Advancing to a New Growth Stage

Annual Report 2015

For the year ended December 31, 2015

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, a first in the world product commercialized by Kuraray 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*.

Corporate Statements

Our Mission

We are committed to developing new fields of business using pioneering technology that improves the environment and enhances the quality of life throughout the world.

For people and the planet - to achieve what no one else can.

Our Values

(Philosophy)

- Respect for individuals
- Close cooperation to attain shared goals
- Constant creation of new value

(Guiding Principles)

- Safety is the cornerstone of everything we do
- Customers' needs are our top priority
- We act on ideas in the workplace

Our Commitment

- We will constantly develop and provide safe, high-quality products and services.
- We will maintain a sound relationship with society through good communication.
- We will strive to preserve and improve the global environment, and to secure safety and health in all our workplaces.
- We will value all members of the Kuraray community and respect their rights.
- We will always conduct businesses in a free, fair and transparent manner.
- We will honor all intellectual property and secure data and information in a proper manner.

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.

Vinyl Acetate

KURARAY POVAL, ELVANOL (PVA resin)

TROSIFOL, BUTACITE (PVB film)

PVA film

PLANTIC [2]

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

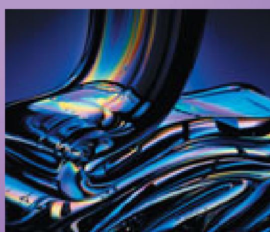
SentryGlas®[3] (Ionoplast interlayer)

Isoprene

Isoprene chemicals

SEPTON, HYBRAR (Thermoplastic elastomer)

GENESTAR (Heat-resistant polyamide resin)



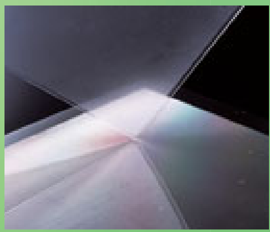
Liquid rubber

KURARITY (Acrylic thermoplastic elastomer)

Functional Materials

Share 25%
No.1 in the world

CLARINO
(Man-made leather)



Methacrylic resin

No.1 in Japan

Dental materials

Fibers and Textiles

Share 80%
No.1 in the world

KURALON (PVA fiber)

KURAFLEX, FELIBENDY
(Non-woven fabric)

No.1 in Japan

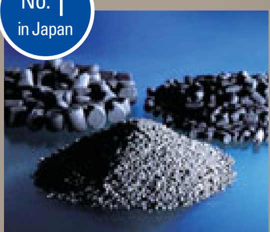
MAGIC TAPE
(Hook and loop fastener)

No.1 in the world[5]

VECTRAN
(Polyarylate fiber)

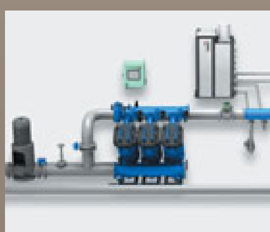
Trading, Others

No.1 in Japan



KURARAY COAL
(Activated carbon)

Polyester filament



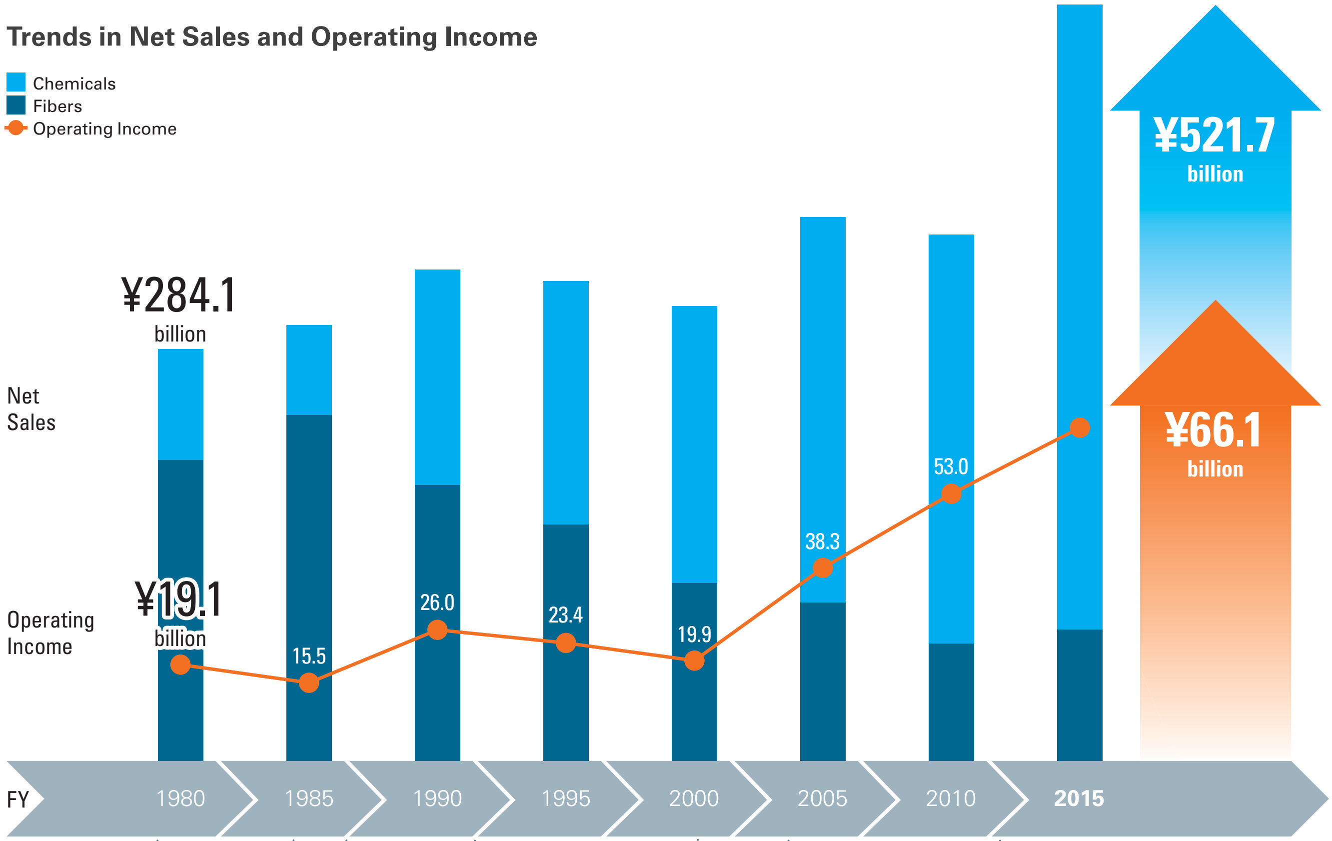
Environmental business

1. Excluding China
2. Kuraray acquired Plantic Technologies Limited in 2015.
3. *SentryGlas*® is a trademark of E. I. du Pont de Nemours and Company or its affiliates for its brand of interlayers. It is used under exclusive license by Kuraray.
4. The world's only industrialized PA9T resin.
5. The world's only industrialized polyarylate fiber.

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

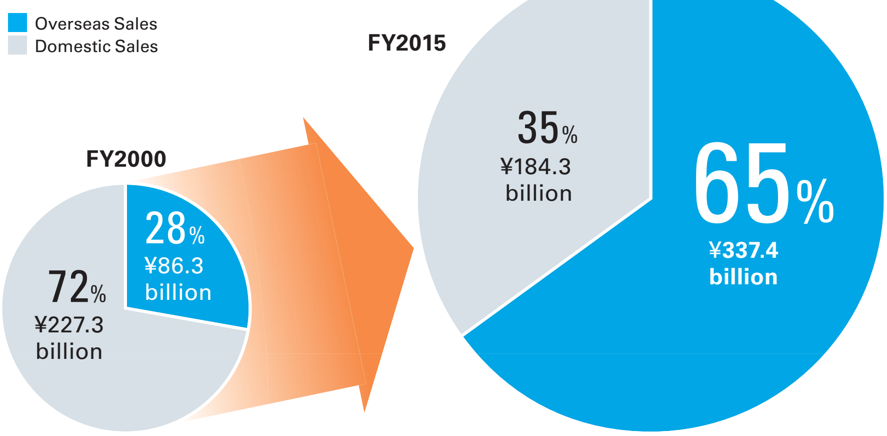
1950	Commercialized ***KURALON***
1958	Commercialized **PVA**
1962	Commercialized **PVA film**
1964	Commercialized ***CLARINO***
1972	Commercialized ***EVAL* / Isoprene chemicals**

Our 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

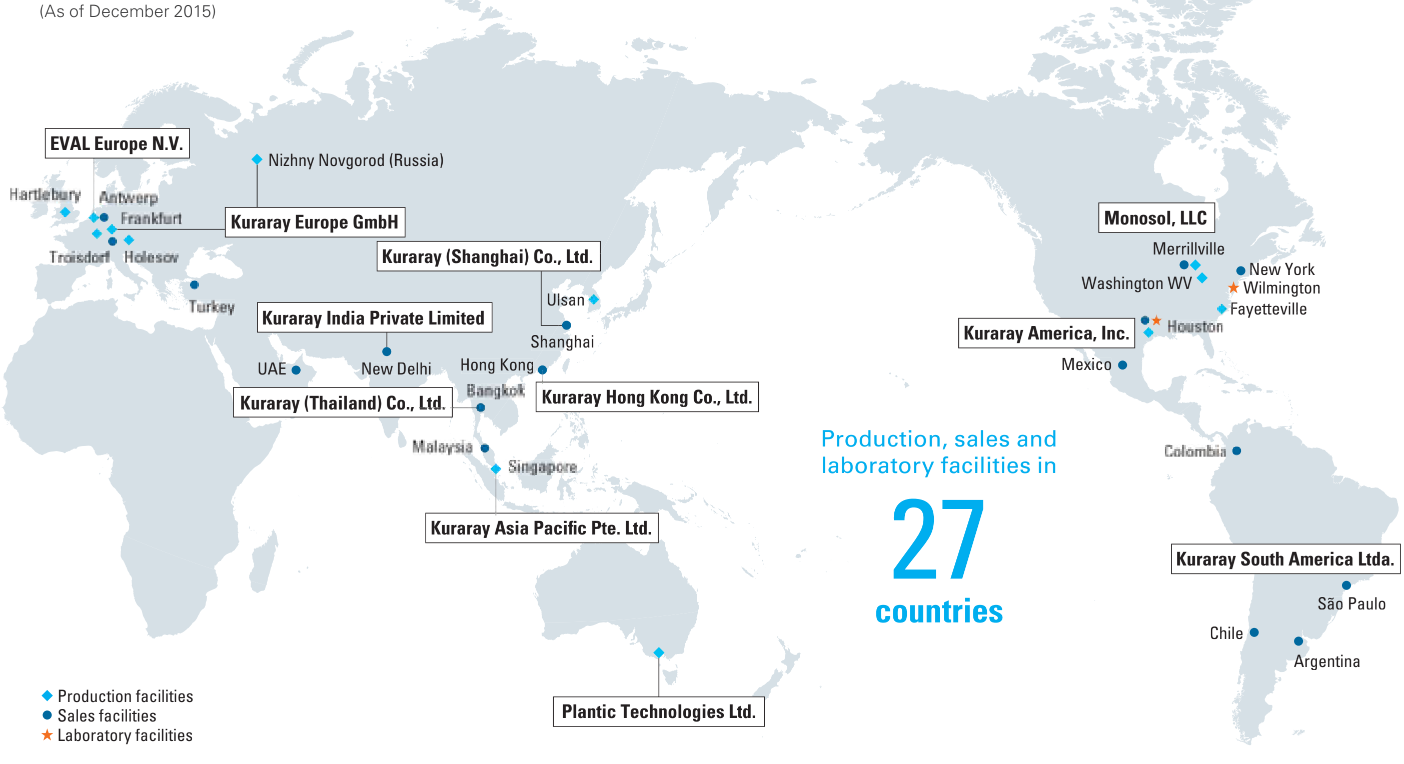


Kuraray's Global Network

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, Sales Facilities and Laboratory Facilities outside Japan

(As of December 2015)



Consolidated Financial Highlights

Kuraray Co., Ltd. and its Consolidated Subsidiaries

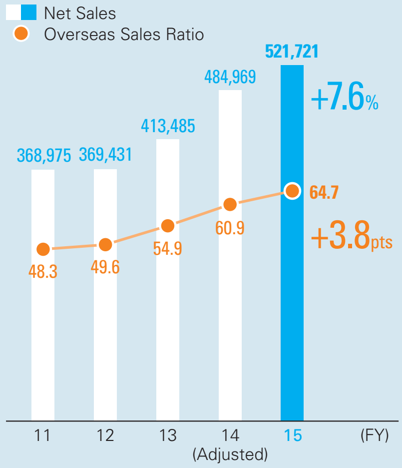
	Millions of yen					Millions of U.S. dollars (Note 4)	Millions of Euro (Note 5)
	FY2015 (Note 1)	FY2014 (Adjusted) (Jan. - Dec. 2014) (Note 2)	FY2013	FY2012	FY2011	FY2015	FY2015
Net sales	¥521,721	¥484,969	¥413,485	¥369,431	¥368,975	$4,312	€3,952
Cost of sales	355,137	343,168	286,179	249,485	246,538	2,935	2,690
Selling, general and administrative expenses	100,506	66,687	77,760	70,748	67,703	831	761
Operating income	66,077	51,382	49,545	49,197	54,733	546	501
Net income	35,749	27,454	29,390	28,798	31,469	295	271
Capital expenditures	¥ 45,014	¥ 47,191	¥ 59,740	¥ 45,519	¥ 39,006	$ 372	€ 341
Depreciation and amortization	44,102	42,006	34,972	30,952	30,737	364	334
Gross cash flow	79,851	69,460	64,362	59,750	62,206	660	605
Total research and development expenses	19,132	18,066	17,103	16,431	16,175	158	145
Total assets	¥701,770	¥691,538	¥634,252	¥587,254	¥523,247	$5,800	€5,316
Total current assets	296,486	269,200	302,402	257,212	269,083	2,450	2,246
Total tangible fixed assets	262,019	262,388	222,219	181,274	152,877	2,165	1,985
Total current liabilities	95,450	109,936	89,145	111,449	81,684	789	723
Total noncurrent liabilities	102,729	99,775	92,647	74,279	75,248	849	778
Total net assets	503,589	481,826	452,459	401,307	366,314	4,162	3,815
Segment information (Note 6)							
Vinyl Acetate							
Net sales	¥274,746	¥237,615	¥179,261	¥155,163		$2,271	€2,081
Operating income	55,740	46,183	46,658	48,877		461	422
Isoprene							
Net sales	54,985	55,712	53,027	44,817		454	417
Operating income	6,922	6,405	5,471	3,870		57	52
Functional Materials							
Net sales	56,879	53,809	48,552	45,144		470	431
Operating income	5,564	1,952	1,500	1,929		46	42
Fibers and Textiles							
Net sales	46,344	47,651	46,932	46,216		383	351
Operating income	4,108	2,871	2,633	1,772		34	31
Trading							
Net sales	119,640	11,966	108,991	108,760		989	906
Operating income	3,882	3,879	3,582	3,358		32	29
Other Business							
Net sales	69,601	68,708	67,334	64,442		575	527
Operating income	2,773	2,600	2,493	4,001		23	21

Amounts per share:	Yen					U.S. dollars (Note 4)	Euro (Note 5)
Net income:							
Basic net income per share	¥ 101.84	¥ 78.41	¥ 83.93	¥ 82.62	¥ 90.35	$ 0.84	€ 0.77
Diluted net income per share	101.57	78.25	83.75	82.52	90.21	0.84	0.77
Cash dividends applicable to period (Note 3)	40.00	27.0	36.0	36.0	33.00	0.33	0.30
Shareholders' equity	1,412.46	1,354.21	1,272.68	1,132.07	1,033.48	11.67	10.70
Financial ratios:							
Cost of sales ratio (%)	68.1	70.7	69.2	67.5	66.8		
Equity ratio (%)	70.7	68.7	70.3	67.2	68.8		
Return on equity (ROE) (%)	7.4	6.0	7.0	7.6	9.0		
Return on assets (ROA) (%) (Note 7)	9.5	7.8	8.1	8.8	10.6		
Payout ratio (%) (Note 3)	39.3	44.4	42.9	43.6	36.5		
Number of employees	8,405	8,316	7,550	7,332	6,776		

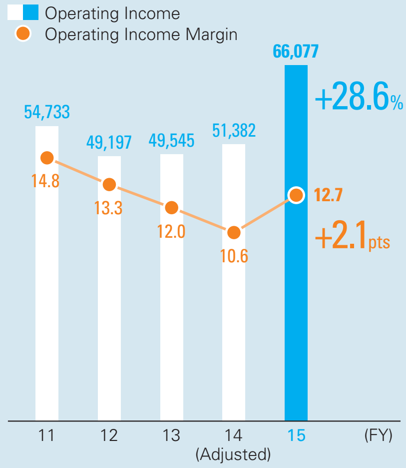
Notes: 1. The Company changed its fiscal year-end from March 31 to December 31. From fiscal 2015, the consolidated reporting period for the Company and its consolidated domestic and overseas subsidiaries is from January 1 to December 31.
2. The figures for fiscal 2014 (adjusted) reflect the 12 months from January to December for the Company and its consolidated domestic and overseas subsidiaries. These figures are unaudited and for comparison purposes only.
3. Cash dividends per share and payout ratio for FY2014 are for the period April 1 to December 31, 2014.
4. The United States dollar amounts represent the translation of Japanese yen at the rate of ¥121 = $1.
5. Euro amounts represent the translation of Japanese yen at the rate of ¥132 = €1.
6. 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.
7. 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.

