produce" as a good corporate citizen, Kuraray uses its original strengths in polymer and synthesis technologies to continuously create innovative world-class products.

Global

PVA resin
35%
(Excluding China)
No.1
market share

Optical-use PVA film
80%
No.1
market share

EVAL
65%
No.1
market share

GENESTAR
100%
Only One
of its kind

SEPTON
20%
No.2
market share

KURALON
80%
(Excluding China)
No.1
market share

CLARINO
25%
No.1
market share

Domestic

Dental materials
35%
No.1
market share

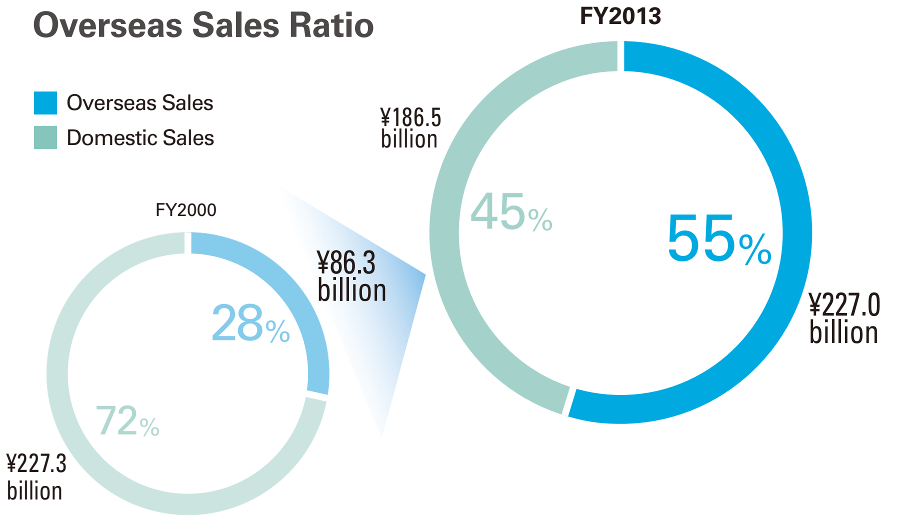
MAGIC TAPE
(Hook and loop fastener)
60%
No.1
market share

Our Global Presence

Kuraray is cultivating a lineup of world-class products with a large market share. At the same time, the Company is expanding its global network with local production and sales in response to the growth of markets worldwide by developing overseas businesses that make full use of its proprietary technologies.

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

Overseas Sales Ratio

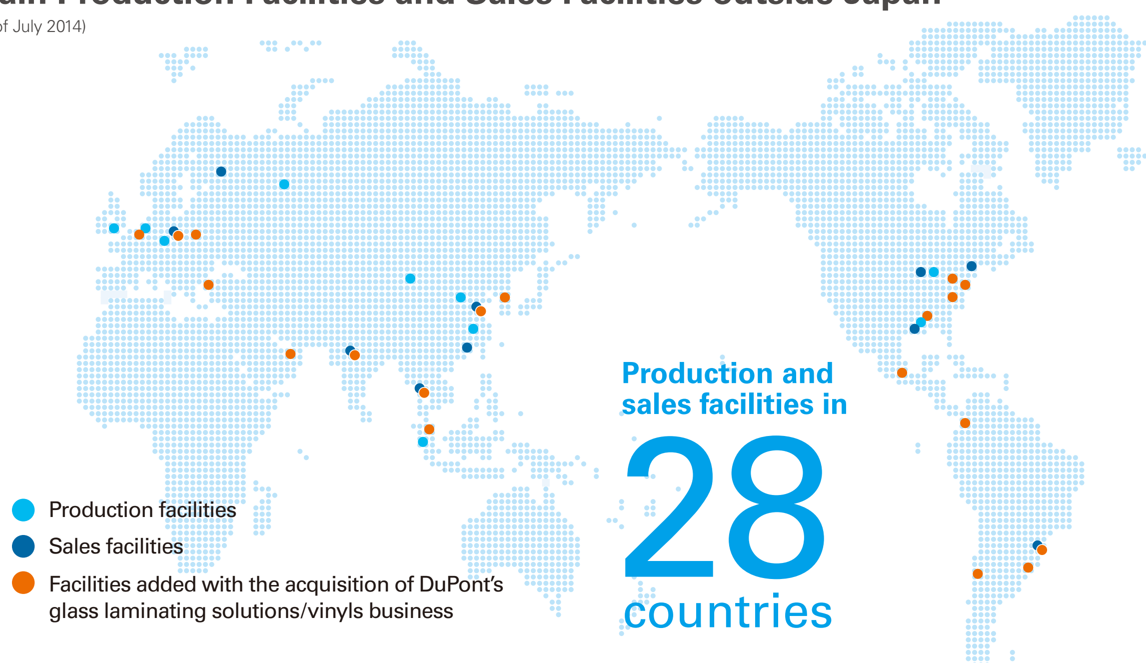


Kuraray's Global Network

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

Main Production Facilities and Sales Facilities outside Japan

(As of July 2014)



Consolidated Financial Highlights

Kuraray Co., Ltd. and its Consolidated Subsidiaries

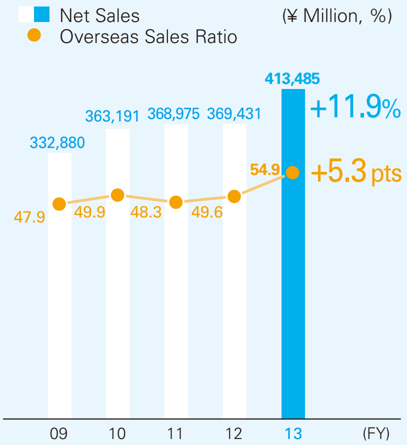
	Millions of yen					Percent change	Millions of U.S. dollars (Note 1)	Millions of Euro (Note 2)
	FY2013	FY2012	FY2011	FY2010	FY2009	FY2013/2012	FY2013	FY2013
Net sales	¥413,485	¥369,431	¥368,975	¥363,191	¥332,880	11.9 %	$4,014	€2,911
Cost of sales	286,179	249,485	246,538	243,564	237,198	14.7	2,778	2,015
Selling, general and administrative expenses	77,760	70,748	67,703	66,531	65,230	9.9	754	547
Operating income	49,545	49,197	54,733	53,095	30,451	0.7	481	348
Net income	29,390	28,798	31,469	28,742	16,315	2.1	285	206
Capital expenditures	¥ 59,740	¥ 45,519	¥ 39,006	¥ 20,558	¥ 19,879	31.2 %	$ 580	€ 420
Depreciation and amortization	34,972	30,952	30,737	33,536	36,489	13.0	339	246
Gross cash flow	64,362	59,750	62,206	62,278	52,804	7.7	624	453
Total research and development expenses	17,103	16,431	16,175	15,772	15,292	4.1	166	120
Total assets	¥634,252	¥587,254	¥523,247	¥507,328	¥502,815	8.0 %	$6,157	€4,466
Total current assets	302,402	257,212	269,083	310,594	249,326	17.6	2,935	2,129
Total tangible fixed assets	222,219	181,274	152,877	145,238	163,709	22.6	2,157	1,564
Total current liabilities	89,145	111,449	81,684	86,214	76,550	(20.0)	865	627
Total noncurrent liabilities	92,647	74,279	75,248	74,288	88,446	24.7	899	652
Total net assets	452,459	401,307	366,314	346,825	337,818	12.7	4,392	3,186
Segment information (Note 4)								
Vinyl Acetate								
Net sales	¥179,261	¥155,163				15.5 %	$1,740	€1,262
Operating income	46,658	48,877				(4.5)	452	328
Isoprene								
Net sales	53,027	44,817				18.3	514	373
Operating income	5,471	3,870				41.4	53	38
Functional Materials								
Net sales	48,552	45,144				7.5	471	341
Operating income	1,500	1,929				(22.2)	14	10
Fibers and Textiles								
Net sales	46,932	46,216				1.5	455	330
Operating income	2,633	1,772				48.6	25	18
Trading								
Net sales	108,991	108,760				0.2	1,058	767
Operating income	3,582	3,358				6.7	34	25
Others								
Net sales	67,334	64,442				4.5	653	474
Operating income	2,493	4,001				(37.7)	24	17

Amounts per share:	Yen						U.S. dollars (Note 1)	Euro (Note 2)
Net income:								
Basic net income per share	¥ 83.93	¥ 82.62	¥ 90.35	¥ 82.55	¥ 46.86	1.6 %	$ 0.81	€0.59
Diluted net income per share	83.75	82.52	90.21	82.40	46.81	1.5	0.81	0.58
Cash dividends applicable to period	36.0	36.0	33.00	27.00	16.00	—	0.34	0.25
Shareholders' equity	1,272.68	1,132.07	1,033.48	985.22	961.24	12.4	12.35	8.96
Financial ratios:								
Cost of sales ratio (%)	69.2	67.5	66.8	67.1	71.3			
Equity ratio (%)	70.3	67.2	68.8	67.6	66.5			
Return on equity (ROE) (%)	7.0	7.6	9.0	8.5	5.0			
Return on assets (ROA) (%) (Note 5)	8.1	8.8	10.6	10.5	6.2			
Payout ratio (%)	42.9	43.6	36.5	32.7	34.1			
Number of employees	7,550	7,332	6,776	6,544	6,630			

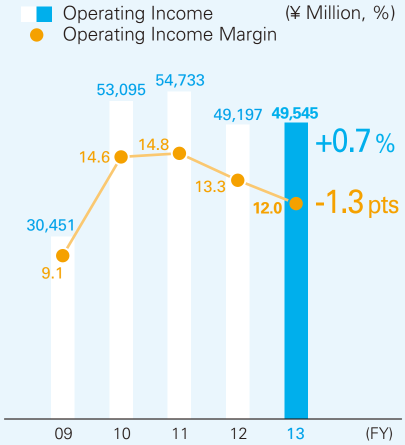
Notes: 1. The United States dollar amounts represent the translation of Japanese yen at the rate of ¥103 = $1.
2. Euro amounts represent the translation of Japanese yen at the rate of ¥142 = €1.
3. Certain reclassifications of previously reported amounts have been made to conform with current classifications.
4. From fiscal 2013 (the year ended March 31, 2014), business segments have been reclassified from "Resins," "Chemicals," "Fibers and Textiles," "Trading" and "Others" to the six segments "Vinyl Acetate," "Isoprene," "Functional Materials," "Fibers and Textiles," "Trading" and "Others." Figures for FY2012 have been restated for comparison.
5. Return on assets = Operating income / Average total assets x 100 (%)

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

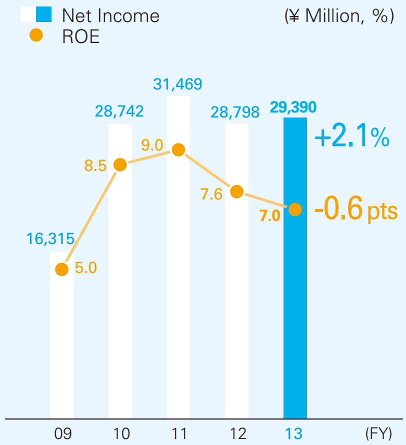
Net Sales & Overseas Sales Ratio



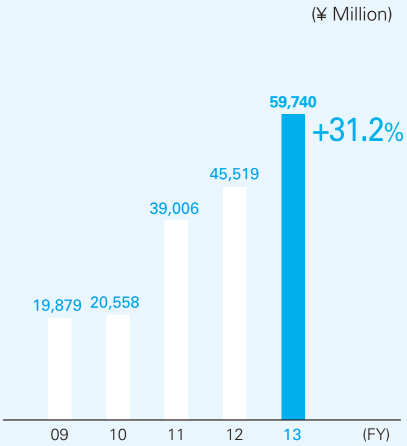
Operating Income & Operating Income Margin



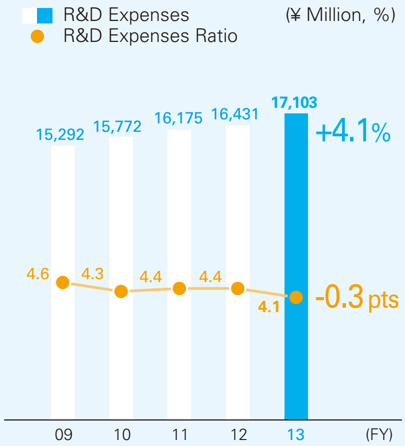
Net Income & ROE



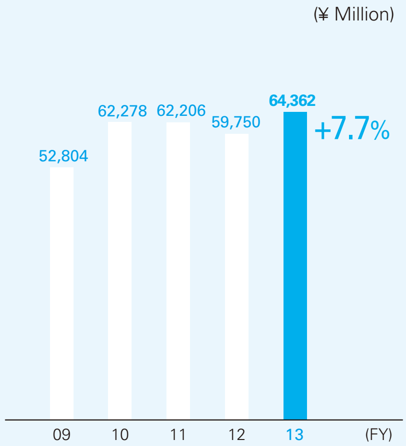
Capital Expenditures



R&D Expenses & R&D Expenses Ratio

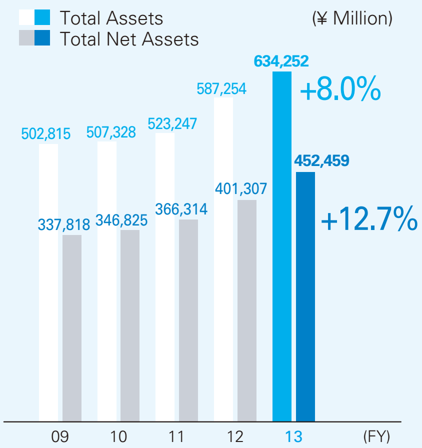


Gross Cash Flow*

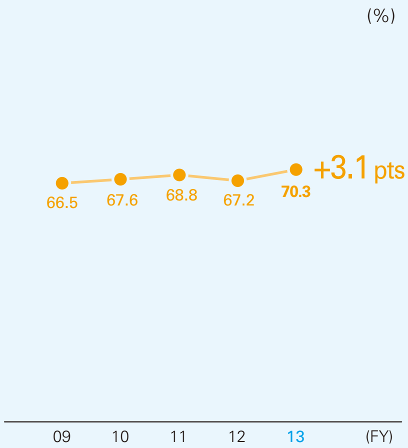


* Gross Cash Flow
= Net income + Depreciation and amortization

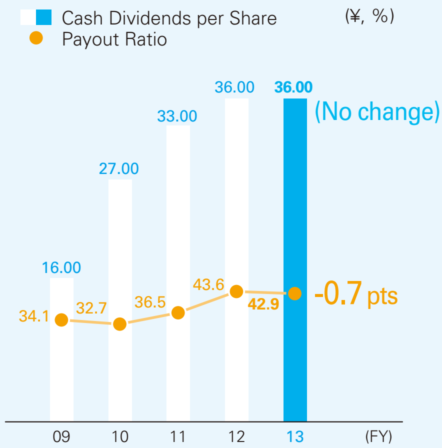
Total Assets & Total Net Assets



Equity Ratio



Cash Dividends per Share & Payout Ratio



To Our Shareholders

To begin, I would like to thank all of you for your support.

In fiscal 2013, the year ended March 31, 2014, the depreciation of the yen that began near the end of fiscal 2012 continued, while the economy of the United States was robust. However, economies in Europe and China remained stagnant and the pace of growth in emerging countries slowed, causing overall demand to fall short of expectations. In Japan, although there were expectations of an economic recovery due to an exit from deflation as a result of "Abenomics" and a last-minute surge in demand ahead of an increase in the consumption tax rate, the markets in which the Kuraray Group operates could not be said to be in a full-fledged recovery.

In this operating environment, the Kuraray Group's consolidated net sales for fiscal 2013 increased 11.9% compared with the previous fiscal year to ¥413.5 billion. Operating income increased 0.7% to ¥49.5 billion, ordinary income increased 1.6% to ¥49.3 billion, and net income increased 2.1% to ¥29.4 billion.

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

Regarding fiscal 2014, there are concerns about a temporary economic slowdown in Japan due to the increase in the consumption tax rate. Overseas, economic forecasts call for a continuing strong economy in the United States, a moderate recovery in Europe, a slowdown in China and patchy conditions in other emerging countries.

Moreover, in light of the growth in net sales overseas, the Kuraray Group has decided to change its fiscal year end to December 31 from fiscal 2014 in order to handle global business management. Fiscal 2014 will be the nine-month period from April to December 2014 for Kuraray Co., Ltd. and its consolidated subsidiaries in Japan, and the twelve-month period from January to December 2014, as it was previously, for consolidated subsidiaries outside Japan.

Given these factors, the Kuraray Group is promoting various measures based on the core management strategies of GS-III, the medium-term management plan the Group has been carrying out since fiscal 2012, and is aiming for ¥385.0 billion in net sales, ¥44.0 billion in operating income, ¥43.0 billion in ordinary income and ¥26.0 billion in net income in fiscal 2014.

The distribution of profits to shareholders is one of Kuraray's top management issues. Under a basic policy of increasing dividends through ongoing improvement in results, Kuraray is targeting a dividend payout ratio of 35% or more relative to consolidated net income during fiscal years 2012 to 2014, the period of medium-term management plan GS-III. Pursuant to this dividend policy, the Company has set a year-end dividend of ¥18 per share for fiscal 2013, as initially forecast. The total of this year-end dividend and the interim dividend will be ¥36 per share, and the dividend payout ratio will be 42.9%.

For fiscal 2014, because it will be a nine-month period due to the change in the fiscal year end to December 31, the Company plans to pay annual dividends of ¥27 per share, consisting of an interim dividend of ¥18 per share and a year-end dividend of ¥9 per share, assuming consolidated net income of ¥26.0 billion. The dividend payout ratio will be 36.4%.

The Kuraray Group requests your continued understanding and support.

August 2014

Fumio Ito
Representative Director and President

Kuraray is strengthening its business base with the aim of being "a specialty chemical company with a global presence."

Question 1

Looking back, what kind of year was fiscal 2013?

There were positive aspects during fiscal 2013, such as the ongoing depreciation of the yen from the end of the previous fiscal year and the robust U.S. economy. However, economies in Europe and China remained stagnant and the pace of growth in emerging countries slowed. Consequently, we did not reach the level of demand forecast in our initial assumption for the year. In Japan, although there were expectations of an economic recovery as a result of "Abenomics" and a last-minute surge in demand ahead of the increase in the consumption tax rate, the markets in which the Kuraray Group operates could not be said to be in a full-fledged recovery.

Against this backdrop, the Kuraray Group's sales in fiscal 2013 grew compared with the previous fiscal year, and we were able to increase income, albeit slightly. Demand for optical-use PVA film decreased, while costs rose due to the prolonged shutdown of certain plants in Europe for construction to improve energy efficiency, and PVB film and liquid rubber struggled as a result of economic stagnation in Europe. However, these and other negative factors were compensated for by growth in sales of *EVAL* gas barrier resin, water-soluble PVA film, for which demand is growing for single-use packets for detergents, and *GENESTAR* heat-resistant polyamide resin, which Kuraray introduced to the world.

In addition, Kuraray agreed to acquire the glass laminating solutions/vinyls business of E.I. du Pont de Nemours and Company ("DuPont") of the United States in November 2013. The transfer of the business was completed in June 2014. This acquisition will further strengthen the business base of the Kuraray Group by giving us a location in the United States for production of vinyl acetate, which is a raw material for PVA and *EVAL*, in addition to generating synergy with the Group's vinyl acetate business.

Question 2

What other major initiatives did you carry out in fiscal 2013?

To strengthen our core businesses, we completed a 12,000-ton capacity expansion in the United States for *EVAL* gas barrier resin, which is used in applications including food packaging and automobile fuel tanks. Operations began in October 2013.

Also in the United States, we decided to expand our production facilities for water-soluble PVA film, a product for which business operations are expanding steadily due to the growth of the market for detergent in single-use packets. Operation of the facilities is scheduled to start in July 2014. In Japan, we completed construction to expand production capacity of *GENESTAR* by 3,000 tons at our Kashima Plant in August 2013.

To create and expand new businesses, we decided to increase production capacity of *VECSTAR*, a film for high-speed printed circuit boards. We are also promoting business development for the future, including construction of a new plant for anode materials for lithium-ion batteries.

Question 3

Can you provide some details about the change in the Kuraray Group's fiscal year end that will occur in fiscal 2014?

In fiscal 2013, overseas sales grew to account for 55% of net sales. Under these circumstances, our main objective in fiscal 2014 is to standardize the accounting periods of Kuraray Group companies in Japan and overseas. A resolution to change the fiscal year end was approved at the General Meeting of Shareholders, and we will standardize accounting periods in fiscal 2014. This will enable timely and accurate disclosure of corporate information and increase management transparency. We will also be able to efficiently conduct global business management.

As for the specific method of adjustment, we will make December the fiscal year end for all Kuraray Group companies. Fiscal 2014 will be an irregular accounting period consisting of the nine months from April to December for Group companies in Japan, and the twelve months from January to December for Group companies outside Japan. This adjustment will align the fiscal year ends of domestic and overseas Group companies as of the end of fiscal 2014.

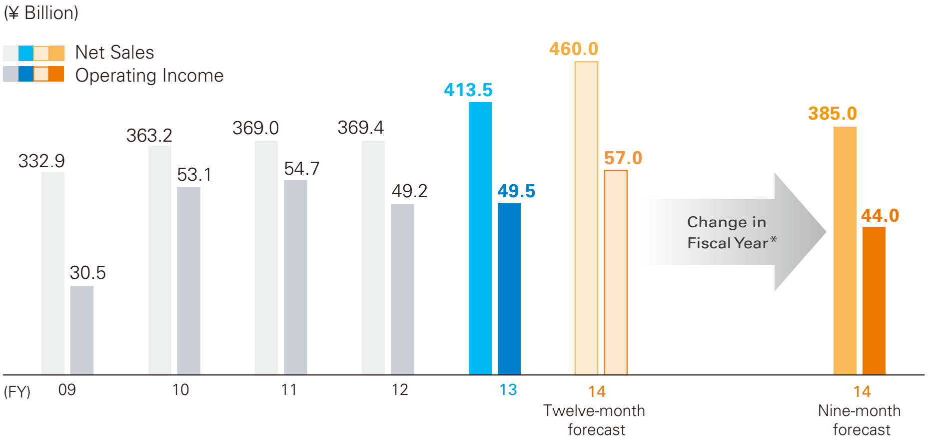
Question 4

What is the outlook for the Kuraray Group's business results in fiscal 2014?

In Japan, there are concerns about a temporary economic slowdown due to the increase in the consumption tax rate. Overseas, economic forecasts call for a continuing strong economy in the United States, a moderate recovery in Europe, a slowdown in China and patchy conditions in other emerging countries. Under these circumstances, we are aiming for net sales of ¥385.0 billion and operating income of ¥44.0 billion in fiscal 2014 based on an accounting period of nine months for Kuraray Group companies in Japan and twelve months for overseas Group companies, due to the change in the fiscal year end to December. Using the previous twelve-month accounting period basis from April 2014 to March 2015 for companies in Japan and from January to December 2014 for companies overseas, these targets would be net sales of ¥460.0 billion and operating income of ¥57.0 billion. Accordingly, the decrease in our targets compared with fiscal 2013 is the result of the change in the fiscal year end. In real terms, we are aiming for substantial increases in sales and income.

In addition, fiscal 2014 is the final year of GS-III, the medium-term management plan we have been carrying out since fiscal 2012. During fiscal 2014, we will work to strengthen our capacity for generating earnings unaffected by market conditions through measures such as using technological innovation to accelerate development of new products and applications, expanding our businesses in fields and markets with growth potential in Japan or overseas, and further reducing costs. These measures will lead into our next medium-term management plan, which will begin in fiscal 2015.

Net Sales & Operating Income



* Due to the change in fiscal year end, the forecast for fiscal 2014 is for the nine-month period from April to December 2014.

Question 5

What are your priority initiatives for fiscal 2014?

Early generation of synergy with the glass laminating solutions/vinyls business we acquired from DuPont of the United States is the top issue for our management. We are considering initiatives for this purpose and will speedily carry them out.

In addition, we will carry out initiatives based on technological innovation. These include developing differentiated optical-use PVA film products; starting operation of facilities with increased production capacity for *VECSTAR* materials for high-speed printed circuit boards and promoting their sale; expediting development of an innovative new manufacturing process for *KURALON*; and developing ultra-barrier films that apply the technology of a U.S. venture company and the gas barrier technology Kuraray has accumulated with *EVAL*. As for initiatives based on geographical expansion, we aim to expand the PVA resin market in the Americas ahead of the start-up of our PVA resin production facilities in North America that are currently under construction.

For *EVAL*, we will concentrate on expanding markets in emerging nations, where growth in demand for food packaging and automotive applications is expected. In addition, we intend to conduct a global rollout of water-soluble PVA film for single-use packets for detergents.

Question 6

What can you tell us about the direction of the Kuraray Group's next medium-term management plan, which will start in fiscal 2015?

Backed by its corporate culture of "contributing to the world and individual well-being through actions that others are unable to produce," the Kuraray Group aims to be the "specialty chemical company with a global presence" called for in its Long-Term Corporate Vision. During fiscal 2014, we will formulate specific strategies for our next medium-term management plan to become such a company.

Feature

Kuraray's Major Growth Drivers:

Three Case Studies

The Kuraray Group is implementing various measures based on its core management strategies for growth to become the "specialty chemical company with a global presence" called for in its Long-Term Corporate Vision. This section covers three of the major growth drivers that are expanding to become Kuraray's core businesses and explains their advantages and growth potential. Including these products, Kuraray has approximately 10 products that have established top global market share. Backed by its corporate culture of "contributing to the world and individual well-being through actions that others are unable to produce," Kuraray will continue to cultivate world-class products.

Three Case Studies of Major Growth Drivers

1 *EVAL* (EVOH: Ethylene vinyl alcohol copolymer resin)

Product Overview

Kuraray was the first in the world to commercialize this functional resin, which has the highest level of gas barrier performance among plastics. *EVAL* is widely used as a packaging material for foods, cosmetics, pharmaceuticals and other products because it acts as an oxygen barrier that prevents the contents from deteriorating and their aromas from escaping. It is also used in plastic fuel tanks for automobiles to help prevent gas leakage into the atmosphere and to reduce weight.

2 Polyvinyl alcohol (PVA) film

Product Overview

Kuraray was the first in the world to industrialize this plastic film made from PVA resin, which is the raw material of *KURALON* synthetic fiber. PVA film is used in a wide range of fields. As an optical-use film, its applications include the base film of polarizing plates that is indispensible for the production of liquid crystal displays (LCDs) in products such as large flat-screen televisions and tablets. As a water-soluble film, it is employed in single-use packets for detergents, agrichemicals and other products. A look at water-soluble film follows on page 14.

3 *GENESTAR*

Product Overview

A new heat-resistant polyamide resin whose primary raw material is 1,9-Nonanediamine, a monomer that Kuraray was the first in the world to industrialize. In addition to electronic components for mobile phones, personal computers and other products, applications are expanding in LEDs and the automotive field.

EVAL Gas Barrier Resin

Case 1

The Highest Level of Gas Barrier Performance among Plastics

EVAL's superior gas barrier properties are approximately 10,000 times more effective than general-purpose polyethylene. Using just a small amount in food packaging materials (as an intermediate layer between nylon and polyolefin layers, among other applications) helps to extend shelf life, lighten containers and reduce waste. Food packaging applications include containers for mayonnaise, salad oil, dried bonito flakes, refrigerated beverages and aromatic spices. *EVAL* is a recyclable material.

New Applications and Market Expansion

In addition to the food packaging and plastic fuel tanks described above, other uses of *EVAL* that take advantage of its gas and solvent barrier properties include under-floor heating pipes (an alternative to metal pipes that reduces corrosion), bottles for agrichemicals, agricultural-use film, vacuum insulation panels for large refrigerators (an alternative to metal that reduces insulating material volume and conserves energy) and pressurized ink cartridges for ballpoint pens. Moreover, demand is growing worldwide as applications diversify into areas such as stain-resistant wallpaper for home interiors that takes advantage of *EVAL*'s solvent resistance and low electrostatic properties.

Prospects for Long-Term Business Expansion

Because *EVAL* is widely used in consumer goods such as food packaging and automobile fuel tanks, demand tends to rise in tandem with a country's economic growth. Consequently, Kuraray foresees significant potential demand in emerging countries where growth is forecast, in addition to developed countries.

In response, Kuraray has been opening up new markets for *EVAL*. In May 2012, Kuraray established a local subsidiary in Thailand, which is a global food processing base with a thriving automobile industry, followed by a 12,000-ton increase in annual production capacity at U.S. subsidiary Kuraray America, Inc. in October 2013. Kuraray will expand the *EVAL* business by using its overseas subsidiaries in countries including China, Thailand, India and Brazil to enter the markets of emerging countries while increasing production capacity to meet growing global demand.

Case 2

Expanding Business with the Acquisition of MonoSol

The raw materials and processing conditions of PVA film give it a water-soluble property. PVA film that takes advantage of this property is now used in a wide range of applications.

As part of its strategy to expand its vinyl acetate chemical chains business, in June 2012 Kuraray acquired U.S.-based MonoSol, LLC, which manufactures and sells PVA film. MonoSol is a leading company in the field of water-soluble film for applications including single-use packets for detergents, agrichemicals, dyes and other products. The acquisition therefore made the Kuraray Group a global leader in PVA film not only in the optical field, but in a wide range of industries.

Over the past few years, growth has been particularly notable at MonoSol in the application of film for single-use packets for detergents. Detergents in single-use packets are growing in popularity in the United States and Europe, and their rollout is expected in Japan and elsewhere in Asia.

Strong Relationships with Customers

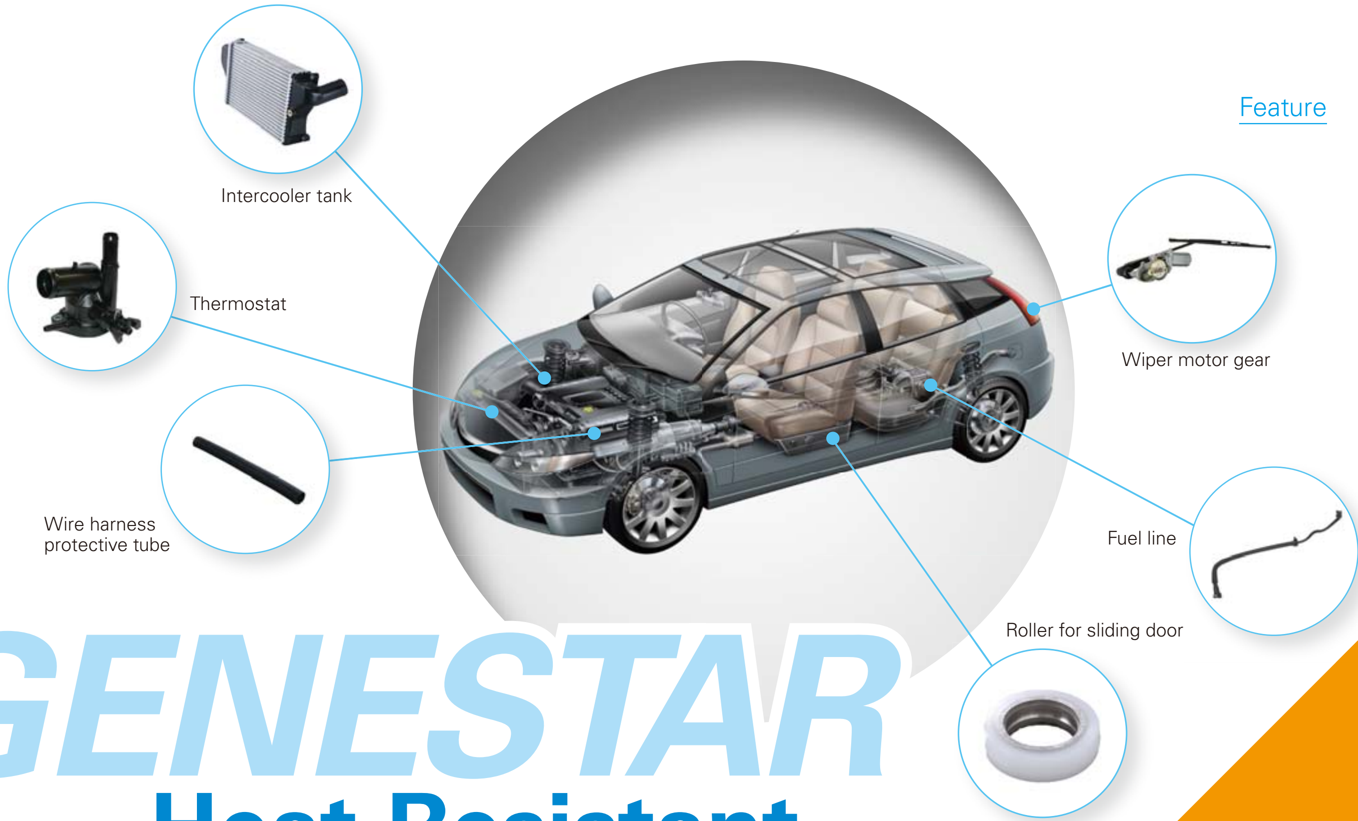
MonoSol was recognized as an External Business Partner of the Year in 2013 by The Procter & Gamble Company (P&G), one of its customers, following its selection by P&G as its Connect + Develop Partner of the Year in 2012.

Increasing Production Capacity to Prepare for Growing Global Demand

To maintain stable supply of water-soluble PVA film at MonoSol to meet brisk demand, mainly in the United States and Europe, Kuraray decided in May 2013 to expand production capacity at MonoSol in the United States at an investment of approximately $35 million.

Kuraray will further accelerate the expansion and strengthening of its vinyl acetate chemical chains business through organic linkage among its bases in Japan, the United States, Europe and Asia.

Water-Soluble PVA Film



GENESTAR
Heat-Resistant Polyamide Resin

Case 3

The Only Business of Its Kind in the World

In 1999, Kuraray was the first in the world to industrialize this new heat-resistant polyamide resin using its original technology and has a 100%* global market share of this one-of-a-kind material.

* As of March 31, 2014

A New Polymer with Many Features

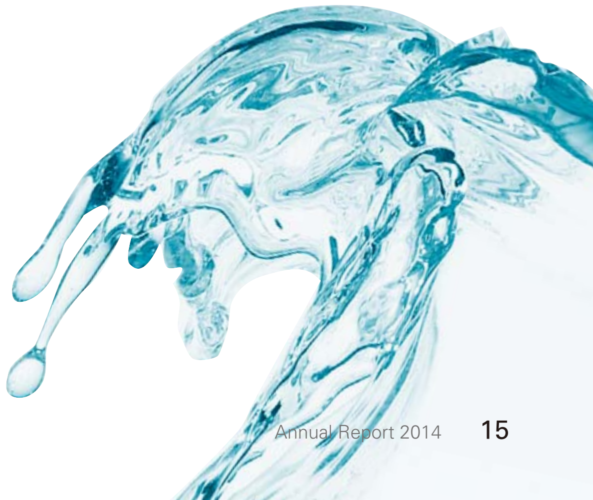
GENESTAR's numerous features include high heat resistance, chemical resistance and slidability (resistance to repeated abrasion), low water absorption and superior dimensional precision.

Proactive Expansion of Applications and Sales Regions

GENESTAR combines the advantages of a plastic that can be freely molded with the strength of metal, and is already used in applications including connectors for electronic devices such as personal computers, digital cameras and mobile phones, as well as LED reflectors. It is the result of Kuraray's original technologies in areas including (1) monomer synthesis, (2) polymerization for optimum performance and (3) compounding for improvement in practical performance.

With the positive evaluation of the heat resistance and high slidability achieved with these technologies, full-scale adoption of *GENESTAR* in automobile parts has been gaining momentum in recent years. Backed by stricter exhaust emissions regulations in various countries and needs to increase fuel efficiency through reduced vehicle weight, an increasing number of automotive parts are now made of plastic instead of metal. Consequently, demand is growing, primarily for use in fuel- and cooling-system components and sliding parts.

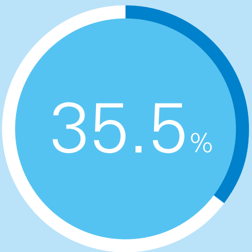
With the growth in global demand, Kuraray increased annual production capacity at its Kashima Plant from 6,000 tons to 9,000 tons in August 2013. Current sales are mainly in the domestic market, but Kuraray plans to expand sales regionally as it expands applications for *GENESTAR* in Japan and overseas.



Kuraray at a Glance

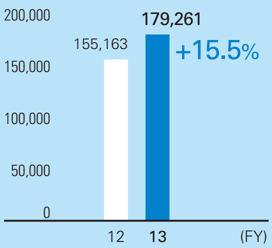
Vinyl Acetate

Share of Net Sales

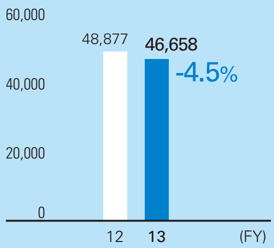


The Vinyl Acetate segment domestically produces PVA resin, optical-use PVA film and *EVAL* gas barrier resin. The segment also produces and sells water-soluble PVA film and *EVAL* in the United States, PVA resin, PVB resin and film, and *EVAL* in Europe and PVA resin in Asia.