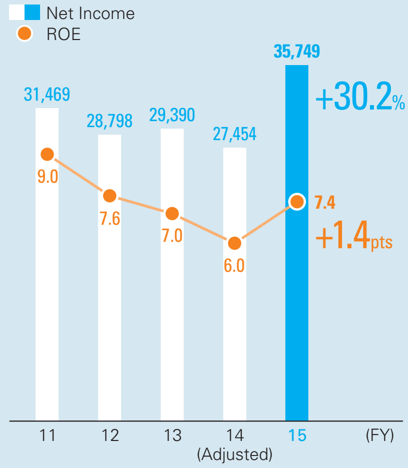
Net Sales & Overseas Sales Ratio
(Millions of yen, %)



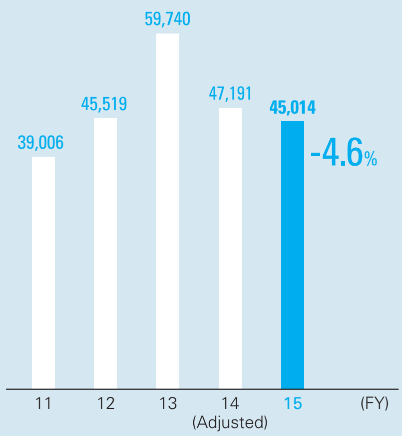
Operating Income & Operating Income Margin
(Millions of yen, %)



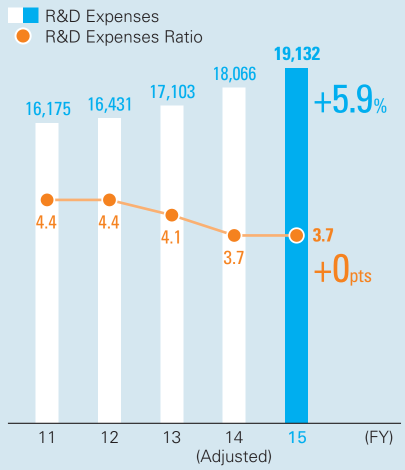
Net Income & ROE
(Millions of yen, %)



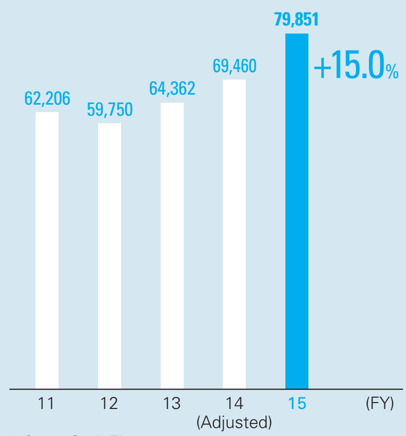
Capital Expenditure
(Millions of yen)



R&D Expenses & R&D Expenses Ratio
(Millions of yen, %)

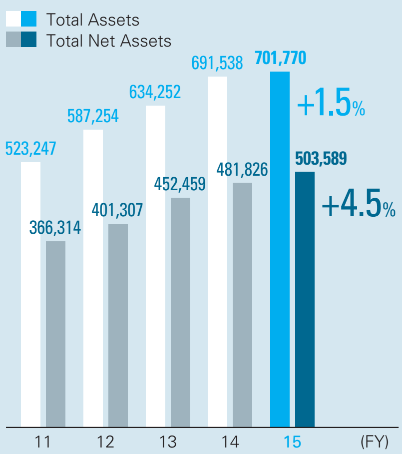


Gross Cash Flow*
(Millions of yen)

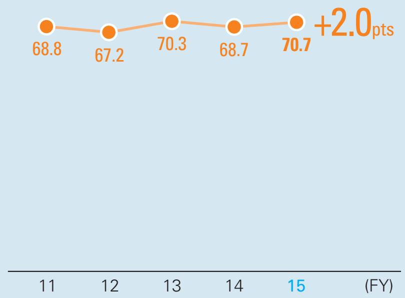


* Gross Cash Flow
= Net income + Depreciation and amortization

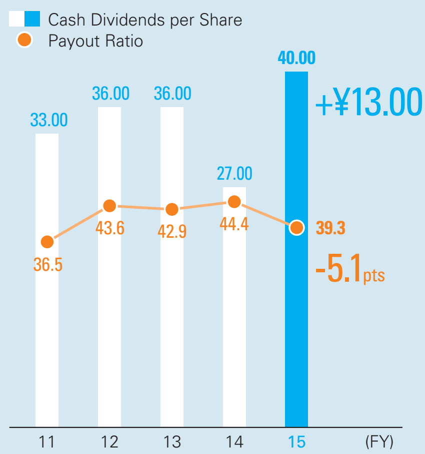
Total Assets & Total Net Assets
(Millions of yen)



Equity Ratio
(%)



Cash Dividends per Share & Payout Ratio
(Yen, %)



Note: The figures for fiscal 2014 (adjusted) reflect the 12 months from January to December for the Company and its consolidated domestic and overseas subsidiaries. These figures are unaudited and for comparison purposes only. However, cash dividends per share and payout ratio are for the period April 1 to December 31, 2014.

To Our Shareholders and Investors

I would like to express my sincere gratitude to all our shareholders and investors.

In fiscal 2015 (January 1, 2015 to December 31, 2015), weakness was apparent in some sectors of the Japanese economy, with delays in recovery of personal consumption and capital investment, but a moderate recovery trend continued. In the global economy, although the United States economy was healthy, with steady employment conditions and personal consumption, the outlook in Europe was unclear as the recovery in business conditions appeared to lack force. A slowdown trend in the Chinese economy further strengthened toward the end of the fiscal year, and there was an increase in the number of emerging countries where growth weakened. A decline in raw material and fuel costs associated with the drop in crude oil prices that has been ongoing since the end of fiscal 2014 inevitably led to selling price adjustments in some businesses, but exerted a positive effect on the Company's results for fiscal 2015.

Under these circumstances, the Kuraray Group has been successively implementing the business strategies outlined in GS-STEP, its medium-term management plan that started in fiscal 2015, to realize "a high-profit specialty chemical company with a global presence."

Regarding results of operations for fiscal 2015, net sales increased by ¥36,752 million, or 7.6%, compared with the previous fiscal year[1] to ¥521,721 million; operating income increased by ¥14,694 million, or 28.6%, to ¥66,077 million; ordinary income increased by ¥13,574 million, or 26.6%, to ¥64,535 million; and net income increased by ¥8,294 million, or 30.2%, to ¥35,749 million.

Regarding fiscal 2016, concerns about the outlook for Japan's economy are growing due to the impact of the weak global economy, despite expected support from last-minute demand ahead of an increase in the consumption tax rate. Overseas, the United States economy is favorable and although the outlook is unclear in Europe, a moderate recovery is expected to continue. On the other hand, the slowdown in growth is expected to continue in the economies of China and other emerging nations. In addition, the drop in the price of crude oil is expected to exert a positive effect on the Company's results over the short term, but over the medium to long term, it has the potential to lead to an increase in geopolitical risk and exert a negative effect on the global economy. Moreover, with factors such as the difficulty of predicting the impact on the real economy from the recent worldwide drop in share prices, the operating environment is becoming increasingly unclear.

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

Based on these circumstances, the Kuraray Group forecasts net sales of ¥540.0 billion, operating income of ¥70.0 billion, ordinary income of ¥68.0 billion, and net income attributable to shareholders of parent[2] of ¥40.0 billion in fiscal 2016.

The distribution of profits to shareholders is one of Kuraray's top management issues, and during GS-STEP, its medium-term management plan for fiscal 2015 through fiscal 2017, it has a basic policy of increasing distribution of profits through continuous improvement in business results. Kuraray has set a total return ratio of 35% or more relative to net income attributable to shareholders of parent and annual dividends per share of ¥36 or higher. Kuraray paid a year-end dividend of ¥22 per share for fiscal 2015 in accordance with its forecast announced with its interim results. As a result, total annual dividends for fiscal 2015, including the interim dividend, were ¥40 per share, for a dividend payout ratio of 39.3%. This is an increase of ¥4 per share compared with the forecast at the beginning of the fiscal year. In June 2015, Kuraray retired 28 million shares of treasury stock as it had expected to do during fiscal 2015.

For fiscal 2016, Kuraray plans annual dividends of ¥40 per share (payout ratio of 35.1%), assuming a forecast for net income attributable to shareholders of parent of ¥40.0 billion.

The Kuraray Group requests your continued understanding and support.

Notes: 1. Because the Kuraray Group changed its fiscal year end from March to December in fiscal 2014, year-on-year comparisons with fiscal 2015 use adjusted figures for the corresponding period of the previous calendar year (January 1, 2014 to December 31, 2014).
2. Under the revised "Accounting Standard for Consolidated Financial Statements," "net income" has been changed to "net income attributable to shareholders of parent." The change in terminology will be applied to Kuraray's consolidated financial statements from fiscal 2016 onward.

Masaaki Ito
Representative Director and President

An Interview with Kuraray President Masaaki Ito

A Favorable Start, with Record-High Results in the First Year of GS-STEP

Q.1 What are your impressions looking back at fiscal 2015?

In the first year of GS-STEP, our medium-term management plan for fiscal 2015 through fiscal 2017, net sales were ¥521.7 billion, operating income was ¥66.1 billion, ordinary income was ¥64.5 billion, and net income was ¥35.7 billion. Each one of these was a new record high.

By business, the PVB film, fine chemical, elastomer and *GENESTAR* heat-resistant polyamide resin businesses were affected by the economic slowdown in China. However, we were able to favorably expand our results with the growth of optical-use PVA film, *EVAL* gas barrier resin and water-soluble PVA film, for which demand is increasing for individual packaging for detergents. Other factors included an increase in profit from methacrylic resin and *CLARINO*. We also had some help from external factors such as lower crude oil prices and the depreciation of the yen in currency translation. All in all, GS-STEP got off to a favorable start in its first year.

Q.2 What measures did you implement in fiscal 2015?

We implemented measures based on the management strategies of GS-STEP.

For **deepening of core businesses**, we decided to expand production capacity of *EVAL* gas barrier resin by an additional 11,000 tons in Belgium. *EVAL* is used for food packaging, automotive gas tanks and other applications. We expect operation to start at the end of 2016, mainly to meet growing demand in emerging countries. We also decided to expand production capacity for optical-use PVA film at the Saijo Plant, with the start of operation scheduled for the beginning of 2017. In addition, we established management and technical service organizations at each of our bases in Europe, the United States and Asia to strengthen global marketing of *GENESTAR* for automotive applications.

For **technological innovation**, we developed production technology using a pilot plant for a new *KURALON* manufacturing process, which began operation at the Okayama Plant in April 2015, and have largely established filament production technology for *KURALON* with this new process. For development and sales promotion of new and high-value-added products, we accelerated development of high-performance products in the methacrylate business and promoted sales of *PARAPURE* acrylic film, a new product. For *CLARINO*, we developed *TIRRENINA*, a man-made leather with the appearance and texture of natural leather and a tanner's finish. We will open up the market for this high-end natural leather substitute with a launch scheduled for the first half of 2016.

For our **next-generation growth model**, in April 2015 we acquired Plantic Technologies Limited of Australia, which operates a biomass-derived gas barrier materials business. We intend to use the barrier material application technologies we have accumulated with *EVAL* for the full-scale development of bio-based barrier materials to expand into new business domains. For dental materials, we enhanced the product lineup with the launch of new products that combine organic and inorganic technologies to expand the CAD/CAM business.

For **optimum allocation of management resources**, to quickly unlock and maximize synergies between our existing vinyl acetate business and the glass laminating solutions/vinyls business (the "GLS business"), which we acquired from E.I. du Pont de Nemours and Company ("DuPont") in 2014, we transferred the VAM and PVA resin-related businesses within the GLS business to the Poval Resin Division and its PVB-related business to the PVB Division on July 1, 2015, and began integrated operations on a larger scale.

On the other hand, since we fell short of some targets due to issues such as the delay in construction of a new PVA resin plant in the United States, we will make up for this delay and promptly carry out various measures during fiscal 2016.

Q.3 What will your priority measures be during fiscal 2016?

Continuing on from fiscal 2015, in fiscal 2016 we will implement measures based on the management strategies of GS-STEP.

For **deepening of core businesses**, with the start of operation at our new PVA resin plant in the United States, we will establish an optimal four-base global production structure for PVA resin in Japan, Germany, Singapore and the United States. For PVB film, we will step up marketing for automotive applications. For

EVAL, we will accelerate the development of new applications for agriculture and industry, and meet growing demand by expanding production capacity in the United States. We will also expand production capacity for water-soluble PVA film in the United States in response to growing demand. For the isoprene business, we will consider measures to expand the business including the construction of a new plant.

As measures based on **technological innovation**, we intend to increase profitability by changing our product mix and portfolio to raise the proportion of high-value-added and high-performance fine chemical and methacrylic resin products. In our development of new manufacturing processes for *KURALON*, we will focus on developing production technology for staple fibers for fiber-reinforced concrete. For process innovation, we will promote development of new production processes for *VECTRAN* polyarylate fiber and enhance efforts including the development of polymerization catalysts for various types of polymers.

For **our next-generation growth model**, we will consider innovations to build a growth strategy for the future. We will continue our strategy of strengthening our core *EVAL*, water-soluble PVA film and *GENESTAR* businesses. At the same time, we aim to expand into new business domains by considering methods such as alliances and M&A in the fields of bioscience-related materials, activated carbon or battery materials, to give a few examples.

For **optimum allocation of management resources**, we intend to strengthen our management foundation with global measures such as IT system and personnel utilization.

Q.4 Kuraray's business is expanding globally. What steps are you taking to strengthen your global management foundation?

We have been actively investing outside Japan for some time, but our global expansion stepped up further with the acquisition of the GLS business from DuPont in June 2014, and our overseas sales ratio grew from 55% in fiscal 2013 to 65% in fiscal 2015. Under these circumstances, building a global management foundation has become increasingly important.

Kuraray worked to raise the efficiency of its global business operations by adopting the same fiscal year-end as its overseas subsidiaries in 2014. However, with factors such as the acquisition of the GLS business I mentioned earlier, the need to integrate our IT systems with overseas businesses has increased. In 2016, we will make the necessary investment to develop and introduce an information management and accounting system.

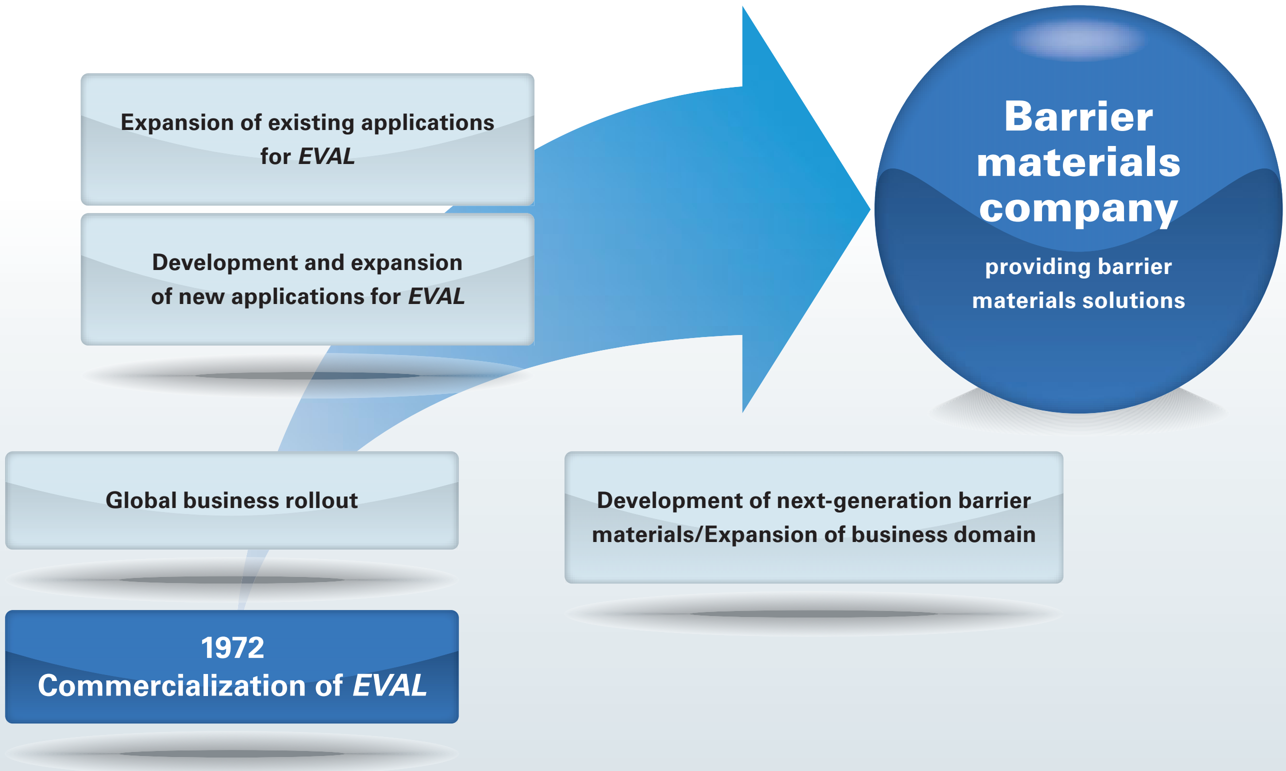
Moreover, as part of our utilization of overseas personnel, we are proactively appointing local staff as executive officers. Currently, four of our executive officers are non-Japanese, including Stephen Cox, who transferred from DuPont in connection with the acquisition of the GLS business. These executive officers are division general managers or presidents of overseas subsidiaries.

Our efforts have not been just organizational and systemic, but also encompass measures to instill our corporate philosophy globally.

Today, approximately 2,400 employees, accounting for about three-tenths of the Kuraray Group's total workforce, are employed at our more than 70 locations in 27 countries outside Japan. To share our corporate philosophy with these overseas employees, we updated the Kuraray Group's Corporate Statements in fiscal 2015. In addition to editing the content, including redefining our mission as "For people and the planet—to achieve what no one else can," to make it easier for foreign employees to understand, we worked to raise awareness in ways such as holding briefings for top overseas management and distributing pamphlets in seven languages to all Group employees.

Aiming to Be a Barrier Materials Company: Expanding the *EVAL* Business and Increasing *EVAL* Production Capacity by 30% during GS-STEP

With *EVAL* EVOH resin, Kuraray is assured of its leadership in barrier materials, and the Company plans to increase production capacity by 30% during GS-STEP. By developing and expanding applications, domains and new materials centered on *EVAL*, Kuraray aims to offer barrier material solutions that will earn it a reputation as "the company to ask about barrier materials."



Main Applications of *EVAL*

EVAL, commercialized by Kuraray in 1972, was the first resin in the world to provide superior barrier properties against the permeation of gases compared with existing plastics. It is used widely in food packaging materials, such as for mayonnaise and ketchup, because it blocks out oxygen and preserves flavor and quality. *EVAL* is also used in plastic gasoline tanks to prevent fuel vapor permeation and reduce vehicle weight. In the construction field, *EVAL* is used for pipes for floor heating systems and stain-resistant wallpaper. Demand is broadening in various fields such as the manufacturing industry, where applications include vacuum insulation panels for refrigerators and hot water dispensers.

Global Development of the *EVAL* Business

Kuraray's core vinyl acetate business (a lineup of products that use vinyl acetate monomer as a raw material, including PVA and *EVAL*) is expanding globally, but the *EVAL* business was

Plastic gasoline tanks made with *EVAL* help to reduce weight and save space.

the first to make inroads outside Japan. With the growth of *EVAL*'s initial food packaging applications, mainly in developed countries, Kuraray started production in the United States in 1986 and in Belgium in 1999. Since then, Kuraray has continued to invest proactively in *EVAL*, and current production capacity is 10,000 tons/year in Japan, 47,000 tons/year in the United States and 24,000 tons/year in Belgium. With growth in global demand for *EVAL* expected to continue, Kuraray decided in February 2016 to expand production capacity in Belgium by 11,000 tons/year (start of operation scheduled for the end of 2016) and has begun considering its next capacity expansion.

In Asia, where growth in demand has been notable in recent years, Kuraray has been developing markets by establishing sales and technical service bases in China and Singapore, and sales bases in Thailand and India.

Acquisition of Plantic Technologies Limited

With the acquisition of Plantic Technologies Limited ("Plantic"), Kuraray intends to further expand its business as a leading company in barrier materials, exemplified by *EVAL*, in line with its mission, "We are committed to developing new fields of business using pioneering technology that improves the environment and enhances the quality of life throughout the world."

Plantic's *PLANTIC* film, made with specialized starch, meets emerging global needs for bio-based food packaging materials. As a food packaging material, bio-derived *PLANTIC* film complements non-bio-derived *EVAL*, and Kuraray will be able to enhance its business portfolio with the addition of Plantic to the Kuraray Group.

Kuraray is using the application technologies for barrier materials it has accumulated with *EVAL* to promote the full-scale development of bio-based barrier materials.

Development of Next-Generation Barrier Materials

Kuraray has launched *KURARISTER*, which has high gas barrier and water-vapor barrier properties, as a next-generation barrier material, and is opening up markets. Initially used as a packaging material for retort food products, *KURARISTER*'s range of uses has expanded with the start of optical and industrial applications in photovoltaic cells.

Kuraray is also making proactive use of external resources in conducting development. In 2013, Kuraray established an alliance with Vitriflex, Inc. of the United States and has been conducting joint development of moisture ultra-barrier materials. Anticipated applications for moisture ultra-barrier materials include liquid crystal displays and organic electroluminescent lighting and displays.

Vision for the *EVAL* Business

With a 65% share of the global market for *EVAL* EVOH resin, Kuraray is assured of its leadership in barrier materials. However, Kuraray will reinforce its global number-one position by working to further grow the *EVAL* business and expand into new business domains. To grow the *EVAL* business, Kuraray plans to increase production capacity by 30% during GS-STEP, the three-year medium-term management plan from fiscal 2015 to fiscal 2017. In addition to promoting growth of *EVAL*'s existing applications in food packaging and plastic gasoline tanks, Kuraray intends to expand *EVAL*'s business domains by accelerating its rollout into new applications such as non-food and non-packing applications. Kuraray also aims to promote the development of next-generation barrier materials to step up its rollout into industrial and optical applications.

The *EVAL* business remains the fastest-growing sector of Kuraray's core vinyl acetate business. Kuraray will work for further expansion of this business as a growth driver, with the intention of offering barrier material solutions that earn it a reputation as "the company to ask about barrier materials."

Vacuum insulation panels made with *EVAL* contribute to larger refrigerator capacity.

Food packaging using *EVAL* contributes to long-term preservation and more lightweight packages.

Re-Create:
CLARINO's Half-Century of History, and Challenges for Further Innovation

Kuraray is expanding business by developing new applications for and promoting sales of *TIRRENINA*, which is made with a new environment-friendly process, targeting the high-end natural leather market, where supply cannot keep pace with market growth.

Looking Back on the 50 Years since *CLARINO*'s Launch

In 2015, *CLARINO* reached its 50th anniversary. The first successfully commercialized man-made leather in Japan, *CLARINO* uses the power of chemistry to duplicate the structure and performance of natural leather. Starting from a desire to tackle the most difficult material first, Kuraray researchers have faced repeated failures and challenges as they continue the evolution of highly functional *CLARINO*, which combines a refined appearance, lightweight flexibility, water resistance, toughness and durability, easy care and a full range of color variations. These characteristics have made the product popular for many years in various applications including school bags, shoes, gloves, interiors and clothing.

Kuraray's second president Soichiro Ohara, who was in office at the time of the product's launch, gave it the name *CLARINO*. Clarino is originally the name of an old type of trumpet, and Mr. Ohara envisioned a product that was "not just new, but encompasses classical value in its essence." If Kuraray was the orchestra, he expected *CLARINO* to handle the role of a trumpet playing a soul-stirring fanfare.

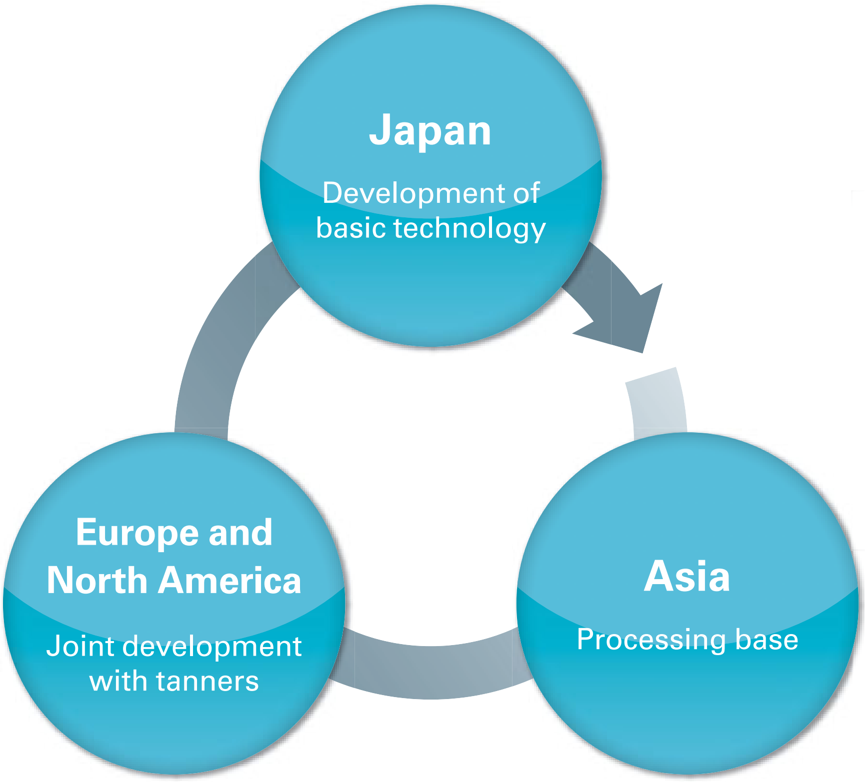
An event held in November 2015 to commemorate the 50th anniversary of the launch of *CLARINO* was a great success. "Re-Create," the slogan of the event, does not represent self-satisfaction at a half-century as the top manufacturer of man-made leather, but rather incorporates a strong desire to stride forward anew. On the occasion of this 50th anniversary, Kuraray intends to write the next chapter of its history with the global announcement of a new product.

President Masaaki Ito (top) and Director and Primary Executive Officer Sadaaki Matsuyama (bottom) address the audience at the commemorative event.

Strong Results with the Promotion of *TIRRENINA* sales

In addition to improving profitability by transferring the production of unprofitable brands to China and expanding production, Kuraray was able to achieve strong results in 2015 by promoting sales of *TIRRENINA*, which was developed using a new environment-friendly manufacturing process. Kuraray started production of *CLARINO* in China with the establishment of a local joint venture. Since 2011, Kuraray has been accelerating the transfer of low-profit brand production to China, while specializing in Japan on production of high-value-added products such as school bags, brand-name clothing and sundries, as well as *TIRRENINA*. Today, the quality of products made in China is stable, and we

Accelerate development by dividing functions among Japan, the United States, Europe and Asia



are using the advantage of their low cost in general applications to promote sales.

Made by applying Kuraray's original water-soluble polymer for an organic solvent-free manufacturing process, *TIRRENINA* is environment friendly, yet its high-quality finish gives it a refined appearance and superior texture close to high-end natural leather. The product is gaining a reputation as a material with characteristics that differ from conventional *CLARINO*, and its range of applications is widening step by step.

Expanding Applications for *TIRRENINA* as a Substitute for High-End Leather

To expand applications for *TIRRENINA* as a substitute for high-end leather, Kuraray carried out the unprecedented measure of joint development with tanners in Europe and North America.

Giving *TIRRENINA* a finish equal to tanned natural leather has resulted in the texture and feeling of high-end natural leather. Kuraray presented an exhibit for *TIRRENINA* at Lineapelle, one of the largest international leather fairs, held in September 2015 in Milan, Italy, and received a positive response.

With its tanner's finish, *TIRRENINA* targets applications such as high-end bags and men's and women's shoes made by renowned brands. Backed by factors such as growing demand in emerging countries and rising animal feed prices, high-quality natural leather has nearly doubled in price over the last few years. As a result, inquiries about high-quality man-made leather as a substitute for natural leather are on the rise. Under these circumstances, *TIRRENINA* with its tanner's finish is expected to expand demand for high-end natural leather substitutes.

Plans for Future Growth of the *CLARINO* Business

The market for products with high-end natural leather quality and new markets such as the information technology sector are expected to continue to grow, but the supply of high-end natural leather is likely to be insufficient. Consequently, Kuraray will promote the development and expansion of sales of *TIRRENINA* as a substitute for high-end natural leather as well as for new applications.