Net Sales (¥ Million)



Operating Income (¥ Million)



Main Products

***KURARAY POVAL, MOWIOL* (PVA resin)**
Global Market Share: 35%
(excluding China)

Paper / fiber processing agents, adhesives and others

Optical-use PVA film
Global Market Share: 80%

LCD televisions, mobile phone screens and others

Water-soluble PVA film

Water-soluble delivery system and others

***TROSIFOL* (PVB film)**

Interlayers for laminated safety glass and photovoltaic module encapsulation

***EVAL* resin (EVOH resin) / *EVAL* film (EVOH film)**
Global Market Share: 65%

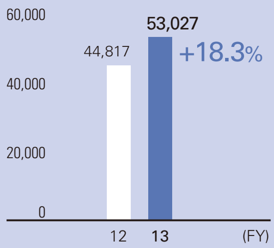
Food packaging, automobile tanks / vacuum insulation panels for refrigerators and others

Isoprene

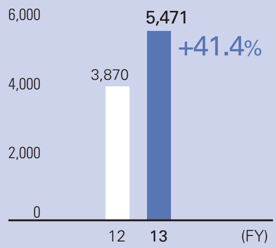
Share of Net Sales

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

Net Sales (¥ Million)



Operating Income (¥ Million)



Main Products

Isoprene chemicals

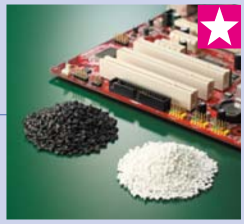
Pharmaceutical and agrichemical intermediates, ingredients for fragrances, cosmetics

***SEPTON, HYBRAR* (Thermoplastic elastomer)**
Global Market Share: 20%

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

***GENESTAR* (Heat-resistant polyamide resin)**
Global Market Share: 100%

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



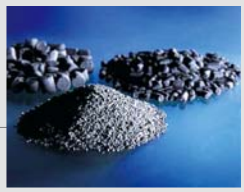
Trading, Others

The Trading segment includes importing and exporting as well as the wholesaling of fibers and textiles such as polyester filament and chemicals. These activities are operated by KURARAY TRADING CO., LTD. and its subsidiaries. Others include the production and sale of such items as high-performance membranes, activated carbon and others.

Main Products

***KURARAY COAL* (Activated carbon)**

Water purification facilities, gas separators and capacitor materials



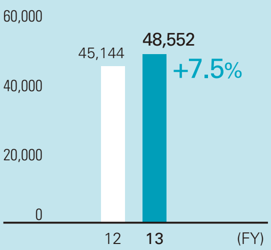
No. 1 — Product holds the world's number-one market share

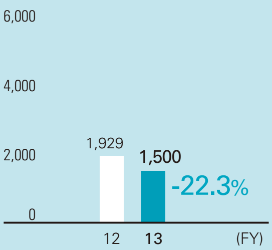
Only One — Product is the only one of its kind in the world

Functional Materials

Share of Net Sales

The Functional Materials segment domestically produces methacrylic resin, *CLARINO*, and dental materials in the medical business. The segment also produces methacrylic resin and *CLARINO* in China.





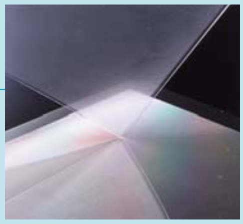
Main Products

CLARINO (Man-made leather)
Global Market Share: 25%

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

Methacrylic resin

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



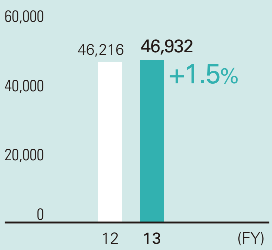
Dental materials

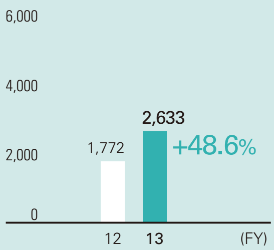
Materials for treating cavities to restore teeth to a near-natural state

Fibers and Textiles

Share of Net Sales

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





Main Products

***KURALON* (PVA fiber)**
Global Market Share: 80%
(excluding China)

Reinforcing material for cement and concrete and others

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

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

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

Clothing, sporting goods, industrial materials and others

***VECTRAN* (Polyarylate fiber)**

Rope, fishing nets and other industrial products

Polyester filament

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

Aqua business

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

Review of Operations

Results for Fiscal 2013

Vinyl Acetate

Sales of optical-use PVA film edged down as LCD panel inventory adjustment continued amid sluggish demand for LCD televisions. Although sales volume of PVA resin grew, the prolonged operational shutdown at certain plants in Europe for construction to improve their energy efficiency resulted in a temporary increase in costs. Sales of PVB film were strongly affected by economic stagnation in Europe and bore increased costs related to developing products for automotive applications. On the other hand, sales of water-soluble PVA film grew favorably on the back of brisk demand. In response, Kuraray decided to expand its water-soluble PVA film facilities in the United States.

Sales of *EVAL* ethylene vinyl alcohol copolymer (EVOH) resin favorably expanded, particularly in the United States and Asia. In the United States, construction to expand production capacity by 12,000 tons was completed and operations started.

As a result, segment sales grew 15.5% year on year to ¥179,261 million, while segment income fell 4.5% year on year to ¥46,658 million.

In November 2013, Kuraray reached an agreement with E.I. du Pont de Nemours and Company ("DuPont") to acquire the DuPont group's glass laminating solutions/vinyls business with the aim of securing sustainable growth in this business segment.

Isoprene

In isoprene chemicals, although demand was sluggish for liquid rubber, demand for fine chemicals and *SEPTON* thermoplastic elastomer rebounded. Sales of *GENESTAR* heat-resistant polyamide resin progressed amid favorable demand related to LED reflector, connector and automotive applications. At the Kashima Plant, construction to expand production capacity by 3,000 tons was completed and operations started.

As a result, segment sales grew 18.3% year on year to ¥53,027 million, and segment income increased 41.4% year on year to ¥5,471 million.

Functional Materials

The decrease in profits for methacrylic resin continued due to intensifying competition and higher raw material and fuel prices. In the medical business, sales of dental materials were firm. Overall sales of *CLARINO* man-made leather remained sluggish as sales of products created using new processes were not as brisk as expected, although the transfer of the existing process to China as part of structural improvements proceeded smoothly.

As a result, segment sales grew 7.5% year on year to ¥48,552 million, while segment income fell 22.3% year on year to ¥1,500 million.

Fibers and Textiles

The performance of *KURALON* was favorable in automotive brake hose applications and use as an asbestos substitute in fiber reinforced cement (FRC).

As a result, segment sales grew 1.5% year on year to ¥46,932 million, and segment income increased 48.6% year on year to ¥2,633 million.

Trading, Others

In the Trading segment, although some businesses were impacted by the weak economy, sales in other businesses such as fiber-related materials were firm.

As a result, segment sales increased 0.2% year on year to ¥108,991 million, and segment income increased 6.7% to ¥3,582 million.

In Others, sales of activated carbon for use in water purification and energy-related applications grew steadily. Other items were affected overall by the weak economy. In addition, the performance of this segment was affected by increases in development costs in the aqua business and electronics components business.

As a result, segment sales increased 4.5% year on year to ¥67,334 million, and segment income decreased 37.7% to ¥2,493 million.

Performance Forecast for Fiscal 2014

Regarding the operating environment in fiscal 2014, there are concerns about a temporary economic slowdown in Japan due to the increase in the consumption tax rate. Overseas, economic forecasts call for a continuing strong economy in the United States, a moderate recovery in Europe, a slowdown in China and patchy conditions in other emerging countries. In the final fiscal year of GS-III (fiscal years 2012 to 2014), the medium-term management plan the Kuraray Group has been carrying out since fiscal 2012, we will strengthen our capacity for generating earnings unaffected by market conditions through measures such as using technological innovation to accelerate development of new products and applications, expanding businesses in fields and markets with growth potential in Japan and overseas, and further reducing costs. These measures will lead into the new medium-term management plan that begins in fiscal 2015.

Based on these circumstances, the forecast of operating results for fiscal 2014 is as shown below.

In light of the growth in net sales overseas, we plan to change our fiscal year end to December 31 from fiscal 2014 in order to standardize accounting periods and handle global business management. Fiscal 2014 will be the nine-month period from April to December 2014 for Kuraray Co., Ltd. and its consolidated subsidiaries in Japan, and the twelve-month period from January to December 2014, as it was previously, for consolidated subsidiaries outside Japan.

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

	Fiscal 2013 (April 1, 2013 to December 31, 2013) (Adjusted)	Fiscal 2014 (April 1, 2014 to December 31, 2014) (Forecast)	Change (Adjusted)	(Reference) Forecast for the Next Fiscal Year Based on the Previous Accounting Period
Net Sales	**339.9**	385.0	+13.3%	460.0
Operating Income	**38.3**	44.0	+14.9%	57.0
Ordinary Income	**38.4**	43.0	+12.0%	56.0
Net Income	**23.1**	26.0	+12.6%	34.5

For fiscal 2014, we assume average exchange rates of ¥105 to the U.S. dollar and ¥140 to the euro, as well as a domestic naphtha price of ¥72,000 per kiloliter.

(Reference) Forecast of Results by Segment for Fiscal 2014

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

	Net Sales		Operating Income	
	Fiscal 2013 (April 1, 2013 to December 31, 2013) (Adjusted)	Fiscal 2014 (April 1, 2014 to December 31, 2014) (Forecast)	Fiscal 2013 (April 1, 2013 to December 31, 2013) (Adjusted)	Fiscal 2014 (April 1, 2014 to December 31, 2014) (Forecast)
Vinyl Acetate	**160.7**	187.5	**36.2**	39.5
Isoprene	**42.0**	48.0	**3.9**	5.0
Functional Materials	**38.8**	45.5	**1.1**	2.0
Fibers and Textiles	**34.7**	35.5	**2.1**	2.0
Trading	**80.9**	85.0	**2.5**	2.5
Others	**50.2**	53.0	**1.7**	2.0
Corporate and eliminations	**(67.3)**	(69.5)	**(9.3)**	(9.0)
Total	**339.9**	385.0	**38.3**	44.0

Corporate Governance and Internal Control

Corporate Governance

Basic Philosophy on Corporate Governance

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

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

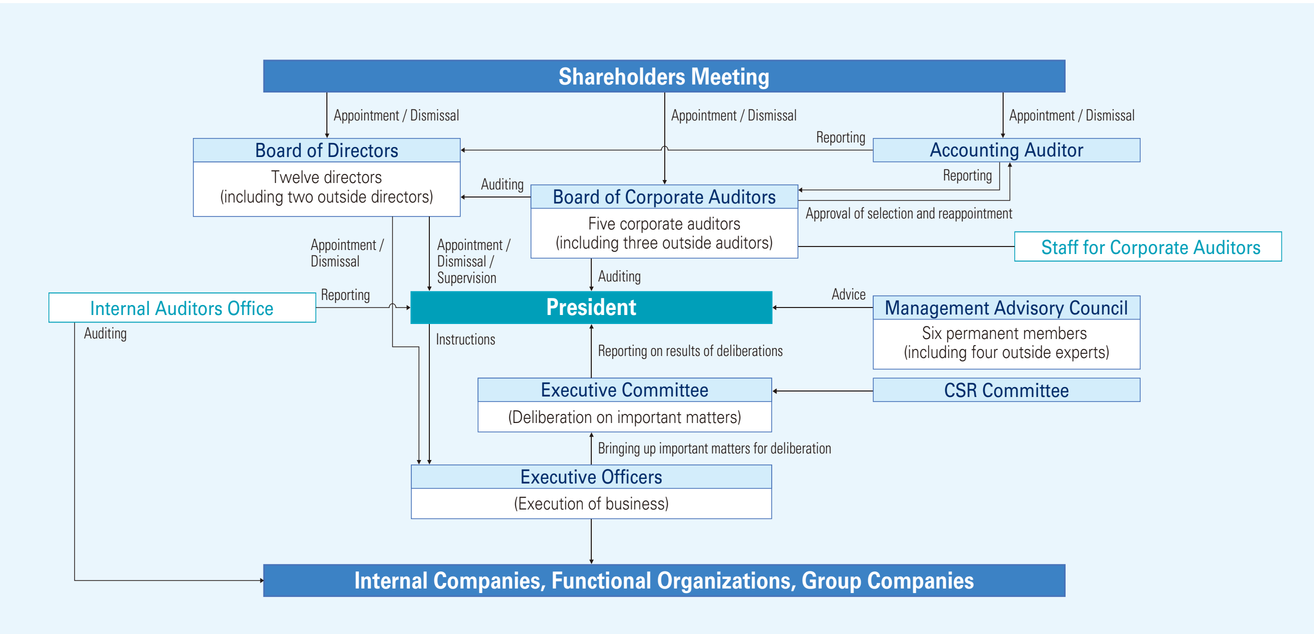
Corporate Governance Systems

1. Board of Directors and Executive Organization

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

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

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



2. Board of Corporate Auditors

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

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

3. Management Advisory Council

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

4. Status of Accounting Auditor

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

Internal Control

Basic Philosophy on Internal Control

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

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

Board of Directors, Corporate Auditors and Executive Officers

(As of June 20, 2014)

Board of Directors

Representative Director and President

Fumio Ito

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

Representative Director and Primary Executive Officer

Setsuo Yamashita

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

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

Director and Primary Executive Officer

Keiji Murakami

President of Vinyl Acetate Company

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

Director and Senior Executive Officer

Kazuhiro Tenkumo

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

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

Director and Senior Executive Officer

Yuichi Kawarasaki

Officer Responsible for Accounting and Finance Division

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

Director and Senior Executive Officer

Kunio Yukiyoshi

Officer Responsible for Technology Division and Plants in Japan

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

Director and Senior Executive Officer

Nobuo Fujii

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

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

Director and Senior Executive Officer

Sadaaki Matsuyama

President of Functional Materials Company

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

Director and Senior Executive Officer

Kazuhiko Kugawa

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

April	1976	Entered Kuraray Co., Ltd.
June	2012	Executive Officer
April	2013	Vice President of Vinyl Acetate Company (Current position), General Manager of EVAL Division, Vinyl Acetate Company (Current position)
June	2013	Senior Executive Officer (Current position)
June	2014	Director (Current position)

Director and Senior Executive Officer

Masaaki Ito

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

April	1980	Entered Kuraray Co., Ltd.
June	2012	Executive Officer
April	2013	Vice President of Functional Materials Company, General Manager of Methacrylate Division, Functional Materials Company
June	2013	Senior Executive Officer (Current position)
April	2014	Officer Responsible for Corporate Management Planning Division (Current position), CSR Division (Current position), General Manager of Corporate Management Planning Division (Current position)
June	2014	Director (Current position)

Director

Takafusa Shioya[1]

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

Director

Tomokazu Hamaguchi[1]

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

Corporate Auditors

Standing Corporate Auditors

Yoichi Ninagawa

Mitsuaki Manabe

Corporate Auditors

Mie Fujimoto[2]

Yoshimitsu Okamoto[2]

Mikio Nakura[2]

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

Executive Officers

Senior Executive Officers

Yukiatsu Komiya
President of Isoprene Company

Hiroaya Hayase
General Manager of Poval Resin Division, General Manager of International Business Planning Division, Vinyl Acetate Company

Executive Officers

Matthias Gutweiler
KEG President, General Manager of PVB Division

Shuichi Takemoto
General Manager of CSR Division

Masanori Onodera
General Manager of Okayama Plant

Kazuhiro Nakayama
General Manager of Technology Division

Kenichi Abe
General Manager of New Business Development Division

Yoshimasa Sano
General Manager of Methacrylate Division, Functional Materials Company

George Avdey
KAI President

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

Yukinori Yamane
General Manager of Purchasing and Logistics Division

Akira Omura
General Manager of Production and Technology Management Division, Vinyl Acetate Company

Tsugunori Kashimura
General Manager of Research and Development Division

Financial Review

Kuraray Co., Ltd. and its consolidated subsidiaries

Business Environment

In the period under review (the fiscal year ended March 31, 2014), the depreciation of the yen, which began near the end of the previous fiscal year, continued, while the economy of the United States was robust. However, economies in Europe and China remained stagnant and the pace of growth in emerging countries slowed, causing overall demand to fall short of expectations. In Japan, although there were expectations of an economic recovery due to an exit from deflation as a result of "Abenomics" and a last-minute surge in demand ahead of an increase in the consumption tax rate, the markets in which the Company operates could not be said to be in a full-fledged recovery.

Under these circumstances, the Kuraray Group accelerated the global expansion of its core business to achieve sustained growth while proactively developing new businesses in the water treatment, environment, energy, optical and electronics fields to secure future growth.

Sales

Consolidated net sales for the fiscal year ended March 31, 2014 (April 1, 2013 to March 31, 2014) increased by ¥44,054 million ($427 million), or 11.9%, compared with the previous fiscal year to ¥413,485 million ($4,014 million). Operating income increased by ¥347 million ($3 million), or 0.7%, to ¥49,545 million ($481 million); ordinary income increased by ¥753 million ($7 million), or 1.6%, to ¥49,343 million ($479 million); and net income increased by ¥592 million ($5 million), or 2.1%, to ¥29,390 million ($285 million).

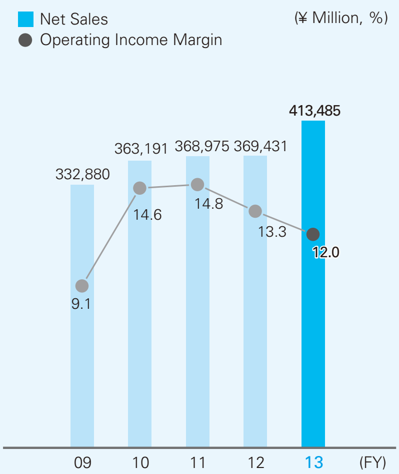
Results by Business Segment

In line with the structural reorganization carried out on April 1, 2013, the Company has changed its reporting segments from the first quarter of the fiscal year under review. Comparisons and analyses for the fiscal year are based on segment divisions following the change.

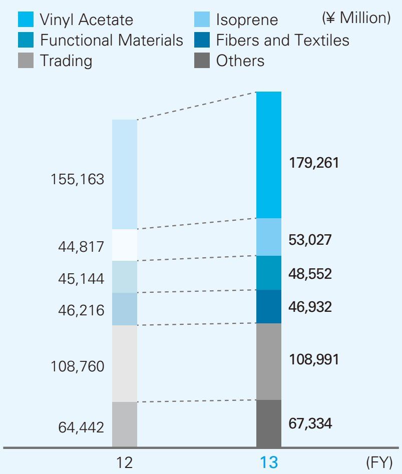
Vinyl Acetate

Sales in this segment grew by 15.5% year on year to ¥179,261 million ($1,740 million), while segment income fell by 4.5% year on year to ¥46,658 million ($452 million). In addition, Kuraray reached an agreement with E.I. du Pont de Nemours and Company ("DuPont") of the United States to purchase DuPont's vinyl acetate-related operations, with the aim of securing sustainable growth in the Company's Vinyl Acetate segment.

Net Sales & Operating Income Margin



Net Sales by Business Segment



1) Sales of optical-use PVA films edged down due to sluggish demand for LCD TVs and continued LCD panel inventory adjustment. Although sales volume of PVA resins expanded, this business saw a temporary cost increase resulting from the prolonged operational shutdown at certain plants in Europe for construction aimed at improving energy efficiency. Sales of PVB films were strongly affected by economic stagnation in Europe and bore increased costs related to developing products for automotive applications. On the other hand, sales of water-soluble PVA films grew favorably on the back of brisk demand. In response, the Company decided to expand its water-soluble PVA film facilities in the United States and is moving ahead with construction, with start-up scheduled for July 2014.

2) Sales of *EVAL* ethylene vinyl alcohol copolymer (EVOH resin) expanded favorably, particularly in the United States and Asia. In the United States, construction to increase production capacity by 12,000 tons was completed and operations started.

Isoprene

Sales in this segment grew by 18.3% year on year to ¥53,027 million ($514 million), and segment income increased by 41.4% year on year to ¥5,471 million ($53 million).

1) In isoprene chemicals, although demand was sluggish for liquid rubber, demand for fine chemicals and *SEPTON* thermoplastic elastomer rebounded.

2) Sales of *GENESTAR* heat-resistant polyamide resin progressed amid favorable demand related to LED reflector, connector and automotive applications. At the Kashima Plant, construction to expand production capacity by 3,000 tons was completed and operations started.

Functional Materials

Sales in this segment grew by 7.5% year on year to ¥48,552 million ($471 million), while segment income fell by 22.3% year on year to ¥1,500 million ($14 million).

1) The decrease in profits for methacrylic resin continued due to intensifying competition and higher raw material and fuel prices.

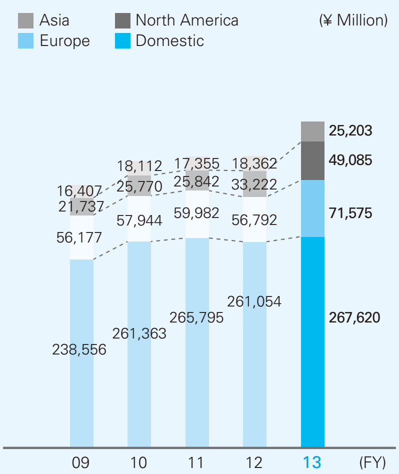
2) In the medical business, sales of dental materials were firm.

3) Overall sales of *CLARINO* man-made leather remained sluggish as sales of products created using new processes were not as brisk as expected, although the transfer of the existing process to China as part of structural improvements proceeded smoothly.

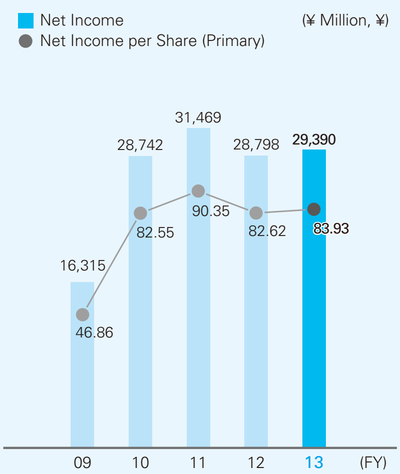
Fibers and Textiles

The performance of *KURALON* was favorable in automotive brake hose applications and for use as an asbestos substitute in fiber reinforced cement (FRC). As a result, sales in this segment grew by 1.5% year on year to ¥46,932 million ($455 million), and segment income increased by 48.6% year on year to ¥2,633 million ($25 million).

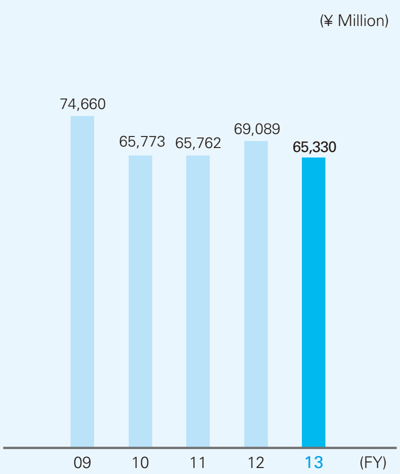
Net Sales by Geographic Segment



Net Income & Net Income per Share (Primary)



Interest-Bearing Debt



Trading

Although some businesses were impacted by the weak economy, sales in other businesses such as fiber-related materials were firm. As a result, segment sales increased by 0.2% year on year to ¥108,991 million ($1,058 million), and segment income increased by 6.7% to ¥3,582 million ($34 million).

Others

Sales of activated carbon for use in water purification and energy-related applications grew steadily. Other items were affected overall by the weak economy. In addition, the performance of this segment was affected by increases in development costs in the aqua business and the electronics components business. As a result, segment sales increased by 4.5% year on year to ¥67,334 million ($653 million), and segment income decreased by 37.7% to ¥2,493 million ($24 million).

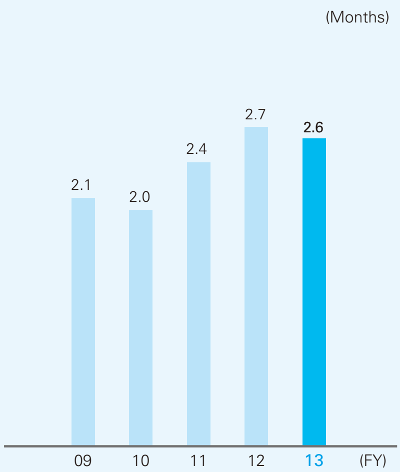
Financial Position

As of March 31, 2014, cash and deposits stood at ¥49,746 million ($482 million), an increase of ¥3,595 million ($34 million) compared to the end of the previous fiscal year. Notes and accounts receivable – trade increased by ¥7,276 million ($70 million) to ¥91,119 million ($884 million). Short-term investment securities increased by ¥26,605 million ($258 million) to ¥58,301 million ($566 million). Inventories (merchandise and finished goods, work-in-process, and raw materials and supplies) increased by ¥5,341 million ($51 million) to ¥88,634 million ($860 million), and inventory turnover (the number of months' sales in inventory) was 2.6 months. Current assets increased by ¥45,190 million ($438 million) or 17.6% to ¥302,402 million ($2,935 million). Working capital (current assets less current liabilities) increased by ¥67,494 million ($655 million) to ¥213,257 million ($2,070 million).

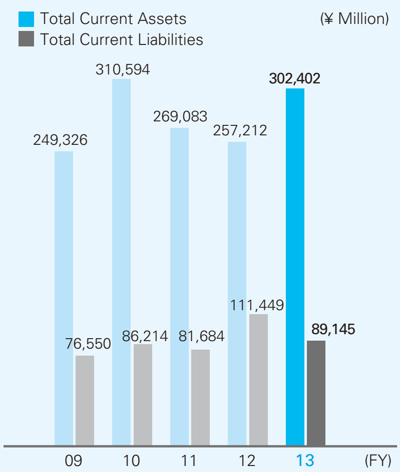
The current ratio (current assets divided by current liabilities) increased to 339.2% from fiscal 2012's 230.8%. Tangible fixed assets increased by ¥40,945 million ($397 million) to ¥222,219 million ($2,157 million). This included factors such as an increase in buildings and structures (net) of ¥2,769 million ($26 million) to ¥44,707 million ($434 million), an increase in machinery, equipment and vehicles (net) of ¥9,623 million ($93 million) to ¥91,921 million ($892 million) and an increase in construction in progress of ¥26,813 million ($260 million) to ¥59,139 million ($574 million). Intangible fixed assets increased by ¥5,874 million ($57 million) to ¥57,198 million ($555 million). Investments and other assets decreased by ¥45,011 million ($437 million) to ¥52,431 million ($509 million). Total assets increased by ¥46,998 million ($456 million) to ¥634,252 million ($6,157 million), and return on assets (operating income divided by average total assets for the period) decreased by 0.8 points from the previous fiscal year to 8.1%.

Current liabilities decreased by ¥22,304 million ($216 million) to ¥89,145 million ($865 million), due primarily to a decrease in

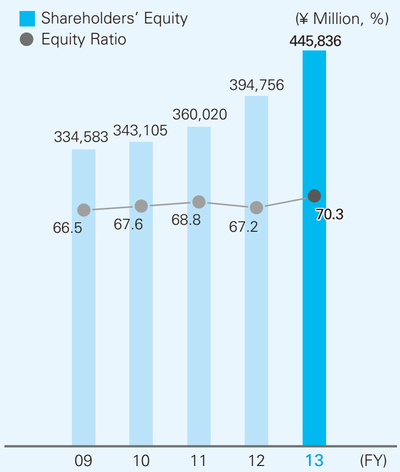
Number of Months' Sales in Inventory



Total Current Assets & Total Current Liabilities



Shareholders' Equity* & Equity Ratio



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

notes and accounts payable – trade of ¥1,655 million ($16 million) to ¥35,393 million ($343 million) and a decrease in short-term loans payable of ¥17,775 million ($172 million) to ¥13,143 million ($127 million).

Noncurrent liabilities increased by ¥18,150 million ($176 million) to ¥92,647 million ($899 million).

Net assets increased by ¥51,152 million ($496 million) to ¥452,459 million ($4,392 million). Subtracting minority interests and subscription rights to shares totaling ¥6,623 million ($64 million), shareholders' equity was ¥445,836 million ($4,328 million) mainly due to an increase in retained earnings and positive foreign currency translation adjustment. The equity ratio for the period was 70.3%, up 3.1% from March 31, 2013.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥61,175 million ($593 million) in the fiscal year ended March 31, 2014, a decrease of ¥5,736 million ($55 million) compared with the previous fiscal year. Major components providing cash included income before income taxes and minority interests of ¥45,598 million ($442 million), depreciation and amortization of ¥34,972 million ($339 million) and a decrease in inventories of ¥1,835 million ($17 million). Major components using cash included an increase in notes and accounts receivable – trade of ¥2,473 million ($24 million), a decrease in notes and accounts payable – trade of ¥3,894 million ($37 million), contribution to employees' retirement benefits trust of ¥7,000 million ($67 million) and income taxes paid of ¥17,273 million ($167 million).

Cash Flows from Investing Activities

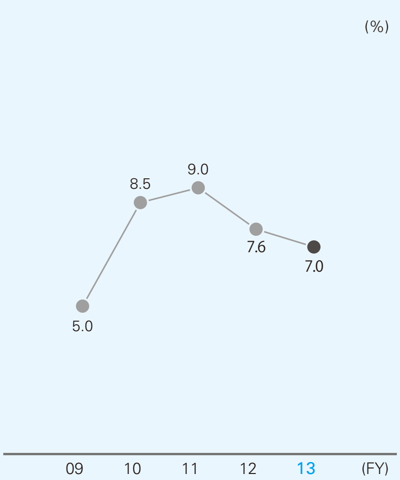
Net cash provided by investing activities totaled ¥22,293 million ($216 million). The major component providing cash was a net decrease in invested assets including investment securities of ¥85,843 million ($833 million). Major components using cash included the purchase of tangible fixed assets and intangible fixed assets of ¥58,414 million ($567 million) and payments for acquisition of business of ¥1,379 million ($13 million).

Cash Flows from Financing Activities

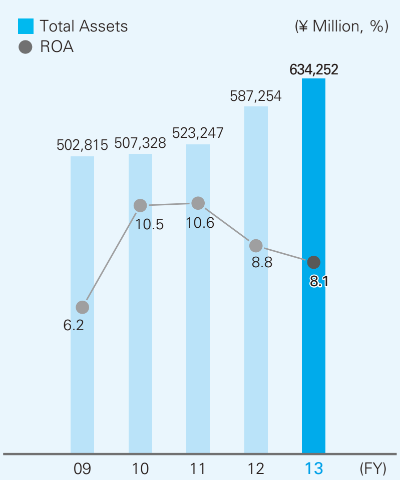
Net cash used in financing activities was ¥15,427 million ($149 million). The major component providing cash was proceeds from long-term loans payable of ¥20,129 million ($195 million). Major components using cash included repayment of long-term loans payable of ¥24,008 million ($233 million) and cash dividends paid of ¥12,584 million ($122 million).

Taking into account the effect of exchange rate changes on cash and cash equivalents and the increase in cash and cash equivalents from newly consolidated subsidiaries, in addition to the aforementioned factors, cash and cash equivalents at the end of the fiscal year increased by ¥70,756 million ($686 million) from the end of the previous fiscal year to ¥100,642 million ($977 million).

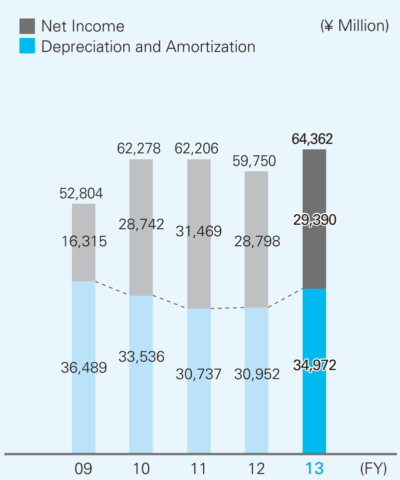
ROE



Total Assets & ROA



Gross Cash Flow



Capital Expenditure

Capital investment by the Kuraray Group (Kuraray and consolidated subsidiaries) amounted to ¥59,740 million ($580 million) in fiscal 2013, mainly for expansion of production capacity for PVA resin. By segment, capital investment amounted to ¥41,191 million ($399 million) in the Vinyl Acetate segment, ¥5,236 million ($50 million) in the Isoprene segment, ¥3,807 million ($36 million) in the Functional Materials segment, ¥4,241 million ($41 million) in the Fibers and Textiles segment, ¥93 million ($0 million) in the Trading segment, and ¥3,561 million ($34 million) in the Others segment. General (non-segment) capital investment amounted to ¥1,608 million ($15 million).

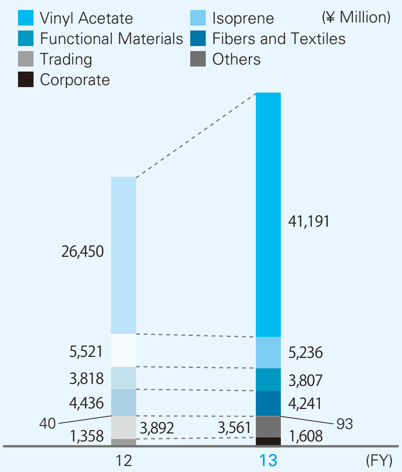
Outlook for the Fiscal Period Ending December 31, 2014

Please note that in light of the growth in net sales overseas, we plan to change our fiscal year end to December 31 from the next fiscal year in order to standardize accounting periods and handle global business management. Fiscal 2014 will be the nine-month period from April to December 2014 for the Company and its consolidated subsidiaries in Japan, and the twelve-month period from January to December 2014, as it was previously, for consolidated subsidiaries outside Japan.

Regarding the operating environment in the fiscal period ending December 31, 2014, there are concerns about a temporary economic slowdown in Japan due to the increase in the consumption tax rate. Overseas, economic forecasts call for a strong economy in the United States, a moderate recovery in Europe, a slowdown trend in China and patchy conditions in other emerging countries. In the final fiscal year of GS-III (fiscal years 2012 to 2014), the medium-term management plan the Company has been carrying out since fiscal 2012, we will work to accelerate the development of new products and applications through technological innovations, expand businesses in markets and business areas with growth potential in Japan and overseas, and strengthen our capacity for generating earnings unaffected by the market environment through measures such as additional cost reductions. These measures will lead into the new medium-term management plan that begins in fiscal 2015.

Taking these circumstances into account, our forecasts for the period ending December 31, 2014 are net sales of ¥385.0 billion, operating income of ¥44.0 billion, ordinary income of ¥43.0 billion and net income of ¥26.0 billion. We assume average exchange rates of ¥105 to the U.S. dollar and ¥140 to the euro, as well as a domestic naphtha price of ¥72 thousand per kiloliter.

Capital Expenditure by Business Segment



Risk Management

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

i) Risks associated with the changes in 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 the fluctuations in the commodity markets compared with those in other industries, but in recent years more and more of our products are geared to the growing business areas including electric and electronic materials, automotive and environmental applications on which our overall business performance is increasingly dependent. In these areas, market environment can undergo drastic changes as a result of a reverse in industry de facto standards for final products, shorter product cycles and worldwide competition in product development. Therefore, we may also face drastic changes in market environment and competitive conditions for our products.

Meanwhile, we manufacture products such as chemical products, synthetic resins, synthetic fibers and textiles out of the raw materials such as ethylene and other petrochemical products that are susceptible to the fluctuations in the markets of crude oil and natural gas. 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 our main businesses as a consequence of the changes in the 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 property and casualty insurance on them, in the event of serious security incidents, release of pollutants or natural disasters, there are risks that could cause personal injury or property damage to employees or third parties, or damage to the assets of the Kuraray Group, or halt of manufacturing operations for long periods.

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

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

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

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

iv) Risks associated with changes in exchange rates

The Kuraray Group is expanding our 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 fortuitous external events such as war, riot, terrorism or an epidemic could disrupt our business activities.