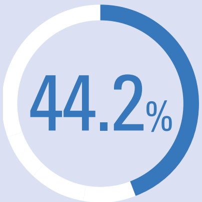
At the same time, Kuraray intends to expand sales of and increase profit from products made with its existing process. Specifically, Kuraray intends to specialize in high-value-added applications in its domestic production and use the stable quality and cost benefits of production in China as advantages to promote sales.

Through these measures, Kuraray plans to increase the profitability of its *CLARINO* business while aiming for further growth.

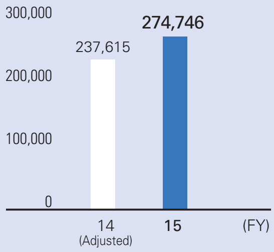
Kuraray at a Glance

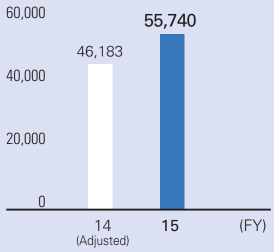
Vinyl Acetate

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 PVA resin, water-soluble PVA film, PVB resin and film, *SentryGlas*® and *EVAL* in the United States, PVA resin, PVB resin and film, and *EVAL* in Europe and PVA resin and PVB film in Asia.





Main Products

***KURARAY POVAL, ELVANOL* (PVA resin)**
Global Market Share: 40%
(excluding China)

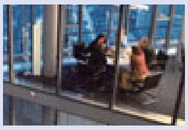
Paper / fiber processing agents, adhesives and others

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, BUTACITE* (PVB film)**

Interlayers for laminated safety glass and photovoltaic module encapsulation

***SentryGlas*® (Ionoplast interlayer)**

* *SentryGlas* ® is a trademark of E. I. du Pont de Nemours and Company or its affiliates for its brand of interlayers. It is used under exclusive license by Kuraray.

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

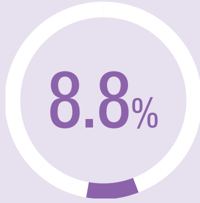
Food packaging, automobile tanks / vacuum insulation panels for refrigerators and others

PLANTIC

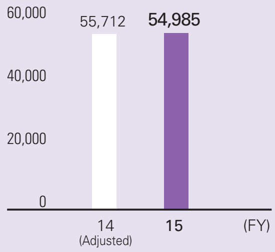
Bio-based barrier material with applications that include fresh food packaging and industrial uses

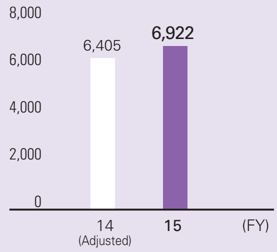
Isoprene

Share of Net Sales



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





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

Liquid Rubber

Additive agent for automobile tires and others

***KURARITY* (Acrylic thermoplastic elastomer)**

Adhesives, molding materials 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

* The figures for fiscal 2014 (adjusted) reflect the 12 months from January to December for the Company and its consolidated domestic and overseas subsidiaries. These figures are unaudited and for comparison purposes only.

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

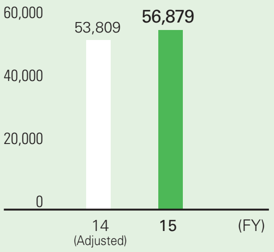
Only One Product is the only one of its kind in the world

Functional Materials

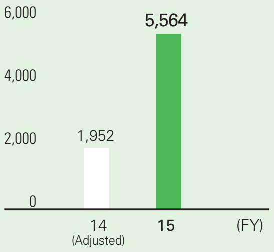
Share of Net Sales

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.

Net Sales* (Millions of yen)



Operating Income* (Millions of yen)



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

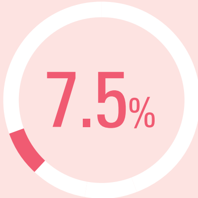
Light guide plates for LCDs, automobile light covers, signboards, construction material and others

Dental materials

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

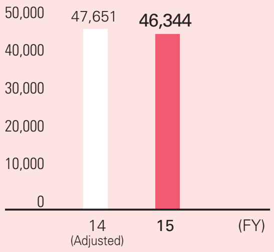
Fibers and Textiles

Share of Net Sales

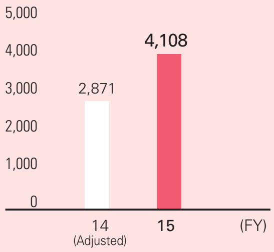


The Fibers and Textiles segment produces and sells *KURALON*, polyester staple, *KURAFLEX*, hook and loop fasteners and other products.

Net Sales* (Millions of yen)



Operating Income* (Millions of yen)



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)**

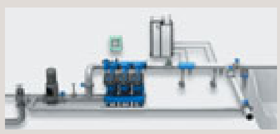
Rope, fishing nets and other industrial products

Polyester filament

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

Environmental business

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



Results for Fiscal 2015

Vinyl Acetate

Sales volume of optical-use PVA film increased due to growth in the number of LCD panels sold and the trend toward larger panels. Sales of PVA resin were generally favorable. Sales of PVB film to China and South America were sluggish, but other regions made up for the shortfall. Sales of water-soluble PVA film grew favorably on the back of brisk demand.

Sales of *EVAL* ethylene vinyl alcohol copolymer (EVOH resin) were favorable for both automotive gas tank and food packaging applications.

As a result, segment sales increased by 15.6% year on year to ¥274,746 million, and segment income rose by 20.7% year on year to ¥55,740 million.

Isoprene

In isoprene chemicals, sales of fine chemicals, *SEPTON* thermoplastic elastomer and liquid rubber were affected by the slowdown in China's economy. Sales of *GENESTAR* heat-resistant polyamide resin expanded favorably for automotive applications, but sales for LED reflector and connector applications were substantially affected by the slowdown in China's economy.

As a result, segment sales decreased by 1.3% year on year to ¥54,985 million, and segment income increased by 8.1% year on year to ¥6,922 million.

Functional Materials

Methacrylic resin sales were favorable due to factors including a shift toward highly functional products, despite a drop in demand for certain resin applications. In the medical business, sales expanded with the contribution of the launch of the new dental material products. For *CLARINO* man-made leather, profit grew with brisk sales of products made with both the conventional and the new production process.

As a result, segment sales grew by 5.7% year on year to ¥56,879 million, and segment income increased by 185.0% year on year to ¥5,564 million.

Fibers and Textiles

Sales of *KURALON* were brisk, due in part to a shift to high-value-added applications, which compensated for sluggish sales of consumer goods and materials and other products.

As a result, segment sales decreased by 2.7% year on year to ¥46,344 million, and segment income increased by 43.1% year on year to ¥4,108 million.

Trading, Others

Trading

Sales were generally firm in chemical-related businesses. In fiber-related businesses, an increase in overseas processing expenses due to the depreciation of the yen was covered by expanded sales of high-performance materials.

As a result, segment sales increased by 0.3% year on year to ¥119,640 million, and segment income increased by 0.1% to ¥3,882 million.

Other Business

Due in part to the contribution of the engineering business, sales of other businesses were firm, despite the impact of the slowdown in China's economy on some businesses.

As a result, segment sales increased by 1.3% year on year to ¥69,601 million, and segment income increased by 6.7% to ¥2,773 million.

Performance Forecast for Fiscal 2016

Regarding the operating environment in fiscal 2016, concerns about the outlook for Japan's economy are growing due to the impact of the weak global economy, despite expected support from last-minute demand ahead of an increase in the consumption tax rate. Overseas, the United States economy is favorable and although the outlook is unclear in Europe, a moderate recovery is expected to continue. On the other hand, the slowdown in growth is expected to continue in the economies of China and other emerging nations. In addition, the drop in the price of crude oil is expected to exert a positive effect on the Company's results over the short term, but over the medium to long term, it has the potential to lead to an increase in geopolitical risk and exert a negative effect on the global economy. Moreover, with factors such as the difficulty of predicting the impact on the real economy from the recent worldwide drop in share prices, the operating environment is becoming increasingly unclear.

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

Based on these factors, the forecast of operating results for fiscal 2016 is as shown below.

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

	Fiscal 2015	Forecast for Fiscal 2016	Change
Net Sales	**521.7**	540.0	+3.5%
Operating Income	**66.1**	70.0	+5.9%
Ordinary Income	**64.5**	68.0	+5.4%
Net Income	**35.7**	40.0	+11.9%

For fiscal 2016, we assume average exchange rates of ¥120 to the U.S. dollar and ¥130 to the euro, as well as a domestic naphtha price of ¥39,000 per kiloliter.

(Reference) Forecast of Results by Segment for Fiscal 2016

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

	Net Sales		Operating Income	
	Fiscal 2015	Forecast for Fiscal 2016	Fiscal 2015	Forecast for Fiscal 2016
Vinyl Acetate	**274.7**	290.0	**55.7**	60.5
Isoprene	**55.0**	57.0	**6.9**	7.5
Functional Materials	**56.9**	58.5	**5.6**	5.7
Fibers and Textiles	**46.3**	48.5	**4.1**	4.5
Trading	**119.6**	125.0	**3.9**	4.0
Others	**69.6**	70.5	**2.8**	2.0
Corporate and eliminations	**(100.5)**	(109.5)	**(12.9)**	(14.2)
Total	**521.7**	540.0	**66.1**	70.0

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.

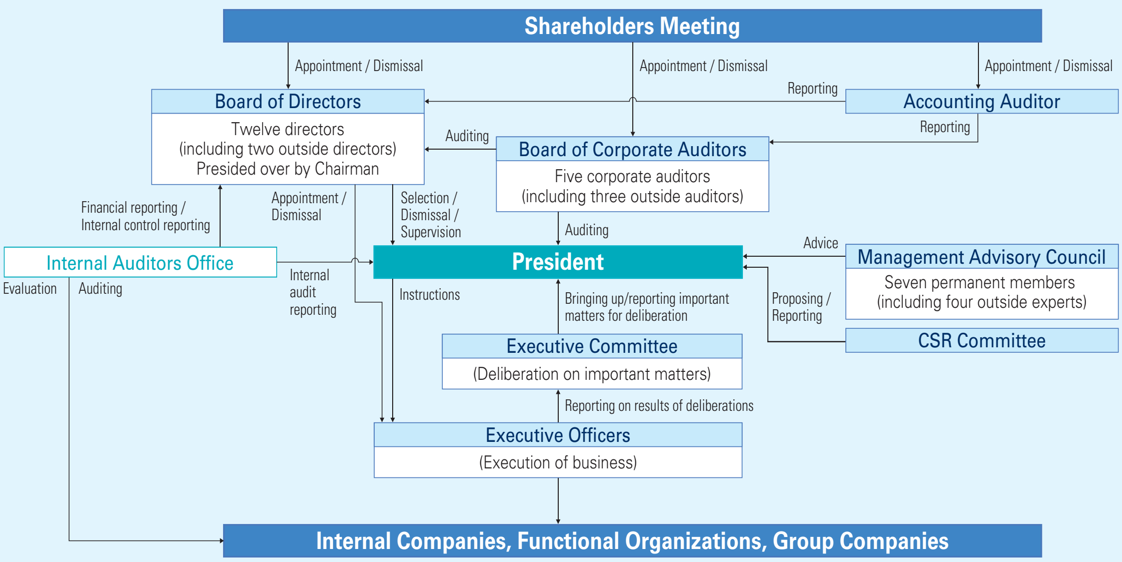
Corporate Governance Systems

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 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 seven 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 Policy for Establishment of an Internal Control System

The Kuraray Group recognizes that establishing and operating internal control systems is an important management task, and its Board of Directors has set forth the following Basic Policy for Establishment of Internal Control Systems.

1. Systems to ensure compliance of execution of duties of Directors and employees with laws, regulations and the Articles of Incorporation
2. Systems concerning storage and management of information regarding execution of duties of Directors
3. Regulations and other systems regarding management of risk of loss
4. Systems to ensure efficient execution of duties by Directors
5. Systems to ensure the propriety of business operations at the corporate group, composed of the Company and subsidiaries
6. Independence from Directors of employees assisting the duties of Company Auditors and items regarding ensuring the effectiveness of instructions given to these employees
7. Systems regarding reporting to Company Auditors of the Company and systems to ensure persons who make reports do not receive detrimental treatment as a result of making a report
8. Items regarding prepayment of expenses, procedures for reimbursement, and policies regarding processing of other expenses and liabilities arising from execution of duties by Company Auditors
9. Other systems to ensure that audits by Company Auditors are made effectively

Board of Directors, Corporate Auditors and Executive Officers

(As of March 29, 2016)

Board of Directors

Representative Director and Chairman

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
January	2015	Representative Director and Chairman (Current position)

Representative Director and President

Masaaki Ito

April	1980	Entered Kuraray Co., Ltd.
June	2012	Executive Officer
April	2013	Vice President of Functional Materials Company
June	2013	Senior Executive Officer
April	2014	Officer Responsible for Corporate Management Planning Division and CSR Division, and General Manager of Corporate Management Planning Division
June	2014	Director and Senior Executive Officer
January	2015	Representative Director and President (Current position)

Director and Primary Executive Officer

Sadaaki Matsuyama

President of Functional Materials Company

April	1975	Entered Kuraray Co., Ltd.
June	2010	Executive Officer
April	2012	Representative Director and President of Kuraray Noritake Dental Inc.
June	2012	Senior Executive Officer
April	2013	President of Functional Materials Company (Current position) and General Manager of Medical Division, Functional Materials Company
June	2013	Director and Senior Executive Officer
March	2016	Director and Primary Executive Officer (Current position)

Director and Primary Executive Officer

Kazuhiko Kugawa

Officer Responsible for Corporate Management Planning Office and Administrative Unit

April	1976	Entered Kuraray Co., Ltd.
June	2012	Executive Officer
April	2013	Vice President of Vinyl Acetate Company
June	2013	Senior Executive Officer
June	2014	Director and Senior Executive Officer
January	2015	President of Vinyl Acetate Resin Company
January	2016	Officer Responsible for Corporate Management Planning Office (Current position), Officer Responsible for Administrative Unit (Current position)
March	2016	Director and Primary Executive Officer (Current position)

Director and Primary Executive Officer

Hiroaya Hayase

President of Vinyl Acetate Resin Company and Vinyl Acetate Film Company

April	1980	Entered Kuraray Co., Ltd.
April	2012	General Manager of Poval Resin Division, Resin Company
June	2012	Executive Officer
April	2013	General Manager of Poval Resin Division and Production and Technology Management Division, Vinyl Acetate Company
June	2014	Senior Executive Officer
January	2015	President of Vinyl Acetate Film Company (Current position)
March	2015	Director and Senior Executive Officer
January	2016	President of Vinyl Acetate Resin Company (Current position)
March	2016	Director and Primary Executive Officer (Current position)

Director and Senior Executive Officer

Yukiatsu Komiya

Officer Responsible for Research and Development Division and New Business Development Division

April	1984	Entered Kuraray Co., Ltd.
July	2011	General Manager, Kashima Plant
June	2012	Executive Officer
April	2013	General Manager of Isoprene Chemicals Division, Isoprene Company
April	2014	President of Isoprene Company
June	2014	Senior Executive Officer
March	2015	Director and Senior Executive Officer (Current position)
January	2016	Officer Responsible for Research and Development Division and New Business Development Division (Current position)

Director and Senior Executive Officer

Kazuhiro Nakayama

Officer Responsible for Technology Division, Environmental Business Development and Promotion Division and Plants in Japan

April	1980	Entered Kuraray Co., Ltd.
April	2012	General Manager, Kurashiki Plant, General Manager of Technology Development Center, Technology Division
June	2012	Executive Officer
April	2013	General Manager of Global Business Planning Division, Vinyl Acetate Company
April	2014	General Manager of Technology Division
January	2016	Officer Responsible for Technology Division, Environmental Business Development and Promotion Division and Plants in Japan (Current position)
March	2016	Director and Senior Executive Officer (Current position)

Director and Senior Executive Officer

Kenichi Abe

President of Isoprene Company

April	1980	Entered Kuraray Co., Ltd.
April	2012	General Manager of Corporate Management Planning Division
June	2012	Executive Officer
April	2013	General Manager of New Business Development Division
January	2016	President of Isoprene Company (Current position)
March	2016	Director and Senior Executive Officer (Current position)

Director and Senior Executive Officer

Yoshimasa Sano

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

April	1980	Entered Kuraray Co., Ltd.
April	2010	General Manager of Elastomer Division, Chemicals Company
June	2012	Executive Officer
April	2014	General Manager of Methacrylate Division, Functional Materials Company (Current position)
January	2016	Vice President of Functional Materials Company (Current position)
March	2016	Director and Senior Executive Officer (Current position)

Director and Senior Executive Officer

Hitoshi Toyoura

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

April	1982	Entered Kuraray Co., Ltd.
April	2010	General Manager of Fibers and Industrial Materials Division, Fibers and Textiles Company
June	2013	Executive Officer
January	2015	General Manager of Consumer Goods and Materials Division, Fibers and Textiles Company
March	2015	President of Kuraray Fastening Co., Ltd.
January	2016	President of Fibers and Textiles Company (Current position), Officer Responsible for Osaka Head Office (Current position)
March	2016	Director and Senior Executive Officer (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
April	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)
April	2014	Chairman, International Academy of CIO Japan (Current position)
October	2014	Director, FPT Corporation (Current position)

Director

Jun Hamano[1]

April	1974	Entered Economic Planning Agency of Japan
July	1999	Director, Minister's Secretariat Division, EPA
January	2001	Director, Personnel Division, Minister's Secretariat, Cabinet Office
January	2002	Deputy Director General for Economic and Fiscal Management, Cabinet Office
July	2004	Director General for Economic and Fiscal Management, Cabinet Office
July	2006	Vice-Minister for Policy Coordination, Cabinet Office
July	2008	Deputy Vice-Minister, Cabinet Office
July	2009	Vice-Minister, Cabinet Office
January	2012	Advisor, Cabinet Office
April	2013	Executive Advisor, DENTSU INC. (Current position)
June	2014	Director, Ohara Memorial Healthcare Foundation (Current Position)
June	2015	Chairman, the Institute for Science of Labour
September	2015	Chairman, the Ohara Memorial Institute for Science of Labour (Current Position)
March	2016	Director, Kuraray Co., Ltd. (Current position)

Corporate Auditors

Standing Corporate Auditors

Keiji Murakami

Kunio Yukiyoshi

Corporate Auditors

Mie Fujimoto[2]

Yoshimitsu Okamoto[2]

Mikio Nakura[2]

Notes: 1. Directors Tomokazu Hamaguchi and Jun Hamano are independent outside Directors.
2. Corporate Auditors Mie Fujimoto, Yoshimitsu Okamoto and Mikio Nakura are independent outside Corporate Auditors.

Executive Officers

Matthias Gutweiler
President of Kuraray Europe GmbH

George Avdey
President of Kuraray America, Inc.

Yukinori Yamane
General Manager of Purchasing and Logistics Division

Akira Omura
Vice President of Vinyl Acetate Resin Company,
General Manager of Production and Technology Management Division, Vinyl Acetate Resin Company,
General Manager of Production and Technology Management Division, Vinyl Acetate Film Company

Tsugunori Kashimura
General Manager of Research and Development Division

Takashi Nakajima
General Manager of New Business Development Division

Hirohide Hayashi
General Manager of Technology Division

P. Scott Bening
General Manager of WS Film Division,
Vinyl Acetate Film Company,
President of MonoSol, LLC.

Stephen Cox
General Manager of PVB Division, Vinyl Acetate Film Company

Toshinori Tsugaru
General Manager of Okayama Plant

Koichi Takano
General Manager of Elastomer Division, Isoprene Company

Nobuhiko Takai
General Manager of Genestar Division, Isoprene Company

Toshihiro Omatsu
General Manager of Isoprene Chemical Division, Isoprene Company

Hitoshi Kawahara
Vice President of Vinyl Acetate Film Company,
General Manager of Poval Film Division, Vinyl Acetate Film Company

Hajime Suzuki
Vice President of Kuraray America, Inc.

Ikuo Nakamura
General Manager of Clarino Division, Functional Materials Company

Financial Review

Kuraray Co., Ltd. and its consolidated subsidiaries

Business Environment

In the fiscal year ended December 31, 2015 ("fiscal 2015"), weakness was apparent in some sectors of the Japanese economy, with delays in recovery of personal consumption and capital investment, but a moderate recovery trend continued. In the global economy, although the United States economy was healthy, with steady employment conditions and personal consumption, the outlook in Europe was unclear as the recovery in business conditions appeared to lack force. A slowdown trend in the Chinese economy further strengthened toward the end of the fiscal year, and there was an increase in the number of emerging countries where growth weakened. A decline in raw material and fuel costs associated with the drop in crude oil prices that has been ongoing since the end of fiscal 2014 inevitably led to selling price adjustments in some businesses, but exerted a positive effect on the Company's results for fiscal 2015.

Under these circumstances, the Kuraray Group has been successively implementing the business strategies outlined in GS-STEP, its medium-term management plan that started in fiscal 2015, to realize "a high-profit specialty chemical company with a global presence."

Sales

Please note that comparisons with the previous fiscal year (April 1 to December 31, 2014) use figures that have been adjusted to the corresponding period (January 1, 2014 to December 31, 2014) as fiscal 2015 (January 1, 2015 to December 31, 2015).

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

	Fiscal 2015 (January-December)	Fiscal 2014 (Adjusted) (January-December)	Fiscal 2014 (April-December)	Change (Adjusted)
Net Sales	521.7	485.0	411.4	+7.6%
Operating Income	66.1	51.4	40.3	+28.6%
Ordinary Income	64.5	51.0	40.1	+26.6%
Net Income	35.7	27.5	21.3	+30.2%

Note: Figures for Fiscal 2014 (Adjusted) are unaudited.

The Kuraray Group's consolidated net sales for fiscal 2015 (the twelve-month period from January 1, 2015 to December 31, 2015) increased ¥36,752 million ($304 million), or 7.6%, compared with the previous fiscal year (adjusted) to ¥521,721 million ($4,312 million); operating income increased ¥14,694 million ($121 million), or 28.6%, to ¥66,077 million ($546 million); ordinary income increased ¥13,574 million ($112 million), or 26.6%, to ¥64,535 million ($533 million); and net income increased ¥8,294 million ($69 million), or 30.2%, to ¥35,749 million ($295 million).

Results by Business Segment

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

	Net Sales		Operating Income	
	Fiscal 2015 (January-December)	Fiscal 2014 (Adjusted) (January-December)	Fiscal 2015 (January-December)	Fiscal 2014 (Adjusted) (January-December)
Vinyl Acetate	274.7	237.6	55.7	46.2
Isoprene	55.0	55.7	6.9	6.4
Functional Materials	56.9	53.8	5.6	2.0
Fibers and Textiles	46.3	47.7	4.1	2.9
Trading	119.6	119.2	3.9	3.8
Other Business	69.6	68.7	2.8	2.6
Elimination & Corporate	(100.5)	(97.8)	(12.9)	(12.5)
Total	521.7	485.0	66.1	51.4

Note: Figures for Fiscal 2014 (Adjusted) are unaudited.

Vinyl Acetate

Sales in this segment increased 15.6% year on year to ¥274,746 million ($2,271 million), and segment income rose 20.7% year on year to ¥55,740 million ($461 million).

1) Sales volume of optical-use PVA film increased due to growth in the number of LCD panels sold and the trend toward larger panels. Sales of PVA resin were generally favorable. Sales of PVB film to China and South America were sluggish, but other regions made up for the shortfall. Sales of water-soluble PVA film grew favorably on the back of brisk demand.
2) Sales of *EVAL* ethylene vinyl alcohol copolymer (EVOH resin) were favorable for both automotive gas tank and food packaging applications.

Isoprene

Sales in this segment decreased 1.3% year on year to ¥54,985 million ($454 million), and segment income increased 8.1% year on year to ¥6,922 million ($57 million).

1) In isoprene chemicals, sales of fine chemicals, *SEPTON* thermoplastic elastomer and liquid rubber were affected by the slowdown in China's economy.
2) Sales of *GENESTAR* heat-resistant polyamide resin expanded favorably for automotive applications, but sales for LED reflector and connector applications were substantially affected by the slowdown in China's economy.

Functional Materials

Sales in this segment grew 5.7% year on year to ¥56,879 million ($470 million), and segment income increased 185.0% year on year to ¥5,564 million ($46 million).

1) Methacrylic resin sales were favorable due to factors including a shift toward highly functional products, despite a drop in demand for certain resin applications.
2) In the medical business, sales expanded with the contribution of the launch of a new dental material product.
3) For *CLARINO* man-made leather, profit grew with brisk sales of products made with both the conventional and the new production process.

Fibers and Textiles

Sales of *KURALON* were brisk, due in part to a shift to high-value-added applications, which compensated for sluggish sales of consumer goods and materials and other products. As a result, sales in this segment decreased 2.7% year on year to ¥46,344 million ($383 million), and segment income increased 43.1% year on year to ¥4,108 million ($34 million).

Trading

Sales were generally firm in chemical-related businesses. In fiber-related businesses, an increase in overseas processing expenses due to the depreciation of the yen was covered by expanded sales of high-performance materials. As a result, segment sales increased 0.3% year on year to ¥119,640 million ($989 million), and segment income increased 0.1% to ¥3,882 million ($32 million).

Other Business

Due in part to the contribution of the engineering business, sales of other businesses were firm, despite the impact of the slowdown in China's economy on some businesses. As a result, segment sales increased 1.3% year on year to ¥69,601 million ($575 million), and segment income increased 6.7% to ¥2,773 million ($23 million).

Financial Position

As of December 31, 2015, cash and deposits stood at ¥36,996 million ($305 million), an increase of ¥3,056 million ($25 million) compared to December 31, 2014. Notes and accounts receivable – trade decreased ¥2,908 million ($24 million) to ¥102,079 million ($843 million). Short-term investment securities increased ¥16,301 million ($134 million) to ¥18,805 million ($155 million). Inventories (merchandise and finished goods, work-in-process, and raw materials and supplies) increased ¥5,089 million ($42 million) to ¥112,187 million ($927 million), and inventory turnover (the number of months' sales in inventory) was 2.6 months. Current assets increased ¥27,286 million ($225 million) or 10.1% to ¥296,486 million ($2,450 million). Working capital (current assets less current liabilities) increased ¥41,771 million ($345 million) to ¥201,035 million ($1,661 million).

The current ratio (current assets divided by current liabilities) at December 31, 2015 increased to 310.6% from 244.9% at December 31, 2014. Tangible fixed assets decreased ¥368 million ($3 million) to ¥262,019 million ($2,165 million). This included factors such as an increase in machinery, equipment and vehicles (net) of ¥7,664 million ($63 million) to ¥127,962 million ($1,057 million) and a decrease in land of ¥3,490 million ($28 million) to ¥18,508 million ($152 million) and a decrease in construction in progress of ¥5,980 million ($49 million) to ¥56,609 million ($467 million). Intangible fixed assets decreased ¥4,864 million ($40 million) to ¥83,976 million ($694 million). Investments and other assets decreased by ¥11,821 million ($97 million) to ¥59,287 million ($489 million) due mainly to a decrease in investment securities of ¥8,285 ($68 million) to ¥46,057 ($380 million). Total assets increased ¥10,231 million ($84 million) to ¥701,770 million ($5,799 million).

Current liabilities decreased ¥14,485 million ($119 million) to ¥95,450 million ($788 million), due primarily to an increase in income taxes payable of ¥12,117 million ($100 million) to ¥14,692 million ($121 million), a decrease in notes and accounts payable – trade of ¥4,696 million ($38 million) to ¥38,331 million ($316 million), a decrease in other current liabilities of ¥9,831 million ($81 million) to ¥19,480 million ($160 million), and the repayment of commercial papers totaling ¥10,000 million issued in the previous fiscal year.

Noncurrent liabilities increased ¥2,954 million ($24 million) to ¥102,729 million ($849 million).

Net assets increased ¥21,763 million ($179 million) to ¥503,589 million ($4,161 million). Subtracting minority interests and subscription rights to shares totaling ¥7,527 million ($62 million), shareholders' equity was ¥496,062 million ($4,099 million) mainly due to a decrease in retained earnings, the retirement of treasury stock and foreign currency translation adjustment. The equity ratio at December 31, 2015 was 70.7%, up 2.0% from December 31, 2014.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥93,228 million ($770 million). Cash provided included ¥58,514 million ($484 million) from income before income taxes and minority interests and ¥44,102 million ($364 million) from depreciation and amortization. Cash used included ¥6,617 million ($55 million) due to an increase in inventories and ¥4,241 million ($35 million) due to an increase in notes and accounts payable – trade. Net cash provided by operating activities in fiscal 2015 (the twelve months from January 1, 2015 to December 31, 2015) increased ¥52,388 million ($433 million) compared with the previous fiscal year (the nine months from April 1, 2014 to December 31, 2014).

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥48,553 million ($401 million). Proceeds from sales and redemption of investment securities provided cash of ¥4,385 million ($36 million), while uses of cash included ¥43,099 million ($356 million) for purchase of tangible fixed assets and intangible fixed assets and ¥5,564 million ($46 million) for purchase of investments in subsidiaries.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥24,353 million ($201 million). Uses of cash included cash dividends paid of ¥9,474 million ($78 million) while cash provided included a net decrease in loans and payment of commercial papers totaling ¥15,084 million ($125 million).

In addition to the above factors, as a result of the effect of exchange rate changes on cash and cash equivalents, cash and cash equivalents at the end of the fiscal year increased ¥19,362 million ($160 million) from the end of the previous fiscal year to ¥54,750 million ($452 million).

Capital Expenditure

Capital investment by the Kuraray Group (Kuraray and consolidated subsidiaries) amounted to ¥45,014 million ($372 million) in fiscal 2015, mainly for construction of a new *POVAL* plant. By segment, capital investment amounted to ¥30,221 million ($250 million) in the Vinyl Acetate segment, ¥2,398 million ($20 million) in the Isoprene segment, ¥3,239 million ($27 million) in the Functional Materials segment, ¥4,073 million ($34 million) in the Fibers and Textiles segment, ¥27 million ($0.2 million) in the Trading segment, and ¥2,083 million ($17 million) in the Others segment. General (non-segment) capital investment amounted to ¥2,969 million ($25 million).

Outlook for the Fiscal Year Ending December 31, 2016

Regarding the operating environment in fiscal 2016, concerns about the outlook are growing in Japan due to the impact of the weak global economy, despite expected support from last-minute demand ahead of an increase in the consumption tax rate. Overseas, the United States economy is favorable and although the outlook is unclear in Europe, a moderate recovery is expected to continue. On the other hand, the slowdown in growth is expected to continue in the economies of China and other emerging nations. In addition, the drop in the price of crude oil is expected to exert a positive effect on the Company's results over the short term, but over the medium to long term, it has the potential to lead to an increase in geopolitical risk and exert a negative effect on the global economy. Moreover, with factors such as the difficulty of predicting the impact on the real economy from the recent worldwide drop in share prices, the operating environment is becoming increasingly unclear.