Consolidated Balance Sheets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2013 and 2014	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
ASSETS			
I Current assets:			
1 Cash and deposits	¥ 49,746	¥ 46,151	$ 482,970
2 Notes and accounts receivable–trade*6	91,119	83,843	884,650
3 Short-term investment securities	58,301	31,696	566,029
4 Merchandise and finished goods	60,984	57,823	592,077
5 Work-in-process	11,992	10,332	116,427
6 Raw materials and supplies	15,658	15,138	152,019
7 Deferred tax assets	5,889	5,732	57,174
8 Other	9,175	7,237	89,077
9 Allowance for doubtful accounts	(465)	(742)	(4,514)
Total current assets	302,402	257,212	2,935,941
II Noncurrent assets:			
1 Tangible fixed assets:			
(1) Buildings and structures, net*2 and 5	44,707	41,938	434,048
(2) Machinery, equipment and vehicles, net*2	91,921	82,298	892,436
(3) Land*2 and 5	21,481	20,425	208,553
(4) Construction in progress	59,139	32,326	574,165
(5) Other, net*2	4,970	4,285	48,252
Total tangible fixed assets*1	222,219	181,274	2,157,466
2 Intangible fixed assets:			
(1) Goodwill	26,598	24,659	258,233
(2) Other	30,600	26,664	297,087
Total intangible fixed assets	57,198	51,324	555,320
3 Investments and other assets:			
(1) Investment securities*3 and 5	39,285	83,543	381,407
(2) Long-term loans receivable	297	679	2,883
(3) Net defined benefit assets	2,031	—	19,718
(4) Deferred tax assets	6,260	2,744	60,776
(5) Prepaid pension cost	—	5,437	—
(6) Other	4,604	5,114	44,699
(7) Allowance for doubtful accounts	(47)	(76)	(456)
Total investments and other assets	52,431	97,442	509,038
Total noncurrent assets	331,849	330,041	3,221,834
TOTAL ASSETS	¥634,252	¥587,254	$6,157,786

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

March 31, 2013 and 2014	Millions of yen Fiscal 2013	Millions of yen Fiscal 2012	Thousands of U.S. dollars Fiscal 2013
LIABILITIES			
I Current liabilities:			
1 Notes and accounts payable–trade*6	¥ 35,393	¥ 37,048	$ 343,621
2 Short-term loans payable*5	13,143	30,918	127,601
3 Accrued expenses	8,073	8,650	78,378
4 Income taxes payable	7,272	7,687	70,601
5 Provision for bonuses	6,931	6,590	67,291
6 Other provisions	51	21	495
7 Other*6	18,280	20,531	177,475
Total current liabilities	89,145	111,449	865,485
II Noncurrent liabilities:			
1 Bonds payable	10,000	10,000	97,087
2 Long-term loans payable*5	42,187	28,171	409,582
3 Deferred tax liabilities	18,343	14,872	178,087
4 Provision for retirement benefits	—	6,665	—
5 Provision for directors' retirement benefits	161	178	1,563
6 Provision for environmental measures	886	1,051	8,601
7 Net defined benefit liabilities	5,448	—	52,893
8 Asset retirement obligations	2,656	2,336	25,786
9 Other	12,962	11,221	125,844
Total noncurrent liabilities	92,647	74,497	899,485
TOTAL LIABILITIES	181,793	185,947	1,764,980
NET ASSETS			
I Shareholders' equity:			
1 Capital stock	88,955	88,955	863,640
2 Capital surplus	87,147	87,147	846,087
3 Retained earnings	279,616	263,262	2,714,718
4 Treasury stock	(38,425)	(40,169)	(373,058)
Total shareholders' equity	417,293	399,195	4,051,388
II Accumulated other comprehensive income:			
1 Valuation difference on available-for-sale securities	6,944	6,076	67,417
2 Deferred gains or losses on hedges	(4)	(17)	(38)
3 Foreign currency translation adjustment	27,025	(9,877)	262,378
4 Remeasurements of defined benefit plans	(5,424)	(622)	(52,660)
Total accumulated other comprehensive income	28,541	(4,440)	277,097
III Subscription rights to shares	1,005	1,221	9,757
IV Minority interests	5,618	5,330	54,543
TOTAL NET ASSETS	452,459	401,307	4,392,805
TOTAL LIABILITIES AND NET ASSETS	¥634,252	¥587,254	$6,157,786

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, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
I Net sales	¥413,485	¥369,431	$4,014,417
II Cost of sales[*2]	286,179	249,485	2,778,436
Gross profit	127,306	119,946	1,235,980
III Selling, general and administrative expenses:			
1 Selling expenses	19,666	18,841	190,932
2 General and administrative expenses[*2]	58,094	51,906	564,019
Total selling, general and administrative expenses[*1]	77,760	70,748	754,951
Operating income	49,545	49,197	481,019
IV Non-operating income:			
1 Interest income	583	449	5,660
2 Dividends income	2,437	2,475	23,660
3 Equity in earnings of affiliates	1	2	9
4 Other	1,215	1,234	11,796
Total non-operating income	4,236	4,161	41,126
V Non-operating expenses:			
1 Interest expenses	936	966	9,087
2 Personnel expenses for seconded employees	684	719	6,640
3 Loss on disposal of tangible fixed assets	564	560	5,475
4 Other	2,251	2,522	21,854
Total non-operating expenses	4,438	4,769	43,087
Ordinary income	49,343	48,590	479,058
VI Extraordinary loss:			
1 Expenses incurred upon acquisition[*3 and 4]	2,174	743	21,106
2 Expenses for suspension of operation[*5]	829	—	8,048
3 Loss on disposal of tangible fixed assets[*6]	621	613	6,029
4 Impairment loss[*7]	118	534	1,145
5 Loss on valuation of investment securities[*8]	—	613	—
6 Business structure improvement losses[*9]	—	597	—
7 Amortization of goodwill[*10]	—	451	—
8 Environmental expenses	—	136	—
Total extraordinary loss	3,744	3,689	36,349
Income before income taxes and minority interests	45,598	44,901	442,699
Income taxes — current	16,292	15,882	158,174
Income taxes — deferred	(519)	6	(5,038)
Total income taxes	15,772	15,889	153,126
Income before minority interests	29,826	29,011	289,572
Minority interests	435	213	4,223
Net income	¥ 29,390	¥ 28,798	$ 285,339

Consolidated Statements of Comprehensive Income

Years ended March 31, 2013 and 2014

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
I Income before minority interests	¥29,826	¥29,011	$289,572
II Other comprehensive income:			
1 Valuation difference on available-for-sale securities	868	3,313	8,472
2 Deferred gains or losses on hedges	13	14	126
3 Foreign currency translation adjustment	36,902	14,542	358,271
4 Remeasurements of defined benefit plans	21	(228)	203
Total other comprehensive income	37,806	17,641	367,048
III Comprehensive income			
Comprehensive income attributable to	67,632	46,653	656,621
1 Owners of the parent	67,196	46,439	652,388
2 Minority interests	436	213	4,233

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

Consolidated Statements of Changes in Net Assets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

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

Fiscal 2013 (Year ended March 31, 2014)	Thousands of U.S. dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2013	$863,640	$846,087	$2,555,941	$(389,990)	$3,875,679
Changes of items during the period					
Cash dividends			(122,174)		(122,174)
Net income			285,339		285,339
Change of scope of consolidation			(3,902)		(3,902)
Purchase of treasury stock				(97)	(97)
Disposal of treasury stock		(475)		17,029	16,553
Transfer to capital surplus from retained earnings		475	(475)		—
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	—	158,766	16,922	175,699
Balance at March 31, 2014	$863,640	$846,087	$2,714,718	$(373,058)	$4,051,388

	Thousands of U.S. dollars							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2013	$58,990	$(165)	$ (95,893)	$ (6,038)	$ (43,106)	$11,854	$51,747	$3,896,184
Changes of items during the period								
Cash dividends					—			(122,174)
Net income					—			285,339
Change of scope of consolidation					—			(3,902)
Purchase of treasury stock					—			(97)
Disposal of treasury stock					—			16,553
Transfer to capital surplus from retained earnings					—			—
Net changes of items other than shareholders' equity	8,427	126	358,271	(46,621)	320,213	(2,087)	2,786	320,912
Total changes of items during the period	8,427	126	358,271	(46,621)	320,213	(2,087)	2,786	496,621
Balance at March 31, 2014	$67,417	$ (38)	$262,378	$(52,660)	$277,097	$ 9,757	$54,543	$4,392,805

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

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

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2012	¥2,763	¥(32)	¥(24,419)	¥(396)	¥(22,084)	¥1,151	¥5,143	¥366,314
Cumulative effects of changes in accounting policies				(148)	(148)			(148)
Restated balance	¥2,763	¥(32)	¥(24,419)	¥(545)	¥(22,233)	¥1,151	¥5,143	¥366,165
Changes of items during the period								
Cash dividends					—			(12,195)
Net income					—			28,798
Purchase of treasury stock					—			(5)
Disposal of treasury stock					—			495
Transfer to capital surplus from retained earnings					—			—
Net changes of items other than shareholders' equity	3,312	14	14,542	(77)	17,792	69	187	18,049
Total changes of items during the period	3,312	14	14,542	(77)	17,792	69	187	35,141
Balance at March 31, 2013	¥6,076	¥(17)	¥ (9,877)	¥(622)	¥ (4,440)	¥1,221	¥5,330	¥401,307

Consolidated Statements of Cash Flows

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2013 and 2014	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
I Net cash provided by (used in) operating activities:			
1 Income before taxes and minority interests	¥ 45,598	¥ 44,901	$ 442,699
2 Depreciation and amortization	34,972	30,952	339,533
3 Increase (decrease) in allowance for doubtful accounts	(320)	(67)	(3,106)
4 Increase (decrease) in provision for retirement benefits	—	532	—
5 Increase (decrease) in net defined benefit liabilities	1,070	—	10,388
6 Expenses incurred upon acquisition	2,174	743	21,106
7 Loss on disposal of tangible fixed assets	621	613	6,029
8 Impairment loss	118	534	1,145
9 Loss on valuation of investment securities	—	613	—
10 Amortization of goodwill	—	451	—
11 Environmental expenses	—	136	—
12 Interest and dividends income	(3,020)	(2,925)	(29,320)
13 Interest expenses	936	966	9,087
14 Decrease (increase) in notes and accounts receivable–trade	(2,473)	140	(24,009)
15 Decrease (increase) in inventories	1,835	(4,789)	17,815
16 Increase (decrease) in notes and accounts payable–trade	(3,894)	2,359	(37,805)
17 Contribution to employee's retirement benefits trust	(7,000)	—	(67,961)
18 Decrease (increase) in prepaid pension cost	—	385	—
19 Decrease (increase) in net defined benefit assets	300	—	2,912
20 Other, net	5,345	6,885	51,893
Sub-total	76,265	82,432	740,436
21 Interest and dividends income received	3,121	2,822	30,300
22 Interest expenses paid	(937)	(988)	(9,097)
23 Income taxes (paid) refund	(17,273)	(17,354)	(167,699)
Net cash provided by (used in) operating activities	61,175	66,911	593,932
II Net cash provided by (used in) investment activities:			
1 Net decrease (increase) in time deposits	22,559	(21,314)	219,019
2 Net decrease (increase) in short-term investment securities	18,000	41,991	174,757
3 Purchase of investment securities	(5,158)	(9,276)	(50,077)
4 Proceeds from sales and redemption of investment securities	50,442	1,366	489,728
5 Purchase of tangible fixed assets and intangible fixed assets	(58,414)	(43,200)	(567,126)
6 Payments for disposal of tangible fixed assets and intangible fixed assets	(1,303)	(1,360)	(12,650)
7 Proceeds from sales of tangible fixed assets and intangible fixed assets	189	53	1,834
8 Purchase of investments in a subsidiary resulting in change in scope of consolidation	—	(31,233)	—
9 Payments for acquisition of business	(1,379)	—	(13,388)
10 Other, net	(2,643)	(648)	(25,660)
Net cash provided by (used in) investment activities	22,293	(63,622)	216,436
III Net cash provided by (used in) financing activities:			
1 Net increase (decrease) in short-term loans payable	120	(4,642)	1,165
2 Proceeds from long-term loans payable	20,129	10,230	195,427
3 Repayment of long-term loans payable	(24,008)	(3,657)	(233,087)
4 Purchase of treasury stock	(10)	(5)	(97)
5 Proceeds from sales of treasury stock	1,366	368	13,262
6 Cash dividends paid	(12,584)	(12,195)	(122,174)
7 Cash dividends paid to minority shareholders	(147)	(24)	(1,427)
8 Other, net	(291)	(313)	(2,825)
Net cash provided by (used in) financing activities	(15,427)	(10,239)	(149,776)
IV Effect of exchange rate changes on cash and cash equivalents	2,688	2,024	26,097
V Net increase (decrease) in cash and cash equivalents	70,730	(4,926)	686,699
VI Cash and cash equivalents, beginning of year	29,885	34,811	290,145
VII Increase in cash and cash equivalents from newly consolidated subsidiaries	26	—	252
VIII Cash and cash equivalents, end of year[*1]	¥100,642	¥ 29,885	$ 977,106

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

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Years ended March 31, 2014 and 2013

1 Significant Accounting Policies

1. Basis of presenting consolidated financial statements

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

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

The United States dollar amounts included herein are provided solely for the convenience of readers outside Japan and are stated, at the rate of ¥103=$1, the approximate exchange rate prevailing on March 31, 2014. 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 2013	Fiscal 2012
Number of consolidated subsidiaries	33	32

(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., KURARAYKURAFLEX CO., LTD., TECHNO SOFT CO., LTD., Kuraray Travel Service Corporation, KURARAY SAIJO CO., LTD., KURARAY TAMASHIMA COMPANY, LIMITED, Iruma Country Club Co., Ltd., KURASHIKI KOKUSAI HOTEL LTD., KURARAY FASTENING CO., LTD., OKAYAMA RINKOH CO., LTD., Kyosei Chemical Co., Ltd., Kuraray Noritake Dental Inc., KURARAY AQUA 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., MonoSol Holdings, Inc., Kuraray China Co., Ltd. and 6 other consolidated subsidiaries.

KURARAY AQUA CO., LTD. and Kuraray China Co., Ltd. were added to the scope of consolidation during the fiscal year ended March 31, 2014 because of their increasing significance. Consolidated subsidiary KURARAY BUSINESS SERVICE CO., LTD. was removed from the scope of consolidation as a result of its absorption merger with Kuraray Co., Ltd.

(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 2013	Fiscal 2012
Number of unconsolidated subsidiaries accounted for using the equity method	1	1

(Name of unconsolidated subsidiaries)

Kuraray Okayama Spinning CO., LTD.

(2) 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 China Co., Ltd
Kuraray Holdings U.S.A., Inc.
Kuraray America, Inc.
MonoSol Holdings, Inc.
MonoSol, LLC
MonoSol AF, LTD.

5. Accounting policies

(1) Valuation standards and methods for significant assets

a) Investment securities

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

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

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

b) Derivative financial instruments

All derivatives are stated at fair value.

c) Inventories

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

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

(2) Depreciation method of significant depreciable assets

a) Tangible fixed assets (excluding lease assets)

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

The estimated useful lives of assets are primarily as follows:

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

b) Intangible assets (excluding lease assets)

Amortization is primarily computed using the straight line method.

The numbers of years for amortization are primarily as follows:

• Goodwill........... 15 or 20 years

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

c) Lease assets

Amortization is primarily computed using the straight-line method.

(3) Accounting for significant allowance

a) Allowance for doubtful accounts

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

b) Provision for bonuses

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

c) Provision for directors' retirement benefits

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

d) Provision for environmental measures

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

(4) Accounting treatment of retirement benefit plan

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

In calculating benefit obligation, the straight-line method was used to attribute estimated retirement benefits to periods up to March 31, 2014.

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

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

c) Use of simplified method among small companies

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

(Additional Information)

The Company provided ¥7.0 billion to its retirement benefit trust during the fiscal year ended March 31, 2014 to increase the soundness of its retirement benefit finances.

(5) Significant hedge accounting

a) Hedge accounting

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

b) Hedging instruments and hedged items

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

c) Hedging policy

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

d) Assessment method for hedge accounting

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

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

(6) Amortization of goodwill

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

(7) Cash and cash equivalents

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

(8) Other accounting policies

Accounting for consumption tax

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

2 Changes in Accounting Policies Accompanying Revision or Other Changes in Accounting and Other Standards

(1) Application of "Employee Benefits"

From the fiscal year ended March 31, 2014, for some foreign subsidiaries, the Company applied "Employee Benefits" (International Accounting Standards Board, International Accounting Standard No. 19, June 16, 2011). Accordingly, the Company makes adjustments in the recognition and presentation methods for actuarial gain or loss, past service costs, net interest costs and other items.

The changes to the corresponding accounting policies have been applied retroactively, and the consolidated financial statements for the previous fiscal year have been retroactively adjusted. The effect of this retroactive adjustment on results of the previous fiscal year is minor.

The effect on per share information is presented in the relevant section.

(2) Application of Accounting Standard for Retirement Benefits

From March 31, 2014, the Company applied "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012; hereinafter the "Accounting Standard for Retirement Benefits") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012; hereinafter the "Guidance on Retirement Benefits") (except for the provisions set forth in Clause 35 of the Accounting Standard for Retirement Benefits and Clause 67 of the Guidance on Retirement Benefits).

The Company has changed its accounting method to post retirement benefit obligations less pension assets as net defined benefit liabilities or assets and posts the unrecognized actuarial gain or loss and unrecognized prior service costs as net defined benefit liabilities and assets.

The application of the Accounting Standard for Retirement Benefits and the Guidance on Retirement Benefits is subject to the transitional accounting treatment set forth in Clause 37 of the Accounting Standard for Retirement Benefits. In the fiscal year ended March 31, 2014, the effect of the relevant change has been added to or deducted from accumulated other comprehensive income (Remeasurement of defined benefit plans).

As a result, as of March 31, 2014 the balance of net defined benefit liabilities was ¥5,448 million and the balance of net defined benefit assets was ¥2,031 million. In addition, accumulated other comprehensive income decreased by ¥4,802 million.

The effect on per share information is presented in the relevant section.

3 Accounting Standards Issued but Not Yet Applied

(Accounting Standards Not Yet Applied)

1. Accounting Standards for Retirement Benefits

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

(1) Outline

This accounting standard was revised to improve financial reporting and accommodate international convergence, with a focus on the treatment of unrecognized actuarial gain or loss and unrecognized prior service cost, the determination of projected benefit obligations and current service cost, and enhancement of disclosure.

(2) Expected Application Date

The Company will apply the revised calculation of retirement benefit liabilities and service cost from the start of the fiscal year ending December 31, 2014.

(3) Effect of Applying the Accounting Standard

The effect of applying the accounting standard on operating income, ordinary income and income before income taxes and minority interests for the fiscal year ending December 31, 2014 will be minor.

2. Accounting Standards for Business Combinations

"Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013)
"Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013)
"Revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7, September 13, 2013)
"Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, September 13, 2013)
"Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013).
"Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4, September 13, 2013)

(1) Outline

The main revisions are as follows.

- A parent company recognizes in retained earnings changes in equity in earnings of subsidiaries over which they exercise ongoing control. In the revised standard, the term "minority interest" was changed to "non-controlling interest."
- Expenses associated with acquisitions in a business combination are recognized in the consolidated fiscal year in which they are incurred.
- When provisional accounting treatment is adopted in the fiscal year following a business combination, appropriations for acquisition cost must be presented using the newly adopted accounting treatment when restating the prior year financial statements to conform with the current year statements prepared using the newly adopted accounting treatment.
- Pre-revision "income before minority interests" was changed to "net income," and pre-revision "net income" was changed to "net income attributable to shareholders of the parent company."

(2) Expected Application Date

The Company plans to apply this accounting standard from the start of the fiscal year ending December 31, 2016. In addition, the Company plans to apply the approach to provisional accounting treatment to business combinations executed after the start of the fiscal year ending December 31, 2016.

(3) Effect of Applying the Accounting Standard

The Company is currently assessing the effect of applying the accounting standards in preparing the financial statements for the fiscal year ending December 31, 2014.

4 Changes in Presentation

(Consolidated Statements of Income)
For the fiscal year ended March 31, 2014, "Expenses for suspension of operation," which was presented separately under "Non-operating expenses" in the previous fiscal year, is included in "Other" because its amount was less than 10/100 of total non-operating expenses.

As a result, ¥608 million presented on the consolidated statement of income for the previous fiscal year as "Expenses for suspension of operation" under "Non-operating expenses" was reclassified in "Other."

(Changes in Presentation Method Associated with Application of Accounting Standard for Retirement Benefits)
"Pension liability adjustment," which had been included in "Accumulated other comprehensive income" under "Net assets" in the consolidated balance sheets for the previous fiscal year, is presented as "Remeasurements of defined benefit plans" from the fiscal year ended March 31, 2014, due to a revision of the Accounting Standard for Retirement Benefits. The consolidated financial statements for the previous fiscal year have been reclassified to reflect the change in presentation method.