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

Taking these circumstances into account, our forecasts for the period ending December 31, 2016 are net sales of ¥540.0 billion, operating income of ¥70.0 billion, ordinary income of ¥68.0 billion and net income of ¥40.0 billion. We assume average exchange rates of ¥120 to the U.S. dollar and ¥130 to the euro, as well as a domestic naphtha price of ¥39 thousand per kiloliter.

Risk Management

Risks that could have a significant impact on the Kuraray Group's performance (results of operations and financial position) are discussed below. Forward-looking statements in the following text represent the Kuraray Group's best judgment as of December 31, 2015.

1) Risks associated with the changes in business environment

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

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

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

2) Risks associated with accidents and disasters

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

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

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

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

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

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

4) Risks associated with changes in exchange rates

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

5) Other risks

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

Consolidated Balance Sheet

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	December 31, 2015	December 31, 2014	December 31, 2015
ASSETS			
I Current assets:			
1 Cash and deposits*6	¥ 36,996	¥ 33,939	$ 305,752
2 Notes and accounts receivable–trade*7	102,079	104,988	843,628
3 Short-term investment securities	18,805	2,504	155,413
4 Merchandise and finished goods	77,582	74,201	641,173
5 Work-in-process	11,293	13,788	93,330
6 Raw materials and supplies	23,310	19,107	192,644
7 Deferred tax assets	7,598	4,694	62,793
8 Other	19,430	16,546	160,578
9 Allowance for doubtful accounts	(611)	(571)	(5,049)
Total current assets	296,486	269,200	2,450,297
II Noncurrent assets:			
1 Tangible fixed assets:			
(1) Buildings and structures, net*2 and 6	53,959	52,729	445,942
(2) Machinery, equipment and vehicles, net*2	127,962	120,298	1,057,537
(3) Land*2 and 6	18,508	21,999	152,958
(4) Construction in progress	56,609	62,590	467,842
(5) Other, net*2	4,978	4,770	41,140
Total tangible fixed assets*1	262,019	262,388	2,165,446
2 Intangible fixed assets:			
(1) Goodwill	28,564	31,217	236,066
(2) Customer-related assets	32,244	34,745	266,479
(3) Other	23,167	22,877	191,462
Total intangible fixed assets	83,976	88,840	694,016
3 Investments and other assets:			
(1) Investment securities*3 and 6	46,057	54,342	380,636
(2) Long-term loans receivable	239	302	1,975
(3) Net defined benefit assets	791	816	6,537
(4) Deferred tax assets	6,361	8,701	52,570
(5) Other	5,887	6,993	48,652
(6) Allowance for doubtful accounts	(50)	(48)	(413)
Total investments and other assets	59,287	71,108	489,975
Total noncurrent assets	405,284	422,338	3,349,454
TOTAL ASSETS	¥701,770	¥691,538	$5,799,752

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

	Millions of yen		Thousands of U.S. dollars
	December 31, 2015	December 31, 2014	December 31, 2015
LIABILITIES			
I Current liabilities:			
1 Notes and accounts payable–trade*7	¥ 38,331	¥ 43,027	$ 316,785
2 Short-term loans payable*6	7,187	12,087	59,396
3 Commercial papers	—	10,000	—
4 Accrued expenses	10,468	7,957	86,512
5 Income taxes payable	14,692	2,575	121,421
6 Provision for bonuses	5,259	4,957	43,462
7 Other provisions	31	19	256
8 Other*6 and 7	19,480	29,311	160,991
Total current liabilities	95,450	109,936	788,842
II Noncurrent liabilities:			
1 Bonds payable	10,000	10,000	82,644
2 Long-term loans payable*6	42,257	42,326	349,231
3 Deferred tax liabilities	24,102	20,526	199,190
4 Provision for directors' retirement benefits	185	175	1,528
5 Provision for environmental measures	353	852	2,917
6 Net defined benefit liabilities	11,247	10,053	92,950
7 Asset retirement obligations	3,615	3,500	29,876
8 Other	10,966	12,341	90,628
Total noncurrent liabilities	102,729	99,775	849,000
TOTAL LIABILITIES	198,180	209,712	1,637,851
NET ASSETS			
I Shareholders' equity:			
1 Capital stock	88,955	88,955	735,165
2 Capital surplus	87,147	87,181	720,223
3 Retained earnings	278,899	285,561	2,304,950
4 Treasury stock	(4,319)	(38,110)	(35,694)
Total shareholders' equity	450,682	423,588	3,724,644
II Accumulated other comprehensive income:			
1 Valuation difference on available-for-sale securities	10,808	9,276	89,322
2 Deferred gains or losses on hedges	(4)	65	(33)
3 Foreign currency translation adjustment	39,377	46,899	325,429
4 Remeasurements of defined benefit plans	(4,801)	(5,069)	(39,677)
Total accumulated other comprehensive income	45,380	51,172	375,041
III Subscription rights to shares	831	977	6,867
IV Minority interests	6,695	6,087	55,330
TOTAL NET ASSETS	503,589	481,826	4,161,892
TOTAL LIABILITIES AND NET ASSETS	¥701,770	¥691,538	$5,799,752

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

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Consolidated Statement of Income

		Millions of yen		Thousands of U.S. dollars
		Fiscal 2015 (January 1, 2015 to December 31, 2015)	Fiscal 2014 (April 1, 2014 to December 31, 2014)	Fiscal 2015 (January 1, 2015 to December 31, 2015)
I	Net sales	¥521,721	¥411,408	$4,311,743
II	Cost of sales[*2]	355,137	294,261	2,935,016
	Gross profit	166,583	117,147	1,376,719
III	Selling, general and administrative expenses:			
	1 Selling expenses	27,249	20,573	225,198
	2 General and administrative expenses[*2]	73,257	56,275	605,429
	Total selling, general and administrative expenses[*1]	100,506	76,848	830,628
	Operating income	66,077	40,298	546,090
IV	Non-operating income:			
	1 Interest income	239	220	1,975
	2 Dividend income	2,741	1,711	22,652
	3 Equity in earnings of an affiliate	0	1	0
	4 Other	936	996	7,735
	Total non-operating income	3,918	2,930	32,380
V	Non-operating expenses:			
	1 Interest expenses	724	251	5,983
	2 Personnel expenses for seconded employees	687	592	5,677
	3 Other	4,048	2,300	33,454
	Total non-operating expenses	5,459	3,143	45,115
	Ordinary income	64,535	40,084	533,347
VI	Extraordinary income:			
	1 Gain on reversal of asset retirement obligations	461	—	3,809
	2 Gain on reversal of provision for environmental measures	342	—	2,826
	3 Gain on sales of tangible fixed assets[*3]	278	—	2,297
	4 Gain on liquidation of subsidiaries[*4]	—	695	—
	Total extraordinary income	1,082	695	8,942
VII	Extraordinary loss:			
	1 Impairment loss[*5]	4,847	277	40,057
	2 Loss in construction for delay[*6]	964	—	7,966
	3 Loss on valuation of investment securities	866	177	7,157
	4 Loss on disposal of tangible fixed assets[*7]	425	345	3,512
	5 Loss on transfer of business[*8]	—	5,698	—
	6 Expenses incurred upon acquisition[*9]	—	2,125	—
	7 Retirement benefit expenses[*10]	—	622	—
	Total extraordinary loss	7,104	9,247	58,710
	Income before income taxes and minority interests	58,514	31,533	483,586
	Income taxes — current	18,297	10,704	151,214
	Income taxes for prior periods[*11]	1,497	—	12,371
	Income taxes — deferred	2,252	(1,073)	18,611
	Total income taxes	22,046	9,631	182,198
	Income before minority interests	36,467	21,902	301,380
	Minority interests	718	605	5,933
	Net income	¥ 35,749	¥ 21,296	$ 295,446

Consolidated Statement of Comprehensive Income

		Millions of yen		Thousands of U.S. dollars
		Fiscal 2015 (January 1, 2015 to December 31, 2015)	Fiscal 2014 (April 1, 2014 to December 31, 2014)	Fiscal 2015 (January 1, 2015 to December 31, 2015)
I	Income before minority interests	¥36,467	¥21,902	$301,380
II	Other comprehensive income:			
	1 Valuation difference on available-for-sale securities	1,531	2,332	12,652
	2 Deferred gains or losses on hedges	(69)	69	(570)
	3 Foreign currency translation adjustment	(7,521)	19,874	(62,157)
	4 Remeasurements of defined benefit plans	267	355	2,206
	Total other comprehensive income[*1]	(5,792)	22,631	(47,867)
III	Comprehensive income	30,675	44,533	253,512
	Comprehensive income attributable to			
	1 Owners of the parent	29,956	43,928	247,570
	2 Minority interests	718	605	5,933

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

Consolidated Statement of Changes in Net Assets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen				
	Shareholders' equity				
Fiscal 2015 (January 1, 2015 to December 31, 2015)	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2015	¥88,955	¥ 87,181	¥285,561	¥(38,110)	¥423,588
Changes of items during the period					
Cash dividends			(9,474)		(9,474)
Net income			35,749		35,749
Purchase of treasury stock				(10)	(10)
Disposal of treasury stock		84		745	830
Retirement of treasury stock		(33,054)		33,054	—
Transfer to capital surplus from retained earnings		32,936	(32,936)		—
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	(33)	(6,662)	33,790	27,094
Balance at December 31, 2015	¥88,955	¥ 87,147	¥278,899	¥ (4,319)	¥450,682

	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 January 1, 2015	¥ 9,276	¥ 65	¥46,899	¥(5,069)	¥51,172	¥ 977	¥6,087	¥481,826
Changes of items during the period								
Cash dividends					—			(9,474)
Net income					—			35,749
Purchase of treasury stock					—			(10)
Disposal of treasury stock					—			830
Retirement of treasury stock					—			—
Transfer to capital surplus from retained earnings					—			—
Net changes of items other than shareholders' equity	1,531	(69)	(7,521)	267	(5,792)	(145)	607	(5,331)
Total changes of items during the period	1,531	(69)	(7,521)	267	(5,792)	(145)	607	21,763
Balance at December 31, 2015	¥10,808	¥ (4)	¥39,377	¥(4,801)	¥45,380	¥ 831	¥6,695	¥503,589

Fiscal 2015 (January 1, 2015 to December 31, 2015)	Thousands of U.S. dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at January 1, 2015	$735,165	$ 720,504	$2,360,008	$(314,958)	$3,500,727
Changes of items during the period					
Cash dividends			(78,297)		(78,297)
Net income			295,446		295,446
Purchase of treasury stock				(82)	(82)
Disposal of treasury stock		694		6,157	6,859
Retirement of treasury stock		(273,173)		273,173	—
Transfer to capital surplus from retained earnings		272,198	(272,198)		—
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	(272)	(55,057)	279,256	223,917
Balance at December 31, 2015	$735,165	$ 720,223	$2,304,950	$ (35,694)	$3,724,644

	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 January 1, 2015	$76,661	$ 537	$387,595	$(41,892)	$422,909	$ 8,074	$50,305	$3,982,033
Changes of items during the period								
Cash dividends					—			(78,297)
Net income					—			295,446
Purchase of treasury stock					—			(82)
Disposal of treasury stock					—			6,859
Retirement of treasury stock					—			—
Transfer to capital surplus from retained earnings					—			—
Net changes of items other than shareholders' equity	12,652	(570)	(62,157)	2,206	(47,867)	(1,198)	5,016	(44,057)
Total changes of items during the period	12,652	(570)	(62,157)	2,206	(47,867)	(1,198)	5,016	179,859
Balance at December 31, 2015	$89,322	$ (33)	$325,429	$(39,677)	$375,041	$ 6,867	$55,330	$4,161,892

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

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

	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, 2014	¥6,944	¥ (4)	¥27,025	¥(5,424)	¥28,541	¥1,005	¥5,618	¥452,459
Cumulative effects of changes in accounting policies					—			(2,712)
Restated balance	6,944	(4)	27,025	(5,424)	28,541	1,005	5,618	449,746
Changes of items during the period								
Cash dividends					—			(12,613)
Net income					—			21,296
Change of scope of consolidation					—			(24)
Purchase of treasury stock					—			(7)
Disposal of treasury stock					—			356
Net changes of items other than shareholders' equity	2,332	69	19,874	355	22,631	(27)	469	23,072
Total changes of items during the period	2,332	69	19,874	355	22,631	(27)	469	32,080
Balance at December 31, 2014	¥9,276	¥65	¥46,899	¥(5,069)	¥51,172	¥ 977	¥6,087	¥481,826

Consolidated Statement of Cash Flows

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015 (January 1, 2015 to December 31, 2015)	Fiscal 2014 (April 1, 2014 to December 31, 2014)	Fiscal 2015 (January 1, 2015 to December 31, 2015)
I Net cash provided by (used in) operating activities:			
1 Income before taxes and minority interests	¥ 58,514	¥ 31,533	$ 483,586
2 Depreciation and amortization	44,102	35,696	364,479
3 Increase (decrease) in allowance for doubtful accounts	46	90	380
4 Gain on reversal of asset retirement obligations	(461)	—	(3,809)
5 Gain on reversal of provision for environmental measures	(342)	—	(2,826)
6 Loss on transfer of business	—	5,698	—
7 Expenses incurred upon acquisition	—	2,125	—
8 Loss on disposal of tangible fixed assets	425	345	3,512
9 Impairment loss	4,847	277	40,057
10 Foreign exchange losses (gains)	664	(2,721)	5,487
11 Interest and dividends income	(2,981)	(1,932)	(24,636)
12 Interest expenses	724	251	5,983
13 Decrease (increase) in notes and accounts receivable–trade	1,526	(11,166)	12,611
14 Decrease (increase) in inventories	(6,617)	(1,465)	(54,685)
15 Increase (decrease) in notes and accounts payable–trade	(4,241)	6,500	(35,049)
16 Loss on valuation of investment securities	866	177	7,157
17 Increase (decrease) in provision for bonuses	325	(2,137)	2,685
18 Increase (decrease) in net defined benefit liabilities	885	987	7,314
19 Decrease (increase) in net defined benefit assets	(325)	(69)	(2,685)
20 Other, net	42	(6,265)	347
Sub-total	98,001	57,926	809,925
21 Interest and dividends income received	2,974	1,941	24,578
22 Interest expenses paid	(724)	(343)	(5,983)
23 Income taxes (paid) refund	(7,023)	(18,939)	(58,041)
24 Other	—	255	—
Net cash provided by (used in) operating activities	93,228	40,840	770,479
II Net cash provided by (used in) investment activities:			
1 Net decrease (increase) in time deposits	—	1,354	—
2 Net decrease (increase) in short-term investment securities	—	5,000	—
3 Purchase of investment securities	(2,196)	(1,850)	(18,148)
4 Proceeds from sales and redemption of investment securities	4,385	257	36,239
5 Purchase of tangible fixed assets and intangible fixed assets	(43,099)	(43,380)	(356,190)
6 Payments for disposal of tangible fixed assets and intangible fixed assets	(971)	(670)	(8,024)
7 Proceeds from sales of tangible fixed assets and intangible fixed assets	558	22	4,611
8 Purchase of shares of subsidiaries resulting in change in scope of consolidation*2	(5,564)	—	(45,983)
9 Proceeds from transfer of business	1,259	—	10,404
10 Payments for acquisition of business*3	(120)	(68,419)	(991)
11 Other, net	(2,804)	1,996	(23,173)
Net cash provided by (used in) investment activities	(48,553)	(105,690)	(401,264)
III Net cash provided by (used in) financing activities:			
1 Net increase (decrease) in short-term loans payable	(4,940)	4,950	(40,826)
2 Net increase (decrease) in commercial papers	(10,000)	10,000	(82,644)
3 Proceeds from long-term loans payable	—	233	—
4 Repayment of long-term loans payable	(144)	(6,100)	(1,190)
5 Purchase of treasury stock	(10)	(7)	(82)
6 Proceeds from sales of treasury stock	611	249	5,049
7 Cash dividends paid	(9,474)	(12,613)	(78,297)
8 Cash dividends paid to minority shareholders	(100)	(136)	(826)
9 Other, net	(294)	(224)	(2,429)
Net cash provided by (used in) financing activities	(24,353)	(3,650)	(201,264)
IV Effect of exchange rate changes on cash and cash equivalents	(958)	3,255	(7,917)
V Net increase (decrease) in cash and cash equivalents	19,362	(65,244)	160,016
VI Cash and cash equivalents, beginning of year	35,388	100,642	292,462
VII Increase in cash and cash equivalents from newly consolidated subsidiaries	—	9	—
VIII Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(19)	—
IX Cash and cash equivalents, end of year*1	¥ 54,750	¥ 35,388	$ 452,479

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

1 Significant Accounting Policies

1. Basis of presenting consolidated financial statements

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

Each amount in the consolidated financial statements and notes is rounded down to the nearest 1 million yen (in the case of the translation into the United States 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 ¥121=$1, the approximate exchange rate prevailing on December 31, 2015. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into the United States dollars at this or any other rate.