As a result, "Pension liability adjustment" of negative ¥622 million that was included in "Accumulated other comprehensive income" under "Net assets" in the consolidated balance sheets for the previous fiscal year has been reclassified as "Remeasurements of defined benefit plans." "Pension liability adjustment" of negative ¥228 million that was included in "Other comprehensive income" in the consolidated statements of comprehensive income for the previous fiscal year has been reclassified as "Remeasurements of defined benefit plans." "Pension liability adjustment" that was included in "Accumulated other comprehensive income" in the consolidated statements of changes in net assets for the previous fiscal year has been reclassified as "Remeasurements of defined benefit plans."

5 Notes to Consolidated Balance Sheets

*1. Accumulated depreciation of tangible fixed assets

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Accumulated depreciation of tangible fixed assets	¥597,120	¥557,920	$5,797,281

*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 2013	Fiscal 2012	Fiscal 2013
Buildings and structures	¥2,095	¥2,095	$20,339
(Deduction for this fiscal year)	(—)	(68)	(—)
Machinery, equipment and vehicles	975	983	9,466
(Deduction for this fiscal year)	(1)	(49)	(9)
Land	1,257	1,257	12,203
Other	36	36	349

*3. Investments in unconsolidated subsidiaries and affiliates

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Investment securities (equity)	¥5,005	¥3,807	$48,592

*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 2013	Fiscal 2012	Fiscal 2013
Social welfare corporation Ishii Kinen Aizenen			
(Joint and several guarantee)	¥1,413	¥1,545	$13,718
Kureha Battery Materials Japan Co., Ltd.	279	288	2,708
Total	¥1,693	¥1,833	$16,436

*5. Assets pledged as collateral

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Investment securities*	¥ 46	¥ 46	$ 446
Buildings	750	753	7,281
Land	1,001	1,001	9,718
Total	¥1,798	¥1,800	$17,456

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Collateral for short-term loans	¥180	¥230	$1,747
Collateral for long-term loans	78	137	757
Total	¥258	¥367	$2,504

* 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 2013	Fiscal 2012	Fiscal 2013
Notes and accounts receivable–trade	¥—	¥5,379	$—
Notes and accounts payable–trade	—	3,415	—
Other (current liabilities)	—	880	—

6 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 2013	Fiscal 2012	Fiscal 2013
Freight and storage	¥14,160	¥12,546	$137,475
Research and development	16,405	15,749	159,271
Salaries and legal welfare expense	14,530	12,215	141,067
Provision for bonuses	4,040	3,742	39,223
Retirement benefit expenses	1,181	1,207	11,466
Provision for directors' retirement benefits	45	36	436

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
	¥17,103	¥16,430	$166,048

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

*4. Expenses incurred upon acquisition of the vinyl acetate related business of E.I. du Pont de Nemours and Company and its group companies.

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

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

*7. Impairment loss

The significant component of impairment loss is as follows:

Fiscal 2013

				Impairment loss	
Location	Assets	Usage	Type	Millions of yen	Thousands of U.S. dollars
Ehime Saijyo	Idle assets (demolition was decided upon due to obsolescence and completed in fiscal 2013)	Employee welfare facility and property leased to external tenants	Building	¥118	$1,145

Fiscal 2012

				Impairment loss
Location	Assets	Usage	Type	Millions of yen
Okayama Kurashiki	Business assets	Synthetic fiber production equipment	Machinery and equipment	¥202
Niigata Tainai	Assets to be scrapped	Paint production equipment	Machinery and equipment	185

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

(Method for calculating the recoverable amount)
After separately examining the indications for impairment with respect to those businesses whose income from operations continue to be negative, and the recoverable amount falls short of the book value, the book value is to be reduced to the recoverable amount. The recoverable amount is measured based on the value in use and calculated with a 5% discount off the future cash flow. Assets associated with discontinued or reorganized business are categorized into "assets held for sale,"

"assets which can be converted for use into other business" and "assets to be discarded" and for items to be sold or discarded, the net book value of the assets is to be reduced to their recoverable amount. The recoverable amount of the assets to be used for certain future years is measured based on the value of use during the estimated residual useful life and is calculated by discounting future cash flows by 5% and the recoverable amount of the assets to be discarded is measured based on the net sale price and calculated by deducting the estimated disposal cost from the estimated sale price.

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

*9. Primary business restructuring expenses at affiliates

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

7 Notes to Consolidated Statements of Comprehensive Income

Reclassification adjustments and tax effect adjustments relating to other comprehensive income (loss) for the fiscal years ended March 31, 2014 and 2013, are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Valuation difference on available-for-sale securities			
Amount recorded during the period	¥ 1,202	¥ 4,544	$ 11,669
Reclassification adjustments	(241)	371	(2,339)
Before tax effect adjustments	961	4,916	9,330
Tax effect	(92)	(1,603)	(893)
Valuation difference on available-for-sale securities	868	3,313	8,427
Deferred gains or losses on hedges			
Amount recorded during the period	9	1	87
Reclassification adjustments	11	22	106
Before tax effect adjustments	21	23	203
Tax effect	(8)	(9)	(77)
Deferred gains or losses on hedges	13	14	126
Foreign currency translation adjustment			
Amount recorded during the period	36,902	14,542	358,271
Reclassification adjustments	—	—	—
Before tax effect adjustments	36,902	14,542	358,271
Tax effect	—	—	—
Foreign currency translation adjustment	36,902	14,542	358,271
Remeasurements of defined benefit plans			
Amount recorded during the period	(32)	(398)	(310)
Reclassification adjustments	79	51	766
Before tax effect adjustments	46	(346)	446
Tax effect	(25)	118	(242)
Remeasurements of defined benefit plans	21	(228)	203
Total other comprehensive income	¥37,806	¥17,641	$367,048

8 Notes to Consolidated Statements of Changes in Net Assets

Fiscal 2013

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

	Number of shares as of March 31, 2013 (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, 2014 (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)	34,029	8	1,486	32,551
Total	34,029	8	1,486	32,551

Notes: 1. The increase in treasury stock (common stock) is attributable to the purchase of less-than-one unit shares (8 thousand shares).
2. The decrease in treasury stock (common stock) is attributable to a transfer of shares upon the exercise of subscription rights (1,486 thousand shares) and the acquisition of less-than-one unit shares by the shareholders (0 thousand shares).

2. Subscription rights to shares

The Company granted its directors, executive officers, employees, and directors and employees of its subsidiaries subscription rights to the Company shares as stock options. The balance of the subscription rights to shares as of March 31, 2014 is ¥1,005 million (US$9,757 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 21 2013	Common stock	¥6,279 (US$60,961 thousand)	¥18.00 (US$0.17)	March 31, 2013	June 24, 2013
Board of directors' meeting held on October 29 2013	Common stock	¥6,305 (US$61,213 thousand)	¥18.00 (US$0.17)	September 30, 2013	December 2, 2013

(2) Dividends whose effective date is after the end of Fiscal 2013 and record date is included in Fiscal 2014.

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 20 2014	Common stock	¥6,305 (US$61,213 thousand)	Retained earnings	¥18.00 (US$0.17)	March 31, 2014	June 23, 2014

Fiscal 2012

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

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

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

2. Subscription rights to shares

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

3. Dividends

(1) Amount of dividends paid

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

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

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

9 Notes to Consolidated Statements of Cash Flows

1. Cash and cash equivalents at March 31, 2014 and 2013 are reconciled to the accounts reported in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Cash on hand and in banks	¥ 49,746	¥ 46,151	$482,970
Time deposits with a deposit period of 3 months or more	(2,406)	(24,966)	(23,359)
Marketable securities with original maturities of 3 months or less	53,301	8,699	517,485
Cash and cash equivalents	¥100,642	¥ 29,885	$977,106

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

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

	Millions of yen
Current assets	¥ 3,550
Noncurrent assets	29,577
Goodwill	13,523
Current liabilities	(1,480)
Noncurrent liabilities	(13,777)
Purchase price of stock	31,392
Expense	743
Cash and cash equivalents	(1,093)
Translation adjustment of foreign currency	191
Expenditure of purchase	¥ 31,233

10 Leases

1. Finance lease transactions

(1) Lease transactions as a lessee

Finance leases without transfer of ownership

1) Details of lease assets

a) Tangible fixed assets

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

b) Intangible fixed assets

Software ("Other")

2) Depreciation method of lease assets

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

(2) Lease transactions as a lessor

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

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

1) Lease acquisition costs, accumulated depreciation and net book value as of March 31, 2014 and 2013 are as follows:

March 31, 2014

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥196	¥ 92	¥104
Machinery, equipment and vehicles	49	45	3
Total	¥245	¥137	¥107

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	$1,902	$ 893	$1,009
Machinery, equipment and vehicles	475	436	29
Total	$2,378	$1,330	$1,038

March 31, 2013

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

2) Future lease payment obligations at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Due within one year	¥ 14	¥ 14	$ 135
Due after one year	93	107	902
Total	¥108	¥122	$1,048

3) Lease revenue and depreciation expense for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Lease revenue	¥14	¥14	$135
Depreciation expense	4	4	38

2. Operating leases

Lease transactions as a lessee:

Future lease payment obligations under operating leases at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Due within one year	¥ 2,260	¥1,523	$ 21,941
Due after one year	11,435	2,227	111,019
Total	¥13,696	¥3,750	$132,970

11 Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

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

Loans, bonds and lease obligations related to finance lease transactions, used to raise funds for working capital and capital expenditures, have maturities of at the longest 13 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 "(5) Significant hedge accounting" under "1. Significant Accounting Policies" "5. Accounting policies" for a description of the Company's accounting policy relating to hedging activities.

(3) Risk management for financial instruments

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

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

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

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

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

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

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

c. *Liquidity Risk Management on Fund Raising*

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

(4) Supplementary explanation concerning fair values of financial instruments

Fair values of financial instruments comprise values determined based on market prices and values determined reasonably when there is no market price. Since variable factors are incorporated in computing the relevant fair values, such fair values may vary depending on the different assumptions. The notional amounts and other information described in Note 13. "Derivative Financial Instruments" are not indicative of market risk exposure to derivative transactions.

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2014 and 2013 are as follows:
Financial instruments whose fair values are not readily determinable are excluded from the following table:

Fiscal 2013

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥ 49,746	¥ 49,746	¥ —
(2) Notes and accounts receivable–trade	91,119		
Allowance for doubtful accounts	(465)		
	90,653	90,653	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	89,859	89,859	—
Total assets	230,259	230,259	—
(1) Notes and accounts payable–trade	35,393	35,393	—
(2) Long-term loans payable (*1)	48,301	49,405	1,104
Total liabilities	83,694	84,798	1,104
Derivative transactions (*2)	(151)	(151)	—

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	$ 482,970	$ 482,970	$ —
(2) Notes and accounts receivable–trade	884,650		
Allowance for doubtful accounts	(4,514)		
	880,126	880,126	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	872,417	872,417	—
Total assets	2,235,524	2,235,524	—
(1) Notes and accounts payable–trade	343,621	343,621	—
(2) Long-term loans payable (*1)	468,941	479,660	10,718
Total liabilities	812,563	823,281	10,718
Derivative transactions (*2)	(1,466)	(1,466)	—

Fiscal 2012

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

(*1) Long-term loans payable include the current portion of long-term loans payable.
(*2) Receivables and payables incurred as a result of derivative transactions are presented on a net basis. Net payables are presented in parentheses.

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

Assets:

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

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

(3) Short-term investment securities and investment securities

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

Liabilities:

(1) Notes and accounts payable–trade

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

(2) Long-term loans payable

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

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

Derivative financial instruments:

Please see Note 13. "Derivative Financial Instruments."

2. Financial instruments whose fair values are not readily determinable

	Millions of yen		Thousands of U.S. dollars
	Carrying amount		Carrying amount
Category	Fiscal 2013	Fiscal 2012	Fiscal 2013
Unlisted equity securities	¥7,727	¥6,143	$75,019

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 2013

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥ 49,746	¥ —	¥ —	¥ —
Notes and accounts receivable–trade	91,119	—	—	—
Short-term investment securities and investment securities:				
o/w Securities with contractual maturities:				
(1) Bonds (Corporate)	5,000	6,000	—	—
(2) Bonds (Others)	9,000	—	—	—
(3) Others	44,302	7,051	—	—
Total	¥199,168	¥13,051	¥ —	¥ —

	Thousands of U.S. dollars			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	$ 482,970	$ —	$ —	$ —
Notes and accounts receivable–trade	884,650	—	—	—
Short-term investment securities and investment securities:				
o/w Securities with contractual maturities:				
(1) Bonds (Corporate)	48,543	58,252	—	—
(2) Bonds (Others)	87,378	—	—	—
(3) Others	430,116	68,456	—	—
Total	$1,933,669	$126,708	$ —	$ —

Fiscal 2012

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

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

12 Securities

1. Available-for-sale securities with market value

Fiscal 2013

	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	¥17,931	¥ 8,136	¥9,794	$174,087	$ 78,990	$95,087
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	6,118	6,000	118	59,398	58,252	1,145
Others	—	—	—	—	—	—
Others	4,117	4,051	66	39,970	39,330	640
Subtotal	28,167	18,187	9,979	273,466	176,572	96,883
Securities with book value not exceeding their acquisition cost						
Equity securities	400	454	(53)	3,883	4,407	(514)
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	5,000	5,000	—	48,543	48,543	—
Others	8,999	8,999	—	87,368	87,368	—
Others	47,292	47,302	(9)	459,145	459,242	(87)
Subtotal	61,692	61,756	(63)	598,951	599,572	(611)
Total	¥89,859	¥79,943	¥9,915	$872,417	$776,145	$96,262

Note: Unlisted equity securities amounting to ¥2,722 million (US$26,427 thousand) are excluded from the above table, because there is no market price and it is very difficult to identify fair values.

Fiscal 2012

	Millions of yen		
	Book value (estimated fair value)	Cost	Net
Securities with book value exceeding their acquisition cost			
Equity securities	¥ 14,567	¥ 6,274	¥8,293
Bonds			
Government and municipal	—	—	—
Corporate	9,173	9,000	173
Others	4,716	4,702	14
Others	45,092	44,415	676
Subtotal	73,549	64,392	9,157
Securities with book value not exceeding their acquisition cost			
Equity securities	2,192	2,298	(106)
Bonds			
Government and municipal	—	—	—
Corporate	13,996	14,000	(3)
Others	7,659	7,702	(43)
Others	11,700	11,700	—
Subtotal	35,547	35,700	(153)
Total	¥109,096	¥100,093	¥9,003

Note: Unlisted equity securities amounting to ¥2,336 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 2013

	Millions of yen			Thousand of U.S. dollars		
Category	Proceeds from sales	Total gain	Total loss	Proceeds from sales	Total gain	Total loss
Others	¥50,408	¥241	¥ —	$489,398	$2,339	$ —
Total	¥50,408	¥241	¥ —	$489,398	$2,339	$ —

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

Fiscal 2012

Not applicable.

3. Impairment loss on securities

The Company did not recognize impairment loss on securities in fiscal 2013. Impairment loss on securities was ¥613 million in fiscal 2012.

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.

13 Derivative Financial Instruments

1. Derivative transactions to which hedge accounting is not applied

(1) Currencies

Fiscal 2013

Category	Classification	Millions of yen			
		Nominal amount	Nominal amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Currency swap contracts:				
	Yen into Euro obligation	¥ 1,179	¥ —	¥ (37)	¥ (37)
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation.........	7,652	86	(30)	(30)
	Yen into Euro obligation	5,132	—	(82)	(82)
	U.S. dollar into Yen obligation.........	24	—	(0)	(0)
	Euro into Yen obligation	319	—	6	6
	Total..	¥14,309	¥86	¥(145)	¥(145)

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	$ 11,446	$ —	$ (359)	$ (359)
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation.........	74,291	834	(291)	(291)
	Yen into Euro obligation	49,825	—	(796)	(796)
	U.S. dollar into Yen obligation.........	233	—	(0)	(0)
	Euro into Yen obligation	3,097	—	58	58
	Total..	$138,922	$834	$(1,407)	$(1,407)

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

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

Fiscal 2012

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

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

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

2. Derivative transactions to which hedge accounting is applied

(1) Currencies

Fiscal 2013

Hedge accounting method	Classification	Major hedged items	Fiscal 2013 (As of March 31, 2014) Millions of yen Nominal amount	Nominal amount over one year	Market value	Thousands of U.S. dollars Nominal amount	Nominal amount over one year	Market value
Allocation method	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Accounts receivable–trade and loans receivable	¥538	—	Note	$5,223	—	Note
	Yen into Euro obligation	Accounts receivable–trade	27	—	Note	262	—	Note
	U.S. dollar into Yen obligation	Accounts payable–trade	126	—	Note	1,223	—	Note
Total			¥693	—	Note	$6,728	—	Note

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

Hedge accounting method	Classification	Major hedging items	Fiscal 2013 (As of March 31, 2014) Millions of yen Nominal amount	Nominal amount over one year	Market value	Thousands of U.S. dollars Nominal amount	Nominal amount over one year	Market value
Deferred hedge method	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Forecasted transactions in foreign currencies	¥1,808	¥ —	¥ 1	$17,553	$ —	$ 9
	Yen into Euro obligation	Forecasted transactions in foreign currencies	1,291	—	(12)	12,533	—	(116)
	U.S. dollar into Yen obligation	Forecasted transactions in foreign currencies	490	—	4	4,757	—	38
	Euro into Yen obligation	Forecasted transactions in foreign currencies	0	—	0	0	—	0
Total			¥3,591	¥ —	¥ (6)	$34,864	$ —	$ (58)

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 2012

Hedge accounting method	Classification	Major hedged items	Fiscal 2012 (As of March 31, 2013) 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	¥ 6,623	¥ —	¥(289)
	Yen into Euro obligation	Accounts receivable–trade	3,217	—	(30)
	U.S. dollar into Yen obligation	Accounts payable–trade	374	—	1
Total			¥10,216	¥ —	¥(318)

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 2012 (As of March 31, 2013) Millions of yen		
			Nominal amount	Nominal amount over one year	Market value
Allocation method	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	Accounts receivable–trade	¥376	¥ —	Note
	Yen into Euro obligation	Accounts receivable–trade	95	—	Note
	U.S. dollar into Yen obligation	Accounts payable–trade	101	—	Note
Total			¥572	¥ —	Note

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

Hedge accounting method	Classification	Major hedging items	Fiscal 2012 (As of March 31, 2013) Millions of yen		
			Nominal amount	Nominal amount over one year	Market value
Deferred hedge method	Currency swap contracts:				
	Yen into Euro obligation	Forecasted transactions in foreign currencies	¥1,992	¥1,138	¥(41)
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	Forecasted transactions in foreign currencies	1,971	—	0
	Yen into Euro obligation	Forecasted transactions in foreign currencies	737	—	0
Total			¥4,701	¥1,138	¥(40)

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 2013

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

Hedge accounting method	Classification	Major hedged items	Thousands of U.S. dollars		
			Nominal amount	Nominal amount over one year	Market value
Special treatment for interest rate swaps	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	$252,427	$252,427	—

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 2012

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

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

14 Retirement Benefits

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

1. Summary of retirement benefit plan

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

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

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

(1) Accumulated funds for the plan (As of March 31, 2012)

	Millions of yen
Plan assets	¥ 58,766
Projected benefit obligation	84,994
Difference	¥(26,227)

(2) Ratio of total salaries of the consolidated subsidiary to total funds of the plan (As of March 31, 2012)

2.4%

(3) Supplementary explanation (As of March 31, 2012)

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
Balance of prior service cost	¥19,759
Deficient amount carried forward	6,467

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 Fiscal 2012 (As of March 31, 2013)
a. Retirement benefit obligations	¥(37,509)
b. Plan assets	27,321
c. Unfunded retirement benefit obligations (a+b)	(10,187)
d. Unrecognized actuarial gains or losses	9,515
e. Unrecognized prior service cost	(555)
f. Net retirement benefit obligations recognized in the consolidated balance sheets (c+d+e)	(1,227)
g. Prepaid pension costs	5,437
h. Provision for retirement benefits (f-g)	¥ (6,665)

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

3. Retirement benefit expenses

	Millions of yen
	Fiscal 2012 (As of March 31, 2013)
a. Service costs (Note)	¥1,674
b. Interest costs	561
c. Expected return on plan assets	(630)
d. Amortization of actuarial gains or losses	1,411
e. Amortization of prior service costs	(97)
f. Retirement benefit expenses (a+b+c+d+e)	2,918
g. Defined contribution pension plans installment	550
Total	¥3,469

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

4. Assumptions used in accounting for the defined benefit plan

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

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

1. Summary of retirement benefit plan

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

The funded defined benefits plan provides a lump sum payment or a pension primarily based on qualifications and length of service. The Company and certain consolidated subsidiaries are introducing a cash-balance plan to the defined benefits plan. The cash-balance plan establishes hypothetical individual employee accounts representing each employee's share of plan funding and assets. Interest credits based on money market rate movements and credits primarily based on qualifications and length of service accumulate in the hypothetical individual employee accounts.

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

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

2. Defined benefit plan

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

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligations at beginning of year	¥33,970	$329,805
Service costs	1,421	13,796
Interest costs	574	5,572
Actuarial gain or loss	2	19
Benefits paid	(2,334)	(22,660)
Other	602	5,844
Retirement benefit obligations at end of year	¥34,237	$332,398

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

	Millions of yen	Thousands of U.S. dollars
Plan assets at beginning of year	¥25,800	$250,485
Expected return on plan assets	636	6,174
Actuarial gain or loss	274	2,660
Contribution from entrepreneur	350	3,398
Benefits paid	(1,340)	(13,009)
Contribution to pension trust fund	7,000	67,961
Other	194	1,883
Plan assets at end of year	¥32,915	$319,563

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

	Millions of yen	Thousands of U.S. dollars
Net defined benefit liabilities at beginning of year	¥2,018	$19,592
Retirement benefit expenses	195	1,893
Benefits paid	(109)	(1,058)
Contribution to plan assets	(60)	(582)
Other	51	495
Net defined benefit liabilities at end of year	¥2,094	$20,330

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

	Millions of yen	Thousands of U.S. dollars
Installment type retirement benefit obligation	¥ 33,551	$ 325,737
Plan assets	(34,619)	(336,106)
	(1,067)	(10,359)
Non installment type retirement benefit obligation	4,485	43,543
Net amount of net defined benefit obligation and net defined benefit asset recognized on the consolidated balance sheets	3,417	33,174
Net defined benefit obligation	5,448	52,893
Net defined benefit asset	(2,031)	(19,718)
Net amount of net defined benefit obligation and net defined benefit asset recognized on the consolidated balance sheets	¥ 3,417	$ 33,174

Note: Includes plan that uses the simplified method.

(5) The components of retirement benefit expenses

	Millions of yen	Thousands of U.S. dollars
Service costs	¥1,421	$13,796
Interest costs	574	5,572
Expected return on plan assets	(636)	(6,174)
Amortization of actuarial gains or losses	1,377	13,368
Amortization of prior service costs	(98)	(951)
Retirement benefit expenses calculated by simplified method	195	1,893
Retirement benefit expense pertaining to defined benefit plan	¥2,833	$27,504

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

	Millions of yen	Thousands of U.S. dollars
Prior service costs	¥ 5	$ 48
Actuarial gain or loss	41	398
Total	¥46	$446

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

	Millions of yen	Thousands of U.S. dollars
Unrecognized prior service costs	¥ 428	$ 4,155
Unrecognized actuarial gain or loss	(8,820)	(85,631)
Total	¥(8,391)	$(81,466)

(8) Plan assets

a. *The components of plan assets*

Debt securities	59%
Equity securities	13%
Life insurance company general accounts	25% Note 1
Cash and deposits	0%
Other assets	3%
Total	100% Note 2

Note 1: Life insurance companies manage the assets in, assume the asset management risk for, and guarantee a fixed return to policyholders for life insurance general accounts.
Note 2: Total retirement plan assets include 51% of the retirement benefits trust established for the lump sum retirement plan.

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

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

(9) Actuarial assumptions

Discount rate	Mainly 1.4%
Long-term expected rate of return	Mainly 1.0% or 3.3%

3. Defined contribution plan

The contribution to the defined contribution plan of Kuraray Co., Ltd. and consolidated subsidiaries is ¥723 million (US$7,019 thousand).

4. Multi-employer plan

The contribution to the multi-employer plan is ¥77 million (US$747 thousand), and is accounted for in the same manner as the contribution to the defined contribution plan of Kuraray Co., Ltd. and consolidated subsidiaries.

(1) Accumulated funds for the plan (As of March 31, 2013)

	Millions of yen	Thousands of U.S. dollars
Plan assets	¥ 60,783	$ 590,126
Projected benefit obligation	87,743	851,873
Difference	¥(26,959)	$(261,737)

(2) Ratio of total salaries of the consolidated subsidiary to total funds of the plan (As of March 31, 2013)

2.5%

(3) Supplementary explanation (As of March 31, 2013)

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 17 years, and is scheduled to be terminated in March 2029.

	Millions of yen	Thousands of U.S. dollars
Balance of prior service cost	¥18,699	$181,543
Deficient amount carried forward	8,260	80,194

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

15 Stock-Based Compensation Plans

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Cost of goods manufactured	¥ —	¥ 65	$ —
Selling, general and administrative expenses	130	149	1,262
Non-operating expense	—	0	—

2. Details including size and changes of stock options

(1) Stock options plans

	Stock options 2003	Stock options June 2007	Stock options June 2008
Number of eligible persons by position	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	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
Total number and type of stocks granted	2,811,000 shares of common stock	56,500 shares of common stock	78,500 shares of common stock
Grant date	October 1, 2003	June 5, 2007	June 10, 2008
Prerequisite to be vested	Directors, corporate auditors, executive officers and employees of the Company and its subsidiaries.	No vesting conditions are set.	No vesting conditions are set.
Required service period	From October 1, 2003 to June 26, 2005	There is no provision for a required service period.	There is no provision for a required service period.
Exercise period	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.	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.

	Stock options June 2009	Stock options June 2010	Stock options October 2010
Number of eligible persons by position	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	Directors: 25 Employees: 3,924 Directors or employees of the Company's subsidiaries: 2,010
Total number and type of stocks granted	86,500 shares of common stock	83,500 shares of common stock	4,074,500 shares of common stock
Grant date	June 9, 2009	June 9, 2010	October 1, 2010
Prerequisite to be vested	No vesting conditions are set.	No vesting conditions are set.	Note
Required service period	There is no provision for a required service period.	There is no provision for a required service period.	From October 1, 2010 to June 24, 2012
Exercise period	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.	From June 25, 2012 to June 24, 2020

	Stock options May 2011	Stock options May 2012	Stock options May 2013
Number of eligible persons by position	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 14	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 13	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 17
Total number and type of stocks granted	89,500 shares of common stock	86,500 shares of common stock	88,000 shares of common stock
Grant date	May 19, 2011	May 17, 2012	May 15, 2013
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 May 19, 2011 to May 18, 2026; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.	From May 17, 2012 to May 16, 2027; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.	From May 15, 2013 to May 14, 2028; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.

Note: Eligible persons shall be directors, executive officers, counselors, full-time consultants or employees of the Company or the Companies' subsidiaries at the time of exercise. However, those who were directors, executive officers or associate executive officers of the Company or presidents of the significant subsidiaries of the Company (Kuraray Engineering Co., Ltd., Kuraray Chemical Co., Ltd., Kuraray Trading Co., Ltd., Kuraray Plastics Co., Ltd., Kuraray Techno Co., Ltd., Kuraray America, Inc., Kuraray Europe GmbH and EVAL Europe N.V.) can exercise even after retirement.
Other conditions are prescribed in the "Contracts on Subscription Rights to Shares" to be entered between the Company and eligible persons who were granted subscription rights to shares.

(2) Size and changes of stock options

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

1) Number of stock options

	Stock options 2003	Stock options June 2007	Stock options June 2008	Stock options June 2009	Stock options June 2010
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	915,000	19,000	27,000	42,500	42,000
Vested	—	—	—	—	—
Exercised	604,500	12,000	15,000	19,500	17,000
Forfeited	310,500	—	—	—	—
At the end of the fiscal year	—	7,000	12,000	23,000	25,000

	Stock options October 2010	Stock options May 2011	Stock options May 2012	Stock options May 2013
Unvested stock options (shares)				
At the beginning of the fiscal year	—	—	—	—
Granted	—	—	—	88,000
Forfeited	—	—	—	—
Vested	—	—	—	88,000
At the end of the fiscal year	—	—	—	—
Vested stock options (shares)				
At the beginning of the fiscal year	3,764,000	66,500	67,000	—
Vested	—	—	—	88,000
Exercised	753,000	22,000	20,500	23,500
Forfeited	28,500	—	—	—
At the end of the fiscal year	2,982,500	44,500	46,500	64,500

2) Price information

	Yen				
	Stock options 2003	Stock options June 2007	Stock options June 2008	Stock options June 2009	Stock options June 2010
Exercise prices	¥ 918	¥ 1	¥ 1	¥ 1	¥ 1
Weighted-average exercise date stock price	1,471	1,371	1,371	1,371	1,371
Fair value at the grant date	—	1,318	1,264	947	1,054

	Yen			
	Stock options October 2010	Stock options May 2011	Stock options May 2012	Stock options May 2013
Exercise prices	¥1,078	¥ 1	¥ 1	¥ 1
Weighted-average exercise date stock price	1,458	1,371	1,371	1,371
Fair value at the grant date	247	1,174	1,046	1,482

	U.S. dollars				
	Stock options 2003	Stock options June 2007	Stock options June 2008	Stock options June 2009	Stock options June 2010
Exercise prices	$ 8.91	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Weighted-average exercise date stock price	14.28	13.31	13.31	13.31	13.31
Fair value at the grant date	–	12.79	12.27	9.19	10.23

	U.S. dollars			
	Stock options October 2010	Stock options May 2011	Stock options May 2012	Stock options May 2013
Exercise prices	$10.46	$ 0.00	$ 0.00	$ 0.00
Weighted-average exercise date stock price	14.15	13.31	13.31	13.31
Fair value at the grant date	2.39	11.39	10.15	14.38

3. Method to estimate fair value of stock options

The fair value of the May 2013 stock options, which were granted in fiscal 2013, are estimated as follows.

1) Valuing method: Black-Scholes model

2) Major basic figures and estimating method

	May 2013 stock options
Stock price volatility (Note 1)	21.1%
Expected remaining life (Note 2)	2 years
Expected dividend (Note 3)	¥ 36.00/share (US$0.34)
Risk-free interest rate (Note 4)	0.14%

Notes: 1. Calculated weekly based on the weekly stock price information over a period from the week that contains May 9, 2011 to the week that contains May 6, 2013.
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 2013.
4. Government bond yield over a period corresponding to the expected remaining life.

4. Method to estimate number of vested stock options

Stock options May 2013

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.

16 Income Taxes

1. Significant components of deferred tax assets and liabilities at March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Deferred tax assets:			
Provision for retirement benefits	¥ —	¥ 5,321	$ —
Net defined benefit liabilities	8,020	—	77,864
Impairment loss	1,261	1,633	12,242
Provision for bonuses	2,127	2,293	20,650
Write-down of investment securities	1,157	1,144	11,233
Write-down of inventories	237	369	2,300
Other	12,945	11,613	125,679
Subtotal deferred tax assets	25,750	22,375	250,000
Valuation allowance	(5,233)	(4,898)	(50,805)
Total deferred tax assets	20,517	17,476	199,194
Deferred tax liabilities:			
Prepaid pension cost	—	(1,896)	—
Net defined benefit assets	(1,813)	—	(17,601)
Reserve for reduction entry	(1,711)	(1,829)	(16,611)
Unrealized gain on revaluation of securities	(2,937)	(2,845)	(28,514)
Adjustment to book value of assets stated at fair value	(11,656)	(10,140)	(113,165)
Other	(8,593)	(7,160)	(83,427)
Total deferred tax liabilities	(26,712)	(23,873)	(259,339)
Net deferred tax assets (liabilities)	¥ (6,194)	¥ (6,396)	$ (60,135)

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Current assets:			
Deferred tax assets	¥ 5,889	¥ 5,732	$ 57,174
Noncurrent assets:			
Deferred tax assets	6,260	2,744	60,776
Noncurrent liabilities:			
Deferred tax liabilities	(18,343)	(14,872)	(178,087)

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, 2014 and 2013

	Fiscal 2013	Fiscal 2012
Normal effective tax rate	37.7%	37.7%
Non-taxable income	(1.1)	(0.9)
Tax credit primarily for research and development expenses	(2.8)	(2.4)
Decrease in deferred tax assets at fiscal year-end due to change in tax rate	0.8	—
Other	(0.0)	0.9
Income tax rate per the consolidated statements of income	34.6%	35.4%

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

The "Act for Partial Revision of the Income Tax Law" (Act No. 10 of 2014) was enacted on March 31, 2014. Accordingly, the Special Corporation Tax for Reconstruction has been abolished for fiscal years beginning on or after April 1, 2014. As a result, the applicable income tax rate used to calculate deferred tax assets and deferred tax liabilities will be changed from 37.7% to 35.3% for temporary differences expected to be reversed effective the fiscal year beginning April 1, 2014.

Consequently, for the fiscal year ended March 31, 2014 net deferred tax assets (after deducting deferred tax liabilities) decreased by ¥335 million (US$3,252 thousand), income taxes – deferred and deferred gains or losses on hedges increased ¥335 million (US$3,252 thousand) and ¥0 million (US$0 thousand), respectively.

17 Asset Retirement Obligations

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

Overview of asset retirement obligations

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

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

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

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

Calculation method for the amount of asset retirement obligations

The Company

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

Consolidated subsidiaries

Consolidated subsidiaries determine the amounts of asset retirement obligations using discount rates ranging from 2.1% to 5.0% 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, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Beginning balance	¥2,336	¥2,224	$22,679
Increase due to decisions to remove	70	67	679
Adjustments due to the elapse of time	48	49	466
Decrease due to payment for the obligations	(165)	(127)	(1,601)
Other increase (decrease)	367	122	3,563
Ending balance	¥2,656	¥2,336	$25,786

18 Segment Information

Segment information

1. Segment overview

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

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

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

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

Please note that Kuraray has changed the classification of its reporting segments from the fiscal year ended March 31, 2014 as stated in "4. Change in segment classification."

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

The accounting method applied to reported business segments is the same as that stated in "Significant Accounting Policies." Profits from reported segments are operating income, and inter-segment sales and transfers are based on the prevailing market prices.

As noted in "Changes in Accounting Policies Accompanying Revision or Other Changes in Accounting and Other Standards," due to the application of "Employee Benefits," changes to accounting policies in the fiscal year ended March 31, 2014 have been retroactively applied to the consolidated financial statements of the previous fiscal year. The effect of this change is minor.

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

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

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

	Thousands of U.S. dollars									
	Reporting Segments									
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total	Other Business	Total	Adjustment	Consolidated Financial Statements
Net sales										
(1) Outside customers	$1,509,737	$304,737	$318,398	$352,805	$1,034,495	$3,520,194	$494,223	$4,014,417	$ —	$4,014,417
(2) Inter-segment sales and transfers	230,650	210,077	152,980	102,844	23,660	720,223	159,504	879,728	(879,728)	—
Total	1,740,398	514,825	471,378	455,650	1,058,165	4,240,427	653,728	4,894,155	(879,728)	4,014,417
Segment income (loss)	452,990	53,116	14,563	25,563	34,776	581,038	24,203	605,242	(124,223)	481,019
Segment assets	2,699,436	555,543	428,038	404,747	346,067	4,433,864	526,019	4,959,893	1,197,893	6,157,786
Other items										
Depreciation and amortization (other than goodwill)	162,339	45,009	35,631	33,213	359	276,572	18,776	295,359	12,932	308,291
Impairment loss	—	—	—	—	—	—	—	—	1,145	1,145
Amortization of goodwill	30,271	—	951	—	—	31,233	—	31,233	—	31,233
Balance of goodwill at end of current period	246,708	—	11,524	—	—	258,233	—	258,233	—	258,233
Gain on negative goodwill	—	—	—	—	—	—	0	0	—	0
Investments in equity method affiliates	—	—	—	1,029	—	1,029	—	1,029	—	1,029
Increase in tangible fixed assets and intangible fixed assets	399,912	50,834	36,961	41,174	902	529,805	34,572	564,378	15,611	580,000

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 ¥12,795 million (US$124,223 thousand) is the elimination of inter-segment transactions of ¥1,025 million (US$9,951 thousand) and corporate expenses of ¥13,820 million (US$134,174 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 ¥123,383 million (US$1,197,893 thousand) is the elimination of inter-segment transactions of ¥28,674 million (US$278,388 thousand) and corporate assets of ¥152,057 million (US$1,476,281 thousand). Major corporate assets are surplus funds, long-term investment funds, assets related to basic research and corporate administrative divisions of the Company.