2. Scope of consolidation

(1) Number of consolidated subsidiaries

	Fiscal 2015	Fiscal 2014
Number of consolidated subsidiaries	36	34

(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., 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., Kuraray Korea Ltd., Plantic Technologies Limited and 8 other consolidated subsidiaries.

During the fiscal year ended December 31, 2015 (fiscal 2015), the Company acquired Plantic Technologies Limited, which operates a bio-based barrier film business, and its subsidiaries. Plantic Technologies Limited and three of its subsidiaries were added to the scope of consolidation.

During fiscal 2015, Kyosei Chemical Co., Ltd. was excluded from the scope of consolidation due to its dissolution. In addition, Kuraray Plastics Co., Ltd. merged with and absorbed its subsidiary Ibuki Kosan Co., Ltd. which was removed from the scope of consolidation.

(2) Names of major unconsolidated subsidiaries

(Major unconsolidated subsidiaries)

Kuraray Okayama Spinning CO., LTD.

Kuraray South America Ltda.

(Reasons for excluding from the scope of consolidation)

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

3. Scope of application of equity method affiliates and subsidiaries

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

	Fiscal 2015	Fiscal 2014
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 closing date of the consolidated subsidiaries is the same as the consolidated closing date.

5. Accounting policies

(1) Valuation standards and methods for significant assets

a) Investment securities

Available-for-sale securities for which a market price is available are stated at fair value at the year-end. (Net unrealized gains or losses on these securities are recorded as a separate component in "Net assets", net of tax amount. The cost of securities sold is determined based on the moving average cost of all such securities held at the time of sale.)

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

b) Derivative financial instruments

All derivatives are stated at fair value.

c) Inventories

Finished goods, raw materials, and work-in-process are principally stated at the lower of cost determined by the 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
- Customer-related assets.................... 9 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 benefit formula basis was used to attribute estimated retirement benefits to periods up to December 31, 2015.

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

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

c) Use of simplified method among small companies

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

(5) Significant hedge accounting

a) Hedge accounting

The Company and its consolidated subsidiaries adopt the method for hedging instruments whereby any gains or losses are deferred over the period of the hedging contract and are offset against the deferred losses or gains on the related hedged items. 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	Foreign currency-denominated loans 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 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 Accounting Standards Issued but Not Yet Applied

(Accounting Standards Not Yet Applied)

1. 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" is 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" is changed to "net income," and pre-revision "net income" is 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 beginning 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, 2016.

2. Implementation Guidance on Recoverability of Deferred Tax Assets

- "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, December 28, 2015)

(1) Outline

The Guidance basically follows the framework used in Japanese Institute of Certified Public Accountants (JICPA) Auditing Guidance No. 66, "Auditing Treatment for Judgment of Recoverability of Deferred Assets," namely that the amount of recoverability of deferred tax assets is assessed based on five categories of business entities, with the following necessary changes in accounting treatment.

① Treatment of business entities that do not meet any of the requirements of Category 1 through Category 5

② Matters of classification related to Category 2 and Category 3

③ Treatment of unscheduled deductible temporary differences of business entities in Category 2

④ Treatment of reasonably estimable period for taxable income before taxable or deductible temporary differences of business entities in Category 3

⑤ Treatment in cases where business entities that meet the requirements of Category 4 qualify as Category 2 or Category 3

(2) Expected Application Date

The Company plans to apply this accounting standard from the beginning of the fiscal year ending December 31, 2017.

(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, 2016.

3 Changes in Presentation

(Retirement Benefits)

In accordance with the "Revised Guidance on Accounting Standards for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015), the method of presentation of notes related to multi-employer benefit plan has been changed. The financial statements for the previous fiscal year have been restated to reflect this change in presentation method.

Details of the restatements of the financial statements and amounts of main financial statement items for the previous fiscal year are presented in the relevant section.

4 Notes to Consolidated Balance Sheet

*1. Accumulated depreciation of tangible fixed assets

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Accumulated depreciation of tangible fixed assets	¥656,351	¥631,450	$5,424,388

*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 2015	Fiscal 2014	Fiscal 2015
Buildings and structures	¥2,094	¥2,095	$17,305
Machinery, equipment and vehicles	997	1,000	8,239
(Deduction for this fiscal year)	(—)	(10)	(—)
Land	1,257	1,257	10,388
Other	36	36	297

*3. Investments in unconsolidated subsidiaries and affiliates

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Investment securities (equity)	¥8,359	¥16,158	$69,082

*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 2015	Fiscal 2014	Fiscal 2015
Social welfare corporation Ishii Kinen Aizenen (Joint and several guarantee)	¥1,183	¥1,315	$9,776
Kureha Battery Materials Japan Co., Ltd.	—	279	—
Total	¥1,183	¥1,594	$9,776

*5. Additional payment under share purchase agreement

The acquisition of Plantic Technologies Limited and subsidiaries includes an earn-out provision, whereby, based on specified performance targets, up to an additional $95 million may be required to be paid.

*6. Assets pledged as collateral and secured liabilities

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Cash and deposits	¥ 61	¥ —	$ 504
Investment securities*	46	46	380
Buildings	721	729	5,958
Land	1,001	1,001	8,272
Total	¥1,831	¥1,776	$15,132

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Accounts payable–other	¥ 18	¥ —	$ 148
Collateral for short-term loans	195	180	1,611
Collateral for long-term loans	13	53	107
Total	¥226	¥233	$1,867

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

*7. 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 2015	Fiscal 2014	Fiscal 2015
Notes and accounts receivable–trade	¥5,827	¥6,097	$48,157
Notes and accounts payable–trade	3,455	3,762	28,553
Other (current liabilities)	491	702	4,057

5 Notes to Consolidated Statement of Income

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Freight and storage	¥18,907	¥14,373	$156,256
Research and development	18,295	13,315	151,198
Salaries and legal welfare expense	18,117	14,169	149,727
Provision for bonuses	5,190	4,093	42,892
Retirement benefit expenses	1,605	1,329	13,264
Provision for directors’ retirement benefits	26	19	214

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

Millions of yen		Thousands of U.S. dollars
Fiscal 2015	Fiscal 2014	Fiscal 2015
¥19,132	¥14,174	$158,115

*3. Gain on sales of tangible fixed assets

Attributable to sales of land and building of a subsidiary.

*4. Gain from settlement of accounts of a domestic subsidiary.

*5. Impairment loss

The significant component of impairment loss is as follows:

Fiscal 2015

Location	Assets	Usage	Type	Impairment loss Millions of yen	Impairment loss Thousands of U.S. dollars
Iruma-gun, Saitama Prefecture	Business assets	Golf course	Buildings and land	¥4,302	$35,553
U.S.A.	Business assets	Result of research and development activities related to industrial-use film	In-process research and development	544	4,495

Fiscal 2014

Location	Assets	Usage	Type	Impairment loss Millions of yen
U.S.A.	Idle assets (assets for which termination of research and development activities was decided upon)	Result of research and development activities related to industrial-use film	In-process research and development	¥211

(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 continues to be negative, for businesses whose recoverable amount falls short of the book value, the book value is to be reduced to the recoverable amount. The recoverable amount is measured based on the net sale value or the value in use. Calculation of net sale value is based on reasonably adjusted amount of property tax assessment value.

Idle assets are categorized into "assets held for sale," "assets that can be put to use in other businesses" 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 is measured based on the net sale price and calculated by deducting the estimated disposal cost from the estimated sale price.

*6. Loss in construction for delay
Fixed expenses incurred during the delay of the construction of the PVA resin manufacturing facility in the United States, which did not make contribution to business.

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

*8. Approval of the Company's acquisition of DuPont's glass laminating solutions/vinyls business, which was implemented on June 1, 2014, by the European Commission was conditional on the transfer of a portion of the European polyvinyl butyral (PVB) sheet business (the "Business") to a third party. Accordingly, on October 17, 2014 the Company concluded an agreement to transfer all of the shares of Kuraray Deutschland GmbH and Kuraray Belgium N.V., which operate the Business, to GVC S.A., a subsidiary of GVC Holdings, Inc. Based on this agreement, the transfer of the Business was completed on January 31, 2015. Estimated losses generated by this transfer have been recorded in fiscal 2014.

*9. Expenses incurred upon the acquisition from DuPont of the glass laminating solutions/vinyls business of DuPont and its group companies.

*10. Expenses incurred due to change from the simplified method of calculating retirement benefit obligations to the principle method of calculation at a certain consolidated subsidiary.

*11. Income taxes for prior periods
The European Commission has issued a ruling that a preferential tax treatment scheme under the tax law of Belgium, which a Belgian subsidiary has applied in prior fiscal years, is illegal under European Union law. Upon the decision of the European Commission, the Belgian subsidiary recorded the estimated amount based on the possible exposures to additional income tax payments, which is 2,994 million (US$24,743 thousand), with the consideration of the final tax burden risk.

6 Notes to Consolidated Statement of Comprehensive Income

Reclassification adjustments and tax effect adjustments relating to other comprehensive income (loss) for the fiscal years ended December 31, 2015 and December 31, 2014, are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Valuation difference on available-for-sale securities			
Amount recorded during the period	¥ 1,640	¥ 3,551	$ 13,553
Reclassification adjustments	78	58	644
Before tax effect adjustments	1,719	3,610	14,206
Tax effect	(187)	(1,277)	(1,545)
Valuation difference on available-for-sale securities	1,531	2,332	12,652
Deferred gains or losses on hedges			
Amount recorded during the period	12	128	99
Reclassification adjustments	(120)	(20)	(991)
Before tax effect adjustments	(107)	108	(884)
Tax effect	37	(38)	305
Deferred gains or losses on hedges	(69)	69	(570)
Foreign currency translation adjustment			
Amount recorded during the period	(7,521)	19,874	(62,157)
Reclassification adjustments	—	—	—
Before tax effect adjustments	(7,521)	19,874	(62,157)
Tax effect	—	—	—
Foreign currency translation adjustment	(7,521)	19,874	(62,157)
Remeasurements of defined benefit plans			
Amount recorded during the period	(830)	(567)	(6,859)
Reclassification adjustments	1,431	1,126	11,826
Before tax effect adjustments	600	559	4,958
Tax effect	(333)	(204)	(2,752)
Remeasurements of defined benefit plans	267	355	2,206
Total other comprehensive income	¥(5,792)	¥22,631	$(47,867)

7 Notes to Consolidated Statement of Changes in Net Assets

Fiscal 2015

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

	Number of shares as of December 31, 2014 (Thousands of shares)	Increase in the number of shares (Thousands of shares)	Decrease in the number of shares (Thousands of shares)	Number of shares as of December 31, 2015 (Thousands of shares)
Number of outstanding shares				
Common stock	382,863	—	28,000	354,863
Total	382,863	—	28,000	354,863
Number of treasury stocks				
Common stock (Notes 1, 2)	32,283	6	28,631	3,658
Total	32,283	6	28,631	3,658

Notes: 1. The increase in treasury stock (common stock) is attributable to the purchase of less-than-one unit shares (6 thousand shares).
2. The decrease in treasury stock (common stock) is attributable to retirement of treasury stock (28,000 thousand shares), a transfer of shares upon the exercise of subscription rights (631 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 December 31, 2015 is ¥831 million (US$6,867 thousand).

3. Dividends

(1) Amount of dividends paid

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on March 27, 2015	Common stock	¥3,155 (US$26,074 thousand)	¥ 9.00 (US$0.07)	December 31, 2014	March 30, 2015
Board of directors' meeting held on August 6, 2015	Common stock	¥6,319 (US$52,223 thousand)	¥18.00 (US$0.14)	June 30, 2015	September 1, 2015

(2) Dividends whose effective date is after the end of Fiscal 2015 and record date is included in Fiscal 2015.

Resolution	Type of share	Amount of dividends (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on March 29, 2016	Common stock	¥7,726 (US$63,851 thousand)	Retained earnings	¥22.00 (US$0.18)	December 31, 2015	March 30, 2016

Fiscal 2014

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

	Number of shares as of March 31, 2014 (Thousands of shares)	Increase in the number of shares (Thousands of shares)	Decrease in the number of shares (Thousands of shares)	Number of shares as of December 31, 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)	32,551	5	274	32,283
Total	32,551	5	274	32,283

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 (274 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 December 31, 2014 is ¥977 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 20, 2014	Common stock	¥6,305	¥18.00	March 31, 2014	June 23, 2014
Board of directors' meeting held on October 29, 2014	Common stock	¥6,308	¥18.00	September 30, 2014	December 1, 2014

(2) Dividends whose effective date is after the end of Fiscal 2014 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 March 27, 2015	Common stock	¥3,155	Retained earnings	¥9.00	December 31, 2014	March 30, 2015

8 Notes to Consolidated Statement of Cash Flows

*1. Cash and cash equivalents at December 31, 2015 and December 31, 2014 are reconciled to the accounts reported in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Cash on hand and in banks	¥36,996	¥33,939	$305,752
Time deposits with a deposit period of 3 months or more	(1,051)	(1,055)	(8,685)
Marketable securities with original maturities of 3 months or less	18,805	2,504	155,413
Cash and cash equivalents	¥54,750	¥35,388	$452,479

*2. Breakdown of assets and liabilities of companies that became newly consolidated subsidiaries through acquisition of shares

Fiscal 2015

Plantic Technologies Limited and its subsidiaries were newly added to consolidation through acquisition of shares. The relationships between the breakdown of assets and liabilities of the corporation at the time of the acquisition, the acquisition price of Plantic Technologies Limited and cost of the acquisition are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥1,362	$11,256
Noncurrent assets	2,743	22,669
Goodwill	2,457	20,305
Current liabilities	(543)	(4,487)
Noncurrent liabilities	(414)	(3,421)
Purchase price	5,604	46,314
Cash and cash equivalents	(40)	(330)
Expenditure for purchase	¥5,564	$45,983

*3. Breakdown of assets and liabilities related to transfer of a business for cash and cash equivalents

Fiscal 2014

A breakdown of the assets and liabilities acquired from the purchase of the glass laminating solutions/vinyls related business of DuPont, and the relationship between the purchase price and expenditure for purchase of the business are as follows:

	Millions of yen
Current assets	¥12,432
Noncurrent assets	44,693
Goodwill	7,349
Current liabilities	(92)
Noncurrent liabilities	(817)
Purchase price	63,565
Expense	2,801
Translation adjustment of foreign currency	2,052
Expenditure for purchase	¥68,419

9 Leases

1. Finance lease transactions

(1) Lease transactions as a lessee

Finance leases without transfer of ownership

1) Details of lease assets

a) Tangible fixed assets

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

b) Intangible fixed assets

Software ("Other")

2) Depreciation method of lease assets

As described in the basis of presenting consolidated financial statements "1. Significant Accounting Policies, 4. 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 December 31, 2015 and December 31, 2014 are as follows:

December 31, 2015

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥197	¥98	¥99
Total	¥197	¥98	¥99

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	$1,628	$809	$818
Total	$1,628	$809	$818

December 31, 2014

	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	¥196	¥94	¥101
Total	¥196	¥94	¥101

2) Future lease payment obligations at December 31, 2015 and December 31, 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Due within one year	¥13	¥13	$107
Due after one year	69	83	570
Total	¥83	¥97	$685

3) Lease revenue and depreciation expense for the years ended December 31, 2015 and December 31, 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Lease revenue	¥13	¥13	$107
Depreciation expense	3	2	24

2. Operating leases

Lease transactions as a lessee:

Future lease payment obligations under operating leases at December 31, 2015 and December 31, 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Due within one year	¥ 2,309	¥ 2,513	$ 19,082
Due after one year	10,252	12,515	84,727
Total	¥12,561	¥15,029	$103,809

10 Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

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

Loans, bonds and lease obligations related to finance lease transactions, used to raise funds for working capital and capital expenditures, have maturities of at the longest 31 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 12. "Derivative Financial Instruments" are not indicative of market risk exposure to derivative transactions.