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

	Millions of yen									
	Reporting Segments									
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total	Other Business	Total	Adjustment	Consolidated Financial Statements
Net sales										
(1) Outside customers.....	¥126,133	¥27,826	¥27,642	¥35,794	¥105,632	¥323,029	¥46,402	¥369,431	¥ —	¥369,431
(2) Inter-segment sales and transfers..............	29,030	16,991	17,502	10,422	3,127	77,073	18,040	95,113	(95,113)	—
Total	155,163	44,817	45,144	46,216	108,760	400,102	64,442	464,545	(95,113)	369,431
Segment income (loss)....	48,877	3,870	1,929	1,772	3,358	59,808	4,001	63,810	(14,612)	49,197
Segment assets..............	226,677	55,254	46,996	39,745	36,625	405,299	52,650	457,950	129,303	587,254
Other items										
Depreciation and amortization (other than goodwill)	14,399	4,819	2,813	3,271	34	25,337	2,206	27,543	1,118	28,662
Impairment loss..............	4	—	—	202	—	207	326	534	—	534
Amortization of goodwill...	2,191	—	98	—	—	2,290	—	2,290	—	2,290
Balance of goodwill at end of current period	451	—	—	—	—	451	—	451	—	451
Gain on negative goodwill...	23,373	—	1,286	—	—	24,659	—	24,659	—	24,659
Investments in equity method affiliates	—	—	—	105	—	105	—	105	—	105
Increase in tangible fixed assets and intangible fixed assets	26,450	5,521	3,818	4,436	40	40,268	3,892	44,160	1,358	45,519

Notes: 1. The "Other Business" category incorporates operations not included in business segment reporting, including the activated carbon, water treatment related business and engineering business.
2. Adjustment is as follows: Included within segment income (loss) of ¥14,612 million is the elimination of intersegment transactions of ¥520 million and corporate expenses of ¥14,092 million. Corporate expenses mainly comprise headquarters' general and administrative expenses and the submitting company's basic research expenses.
3. Segment income is adjusted with operating income under consolidated statements of income.
4. Adjustment is as follows: Included within segment assets of ¥129,303 million is the elimination of intersegment transactions of ¥33,969 million and unallocated corporate assets of ¥163,273 million. Major corporate assets are surplus funds, long-term investment funds, assets related to basic research and corporate administrative divisions of the Company.

4. Change in segment classification

Due to a reorganization conducted in the fiscal year ended March 31, 2014, the former reporting segments of "Resins," "Chemicals," "Fibers and Textiles" and "Trading" have been changed to "Vinyl Acetate," "Isoprene," "Functional Materials," "Fibers and Textiles" and "Trading."

Segment information for the previous fiscal year has been restated to reflect the change in the method of classification.

(Related Information)

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

1. Information about products and services

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

	Thousands of U.S. dollars					
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Other Business	Total
Net sales to outside customers.................	$1,744,000	$487,252	$511,689	$677,388	$594,077	$4,014,417

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

2. Performance by geographical segment

(1) Net sales

Millions of yen					
Japan	North America	Europe	Asia	Other Area	Total
¥186,504	¥39,963	¥81,309	¥94,070	¥11,637	¥413,485

Thousands of U.S. dollars					
Japan	North America	Europe	Asia	Other Area	Total
$1,810,718	$387,990	$789,407	$913,300	$112,980	$4,014,417

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

(2) Tangible fixed assets

Millions of yen					Thousands of U.S. dollars				
Japan	U.S.A.	Germany	Other Overseas	Total	Japan	U.S.A.	Germany	Other Overseas	Total
¥135,950	¥51,600	¥24,544	¥10,124	¥222,219	$1,319,902	$500,970	$238,291	$98,291	$2,157,466

3. Major customers

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

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

1. Information about products and services

	Millions of yen					
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Other Business	Total
Net sales to outside customers.................	¥154,355	¥43,056	¥48,458	¥67,676	¥55,884	¥369,431

Notes: Principal products of each segment are as follows:

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

Isoprene: Thermoplastic elastomers *SEPTON* and *KURARITY*, isoprene chemicals, *GENESTAR* heat-resistant polyamide resin and others

Functional Materials: Methacrylic resin, *CLARINO* man-made leather, medical products and others

Fibers and Textiles: *KURALON*, *KURAFLEX* non-woven fabrics, *MAGIC TAPE* hook and loop fasteners, polyester and others

Others: Activated carbon, aqua business and engineering and others

2. Performance by geographical segment

(1) Net sales

Millions of yen					
Japan	North America	Europe	Asia	Other Area	Total
¥186,014	¥27,412	¥62,981	¥83,090	¥9,932	¥369,431

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

(2) Tangible fixed assets

Millions of yen				
Japan	U.S.A.	Germany	Other Overseas	Total
¥129,218	¥29,287	¥14,297	¥8,470	¥181,274

3. Major customers

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

Information about impairment loss of fixed assets by reporting segment

Fiscal 2013: This information is omitted since similar information is disclosed in the segment information.

Fiscal 2012: 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 2013: This information is omitted since similar information is disclosed in the segment information.

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

Information about gain on negative goodwill

Fiscal 2013: This information is omitted since similar information is disclosed in the segment information.

Fiscal 2012: No gain on negative goodwill to report.

19 Related Party Disclosures

Fiscal 2013: Not applicable
Fiscal 2012: Not applicable

20 Per Share Information

	Yen		U.S. dollars
	Fiscal 2013	Fiscal 2012	Fiscal 2013
Net assets per share	¥1,272.68	¥1,131.64	$12.35
Basic net income per share	83.93	82.62	0.81
Diluted net income per share	83.75	82.52	0.81

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 2013	Fiscal 2012	Fiscal 2013
Basic net income per share			
Net income	¥29,390	¥28,798	$285,339
Net income unallocated to common stock	—	—	—
Net income allocated to common stock	29,390	28,798	285,339
Average number of common stock outstanding during the fiscal year (thousand shares)	350,162	348,552	
Diluted net income per share			
Adjustment made on net income	—	—	—
Increase of common stocks (thousand shares)	775	419	
(New subscription rights to shares (thousand shares))	(775)	(419)	
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.	—	—	—

1. As noted in "2. Changes in Accounting Policies Accompanying Revision or Other Changes in Accounting and Other Standards," due to the application of "Employee Benefits," changes to accounting policies in the fiscal year ended March 31, 2014 have been retroactively applied to the consolidated financial statements of the previous fiscal year. As a result, net assets per share for the previous fiscal year decreased by ¥0.43 compared with the amount before retroactive application of the change.
2. As noted in "2. Changes in Accounting Policies Accompanying Revision or Other Changes in Accounting and Other Standards," the application of the Accounting Standard for Retirement Benefits and the Guidance on Retirement Benefits is subject to the transitional accounting treatment set forth in Clause 37 of the Accounting Standard for Retirement Benefits. As a result, net assets per share for the fiscal year ended March 31, 2014 decreased by ¥13.77 (US$0.13).

21 Supplementary Schedule

Bond schedule

(Millions of yen)

Company name	Issue	Date of issue	Balance at beginning of period	Balance at end of period	Yield	Security	Date of redemption
Kuraray	No. 4 Unsecured bonds	December 9, 2011	¥10,000 (US$97,087 thousand)	¥10,000 (US$97,087 thousand)	1.24%	None	December 9, 2021
	Total	—	¥10,000 (US$97,087 thousand)	¥10,000 (US$97,087 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 April 1, 2013	Balance as of March 31, 2014	Average interest rate (%)	Due date
Short-term loans	¥ 6,910	¥ 7,030 (US$68,252 thousand)	0.4	—
Current portion of long-term loans due within one year	24,008	6,113 (US$59,349 thousand)	1.9	—
Current portion of long-term lease due within one year (Note 2)	366	378 (US$3,669 thousand)	—	—
Long-term loans (Excluding current portion) (Note 3)	28,171	42,187 (US$409,582 thousand)	1.2	From April 2015 to March 2024
Lease liabilities (Excluding current portion) (Notes 2, 3)	1,863	1,752 (US$17,009 thousand)	—	From April 2015 to Nov. 2026
Total	¥61,320	¥57,461 (US$557,873 thousand)	—	—

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

(Millions of yen)

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
Long-term loans	¥ 67	¥ 43	¥ 40	¥ 35
Lease liabilities	325	255	181	130

(Thousands of U.S. dollars)

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
Long-term loans	$ 650	$ 417	$ 388	$ 339
Lease liabilities	3,155	2,475	1,757	1,262

Supplementary schedule of asset retirement obligations

The schedule of asset retirement obligations is omitted since the amount of asset retirement obligations is not more than one-hundredth of total liabilities and net assets as of March 31, 2014.

Other

Quarterly information in Fiscal 2013

(Millions of yen)

Accumulated	First quarter From April 1 to June 30, 2013	Second quarter From July 1 to September 30, 2013	Third quarter From October 1 to December 31, 2013	Fiscal 2013
Net sales	¥93,158	¥199,269	¥301,970	¥413,485
Income (loss) before income taxes	10,137	24,495	34,277	45,598
Net income (loss)	6,555	15,765	22,151	29,390
Net income (loss) per share (Yen)	18.74	45.04	63.27	83.93

Quarterly	First quarter From April 1 to June 30, 2013	Second quarter From July 1 to September 30, 2013	Third quarter From October 1 to December 31, 2013	Fourth quarter From January 1 to March 31, 2014
Net income (loss) per share (Yen)	¥18.74	¥26.29	¥18.23	¥20.66

(Thousands of U.S. dollars)

Accumulated	First quarter From April 1 to June 30, 2013	Second quarter From July 1 to September 30, 2013	Third quarter From October 1 to December 31, 2013	Fiscal 2013
Net sales	$904,446	$1,934,650	$2,931,747	$4,014,417
Income (loss) before income taxes	98,417	237,815	332,786	442,699
Net income (loss)	63,640	153,058	215,058	285,339
Net income (loss) per share (U.S. dollars)	0.18	0.43	0.61	0.81

Quarterly	First quarter From April 1 to June 30, 2013	Second quarter From July 1 to September 30, 2013	Third quarter From October 1 to December 31, 2013	Fourth quarter From January 1 to March 31, 2014
Net income (loss) per share (U.S. dollars)	$0.18	$0.25	$0.17	$0.20

22 Subsequent Events

(Business combination through Acquisition)
The Company reached an agreement to acquire the Vinyl Acetate related business, which consists of vinyl acetate monomer (VAM), PVA resin, PVB resin and film, from E. I. du Pont de Nemours and Company (“DuPont”) on November 21, 2013 (“the Acquisition”), and completed the Acquisition on June 1, 2014.

1. Summary of the Acquisition
   (1) Company name and description of acquired business
      Company name: E. I. du Pont de Nemours and Company
      Description of acquired business: The manufacture and sale of Vinyl Acetate related products (VAM, PVA, PVB, etc.)
   (2) Purpose for the Acquisition
      The Company executes the Acquisition as part of its expansion plan in Vinyl Acetate related business, which is one of its core businesses.
      Ahead of its global competitors, the Company successfully industrialized PVA resin and it has a leading global presence in PVA resin which applies vinyl acetate as its raw material, PVA film, PVB resin and film, EVOH resin, which is trademarked as *EVAL*, and PVA fiber (vinylon). Through the Acquisition, the fusion of DuPont’s technology, R&D, sales capabilities, and manufacturing and sales network with the Company’s operations will be a key driver of the Company’s sustainable growth.
   (3) Closing date
      June 1, 2014.
   (4) Legal form of business combination
      Cash purchase of assets and shares
   (5) Form and name of acquired company after business combination
      Kuraray America Inc. and other subsidiaries
   (6) Reason for decision on the acquiring company
      Mainly subsidiaries of Kuraray proposed to acquire assets and shares with cash

2. Acquisition cost of the acquired business
   The amount of consideration: US$638 million (¥64,927 million)
   Acquisition cost: US$638 million (¥64,927 million)
   As per the Sale and Purchase Agreement, however, the amount of consideration is provisional because it is subject to adjustment pursuant to a review of changes in working capital and other matters.
   Note: The yen amount in parentheses is a conversion based on the exchange rate as of May 31, 2014. Payment will be denominated in U.S. dollars, euros and other currencies according to the country in which businesses are transferred.

3. Amount of goodwill, reason for its recognition, amortization method and amortization period
   Undetermined at the present time

4. The amounts and breakdown of acquired assets and assumed liabilities on the date of business combination
   Undetermined at the present time

(Grant of subscription rights to shares)
At the meetings of the Board of Directors held on April 25 and May 14, 2014, the Company resolved to grant directors and executive officers of the Company subscription rights to shares as a stock option in accordance with Article 238, paragraphs 1 and 2 and Article 240, paragraph 1 of the Companies Act.

Independent Auditor's Report

Independent Auditor's Report

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, 2014, 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, 2014, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter
As discussed in Note 22 to the consolidated financial statements, the Company reached an agreement to acquire the Vinyl Acetate related business from E. I. du Pont de Nemours and Company on November 21, 2013 and completed the acquisition on June 1, 2014. Our opinion is not qualified with respect to this matter.

Convenience translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2014 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

July 31, 2014

PricewaterhouseCoopers Aarata
Sumitomo Fudosan Shiodome Hamarikyu Bldg., 8-21-1 Ginza, Chuo-ku, Tokyo 104-0061, Japan
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Main Group Companies

(As of March 31, 2014)

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 dental materials and medical-related products
Kuraray Plastics Co., Ltd.	Osaka	180	Manufacture and sales of plastics
KURARAYLIVING CO., LTD.	Osaka	101	Manufacture and sales of packaging materials
Kuraray Techno Co., Ltd.	Osaka	100	Production subcontracting, Temporary personnel service
KURARAYKURAFLEX CO., LTD.	Osaka	100	Manufacture and sales of non-woven fabric products
KURARAY FASTENING CO., LTD.	Osaka	100	Manufacture and sales of *MAGIC TAPE*
OVERSEAS			
Kuraray America, Inc.	Texas, U.S.A.	US$10.1 million	Import and sales of Kuraray products in the U.S., Manufacture and sales of *EVAL* resins and *SEPTON*
MonoSol, LLC	Indiana, U.S.A.	US$59.0 million	Manufacture and sales of PVA film
Kuraray South America Ltda.	Saõ Paulo, Brazil	R$4.2 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 PVA and PVB resins and PVB film
EVAL Europe N.V.	Antwerp, Belgium	€29.7 million	Manufacture and sales of *EVAL* resins in Europe
Kuraray China Co., Ltd.	Shanghai, China	US$3.0 million	Business expansion, market entry planning and other supplemental activities
Kuraray (Shanghai) Co., Ltd.	Shanghai, China	US$5.0 million	Import and sales of Kuraray products in China
Kuraray Hong Kong Co., Ltd.	Hong Kong, China	HK$4.6 million	Processing and sales of Kuraray products in China and Southeast Asia
Kuraray Asia Pacific Pte. Ltd.	Singapore	US$27.7 million	Manufacture and sales of PVA resins
Kuraray India Private Limited	Delhi, India	Rupees 102 million	Import and sales of Kuraray products in India and market development
Kuraray (Thailand) Co., Ltd.	Bangkok, Thailand	THB8.0 million	Sales and market development of Kuraray products in Thailand

Note: Kuraray Co., Ltd. has 28 affiliated companies in Japan and 36 overseas.

Investor Information

(As of March 31, 2014)

KURARAY CO., LTD.

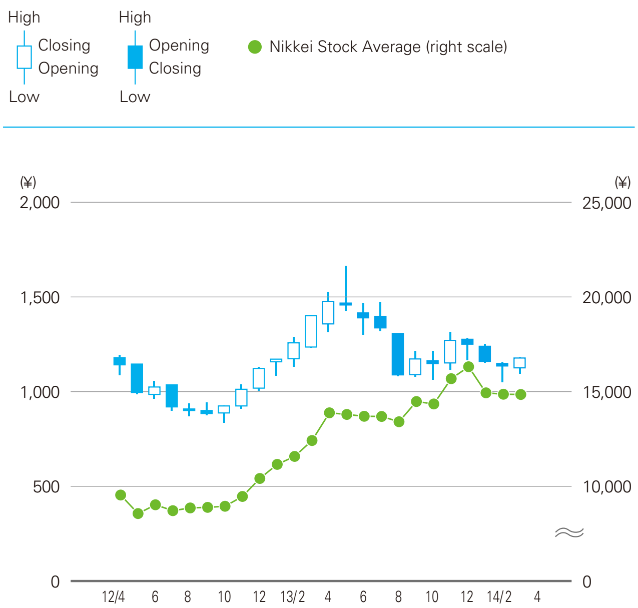
Established:	June 24, 1926
Capital:	¥88,955 million
Shares Authorized:	1,000,000,000 shares
Issued:	382,863,603 shares
Number of Shareholders:	53,741
Head Offices:	Tokyo, Osaka

Shareholder Register Agent for Common Stock

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

Share Price Movement

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

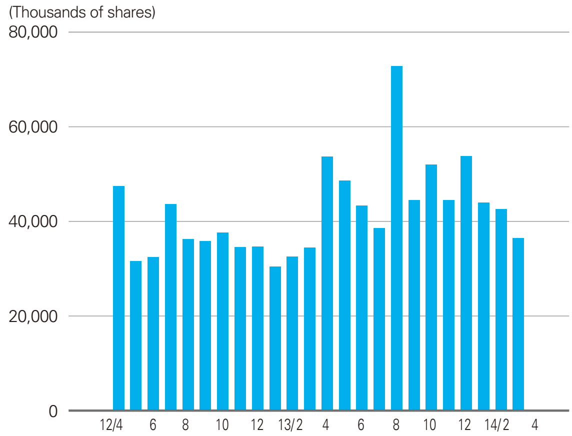


Principal Shareholders

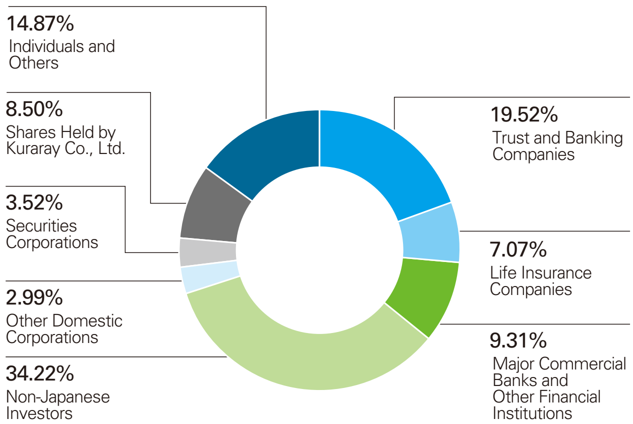
Name or Company Name	Number of Shares Held (thousands)	Percentage of Shares Held
The Master Trust Bank of Japan, Ltd. -Trust Account-	21,835	5.70%
Japan Trustee Services Bank, Ltd. -Trust Account-	17,610	4.60%
Nippon Life Insurance Company	11,755	3.07%
National Mutual Insurance Federation of Agricultural Cooperatives	11,002	2.87%
Meiji Yasuda Life Insurance Company	5,969	1.56%
NORTHERN TRUST CO (AVFC) RE - SSDOO	5,532	1.45%
BBH BOSTON CUSTODIAN FOR BLACKROCK GLOBAL ALLOCATION FUND, INC.	5,462	1.43%
THE BANK OF NEW YORK MELLON SA/NV	5,241	1.37%
TRUST CUSTODY SERVICES BANK, LTD -Trust Account-	4,535	1.18%
STATE STREET BANK WEST CLIENT-TREATY	4,358	1.14%

Note: Although the Company owns 32,551,718 shares of treasury stock, it is excluded from the major shareholders listed above.

Trading Volume



Breakdown of Issued Shares by Type of Shareholder



KURARAY CO., LTD.

TOKYO HEAD OFFICE

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tel. +81-3-6701-1000 fax. +81-3-6701-1005

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tel. +81-6-7635-1000 fax. +81-6-7635-1005