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of December 31, 2015 and December 31, 2014 are as follows: Financial instruments whose fair values are not readily determinable are excluded from the following table:

Fiscal 2015

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥ 36,996	¥ 36,996	¥ —
(2) Notes and accounts receivable–trade	102,079		
Allowance for doubtful accounts	(611)		
	101,467	101,467	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	53,285	53,285	—
Total assets	191,749	191,749	—
(1) Notes and accounts payable–trade	38,331	38,331	—
(2) Long-term loans payable (*1)	42,405	44,177	1,772
Total liabilities	80,736	82,508	1,772
Derivative transactions (*2)	816	816	—

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	$ 305,752	$ 305,752	$ —
(2) Notes and accounts receivable–trade	843,628		
Allowance for doubtful accounts	(5,049)		
	838,570	838,570	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	440,371	440,371	—
Total assets	1,584,702	1,584,702	—
(1) Notes and accounts payable–trade	316,785	316,785	—
(2) Long-term loans payable (*1)	350,454	365,099	14,644
Total liabilities	667,239	681,884	14,644
Derivative transactions (*2)	6,743	6,743	—

Fiscal 2014

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	¥ 33,939	¥ 33,939	¥ —
(2) Notes and accounts receivable–trade	104,988		
Allowance for doubtful accounts	(571)		
	104,416	104,416	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	37,793	37,793	—
Total assets	176,149	176,149	—
(1) Notes and accounts payable–trade	43,027	43,027	—
(2) Long-term loans payable (*1)	42,433	44,209	1,776
Total liabilities	85,461	87,237	1,776
Derivative transactions (*2)	(1,392)	(1,392)	—

(*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 12. "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 2015	Fiscal 2014	Fiscal 2015
Unlisted equity securities	¥11,577	¥19,053	$95,677

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 2015

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥ 36,996	¥ —	¥—	¥—
Notes and accounts receivable–trade	102,079	—	—	—
Short-term investment securities and investment securities:				
o/w Securities with contractual maturities:				
(1) Bonds (Corporate)	—	6,000	—	—
(2) Bonds (Others)	—	—	—	—
(3) Others	15,000	3,019	—	—
Total	¥154,075	¥9,019	¥—	¥—

	Thousands of U.S. dollars			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	$ 305,752	$ —	$—	$—
Notes and accounts receivable–trade	843,628	—	—	—
Short-term investment securities and investment securities:				
o/w Securities with contractual maturities:				
(1) Bonds (Corporate)	—	49,586	—	—
(2) Bonds (Others)	—	—	—	—
(3) Others	123,966	24,950	—	—
Total	$1,273,347	$74,537	$—	$—

Fiscal 2014

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	¥ 33,939	¥ —	¥—	¥—
Notes and accounts receivable–trade	104,988	—	—	—
Short-term investment securities and investment securities:				
o/w Securities with contractual maturities:				
(1) Bonds (Corporate)	—	6,000	—	—
(2) Bonds (Others)	—	—	—	—
(3) Others	—	7,051	—	—
Total	¥138,927	¥13,051	¥—	¥—

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

Fiscal 2015

	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥10,000
Long-term loans payable	147	19	6	12,049	—	30,182
Lease obligations	369	291	222	174	138	711
Total	¥517	¥311	¥228	¥12,223	¥138	¥40,894

	Thousands of U.S. dollars					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Bonds	$ —	$ —	$ —	$ —	$ —	$ 82,644
Long-term loans payable	1,214	157	49	99,578	—	249,438
Lease obligations	3,049	2,404	1,834	1,438	1,140	5,876
Total	$4,272	$2,570	$1,884	$101,016	$1,140	$337,966

Fiscal 2014

	Millions of yen					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Bonds	¥ —	¥ —	¥ —	¥ —	¥ —	¥10,000
Long-term loans payable	107	81	74	70	12,050	30,049
Lease obligations	375	310	232	163	123	758
Total	¥482	¥392	¥307	¥234	¥12,173	¥40,807

11 Securities

1. Available-for-sale securities with market value

Fiscal 2015

	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	¥24,768	¥ 9,637	¥15,131	$204,694	$ 79,644	$125,049
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	6,069	6,000	69	50,157	49,586	570
Others	—	—	—	—	—	—
Others	3,047	3,019	27	25,181	24,950	223
Subtotal	33,885	18,656	15,228	280,041	154,181	125,851
Securities with book value not exceeding their acquisition cost						
Equity securities	595	694	(99)	4,917	5,735	(818)
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	—	—	—	—	—	—
Others	—	—	—	—	—	—
Others	18,805	18,805	—	155,413	155,413	—
Subtotal	19,400	19,500	(99)	160,330	161,157	(818)
Total	¥53,285	¥38,156	¥15,129	$440,371	$315,338	$125,033

Note: Unlisted equity securities amounting to ¥3,217 million (US$26,586 thousand) are excluded from the above table, because there is no market price and it is very difficult to identify fair values.

Fiscal 2014

	Millions of yen		
	Book value (estimated fair value)	Cost	Net
Securities with book value exceeding their acquisition cost			
Equity securities	¥21,285	¥ 8,134	¥13,151
Bonds			
Government and municipal	—	—	—
Corporate	6,163	6,000	163
Others	—	—	—
Others	7,158	7,051	107
Subtotal	34,608	21,185	13,422
Securities with book value not exceeding their acquisition cost			
Equity securities	680	693	(13)
Bonds			
Government and municipal	—	—	—
Corporate	—	—	—
Others	—	—	—
Others	2,504	2,504	—
Subtotal	3,184	3,197	(13)
Total	¥37,793	¥24,383	¥13,409

Note: Unlisted equity securities amounting to ¥2,895 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 2015

Category	Millions of yen			Thousand of U.S. dollars		
	Proceeds from sales	Total gain	Total loss	Proceeds from sales	Total gain	Total loss
Others	¥4,241	¥172	¥—	$35,049	$1,421	$—
Total	¥4,241	¥172	¥—	$35,049	$1,421	$—

Notes: 1. Attributable to cancellation of an investment trust and sale of stock.
2. Securities with fair values that are difficult to identify fair value are excluded from the above table.

Fiscal 2014

Category	Millions of yen		
	Proceeds from sales	Total gain	Total loss
Others	¥25	¥14	¥—
Total	¥25	¥14	¥—

Notes: 1. Mainly attributable to the sale of stock.
2. Securities with fair values that are difficult to identify fair value are excluded from the above table.

3. Impairment loss on securities

The Company recognized impairment loss on securities of ¥866 million (US$7,157 thousand) in fiscal 2015. The Company recognized impairment loss on securities of ¥177 million in fiscal 2014.

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

12 Derivative Financial Instruments

1. Derivative transactions to which hedge accounting is not applied

(1) Currencies

Fiscal 2015

Category	Classification	Millions of yen			
		Nominal amount	Nominal amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	¥55,210	—	¥797	¥797
	Yen into Euro obligation	11,357	—	45	45
	Yen into Yuan obligation	550	—	11	11
	Yen into Australian dollar obligation	1,222	—	4	4
	U.S. dollar into Yen obligation	898	—	(21)	(21)
	Euro into Yen obligation	194	—	(0)	(0)
	Australian dollar into U.S. dollar obligation	199	—	(5)	(5)
	Australian dollar into Euro obligation	58	—	(0)	(0)
	Won into U.S. dollar obligation	3,256	—	(9)	(9)
	Non-deliverable forward foreign exchange transaction:				
	Yen into Chilean peso obligation	92	—	1	1
	Total	¥73,041	—	¥822	¥822

Category	Classification	Thousands of U.S. dollars			
		Nominal amount	Nominal amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	$456,280	—	$6,586	$6,586
	Yen into Euro obligation	93,859	—	371	371
	Yen into Yuan obligation	4,545	—	90	90
	Yen into Australian dollar obligation	10,099	—	33	33
	U.S. dollar into Yen obligation	7,421	—	(173)	(173)
	Euro into Yen obligation	1,603	—	(0)	(0)
	Australian dollar into U.S. dollar obligation	1,644	—	(41)	(41)
	Australian dollar into Euro obligation	479	—	(0)	(0)
	Won into U.S. dollar obligation	26,909	—	(74)	(74)
	Non-deliverable forward foreign exchange transaction:				
	Yen into Chilean peso obligation	760	—	8	8
	Total	$603,644	—	$6,793	$6,793

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

Fiscal 2014

Category	Classification	Millions of yen			
		Nominal amount	Nominal amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	¥50,271	¥50	¥(1,154)	¥(1,154)
	Yen into Euro obligation	11,777	—	(344)	(344)
	U.S. dollar into Yen obligation	36	—	0	0
	Euro into Yen obligation	534	—	4	4
	Total	¥62,619	¥50	¥(1,493)	¥(1,493)

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

2. Derivative transactions to which hedge accounting is applied

(1) Currencies

Fiscal 2015

Hedge accounting method	Classification	Major hedged items	Fiscal 2015 (As of December 31, 2015)					
			Millions of yen			Thousands of U.S. dollars		
			Nominal amount	Nominal amount over one year	Market value	Nominal amount	Nominal amount over one year	Market value
Allocation method	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Accounts receivable–trade and loans receivable	¥ 800	¥—	Note	$ 6,611	—	Note
	Yen into Euro obligation	Accounts receivable–trade	6	—	Note	49	—	Note
	Yen into Baht obligation	Loans receivable	233	—	Note	1,925	—	Note
	U.S. dollar into Yen obligation	Accounts payable–trade	382	—	Note	3,157	—	Note
Total			¥1,424	¥—	Note	$11,768	—	Note

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

Hedge accounting method	Classification	Major hedged items	Fiscal 2015 (As of December 31, 2015) 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	¥2,971	¥—	¥(2)	$24,553	—	$(16)
	Yen into Euro obligation	Forecasted transactions in foreign currencies	1,393	—	¥ 5	11,512	—	$ 41
	U.S. dollar into Yen obligation	Forecasted transactions in foreign currencies	708	—	¥(8)	5,851	—	$(66)
	Euro into Yen obligation	Forecasted transactions in foreign currencies	2	—	¥—	16	—	$ —
Total			¥5,076	¥—	¥(6)	$41,950	—	$(49)

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

Fiscal 2014

Hedge accounting method	Classification	Major hedged items	Fiscal 2014 (As of December 31, 2014) 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 and loans receivable	¥1,816	¥—	Note
	Yen into Euro obligation	Accounts receivable–trade	10	—	Note
	U.S. dollar into Yen obligation	Accounts payable–trade	37	—	Note
Total			¥1,864	¥—	Note

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

Hedge accounting method	Classification	Major hedged items	Fiscal 2014 (As of March 31, 2015) Millions of yen 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	¥ 2,826	¥—	¥ (12)
	Yen into Euro obligation	Forecasted transactions in foreign currencies	7,414	—	20
	U.S. dollar into Yen obligation	Forecasted transactions in foreign currencies	1,126	—	92
	Euro into Yen obligation	Forecasted transactions in foreign currencies	1	—	(0)
Total			¥11,369	¥—	¥101

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

(2) Interest rate

Fiscal 2015

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

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	$214,876	$214,876	Note

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

Fiscal 2014

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

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

13 Retirement Benefits

Fiscal 2015 (January 1, 2015 to December 31, 2015)

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 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	¥43,851	$362,404
Service costs	2,270	18,760
Interest costs	513	4,239
Actuarial gain or loss	(158)	(1,305)
Benefits paid	(3,023)	(24,983)
Prior service costs incurred	611	5,049
Other	217	1,793
Retirement benefit obligations at end of year	¥44,283	$365,975

(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	¥35,987	$297,413
Expected return on plan assets	788	6,512
Actuarial gain or loss	(377)	(3,115)
Contribution from entrepreneur	412	3,404
Benefits paid	(1,491)	(12,322)
Other	24	198
Plan assets at end of year	¥35,343	$292,090

(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	¥1,372	$11,338
Retirement benefit expenses	255	2,107
Benefits paid	(84)	(694)
Contribution to plan assets	(36)	(297)
Other	9	74
Net defined benefit liabilities at end of year	¥1,517	$12,537

(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 sheet

	Millions of yen	Thousands of U.S. dollars
Installment type retirement benefit obligation	¥ 38,402	$ 317,371
Plan assets	(35,785)	(295,743)
	2,617	21,628
Non installment type retirement benefit obligation	7,839	64,785
Net amount of net defined benefit obligation and net defined benefit asset recognized on the consolidated balance sheet	¥ 10,456	$ 86,413
Net defined benefit obligation	¥ 11,247	$ 92,950
Net defined benefit asset	(791)	(6,537)
Net amount of net defined benefit obligation and net defined benefit asset recognized on the consolidated balance sheet	¥ 10,456	$ 86,413

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	¥2,270	$18,760
Interest costs	513	4,239
Expected return on plan assets	(788)	(6,512)
Amortization of actuarial gains or losses	1,366	11,289
Amortization of prior service costs	64	528
Retirement benefit expenses calculated by simplified method	255	2,107
Other	(22)	(181)
Retirement benefit expense pertaining to defined benefit plan	¥3,659	$30,239

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

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

	Millions of yen	Thousands of U.S. dollars
Prior service costs	¥ (547)	$(4,520)
Actuarial gain or loss	1,147	9,479
Total	¥ 600	$ 4,958

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

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

	Millions of yen	Thousands of U.S. dollars
Unrecognized prior service costs	¥ (346)	$ (2,859)
Unrecognized actuarial gain or loss	(6,885)	(56,900)
Total	¥(7,231)	$(59,760)

(8) Plan assets

a. The components of plan assets

Debt securities	59%
Equity securities	13%
Life insurance company general accounts (Note 1)	22%
Cash and deposits	1%
Other assets	5%
Total (Note 2)	100%

Notes: 1. Life insurance companies manage the assets in, assume the asset management risk for, and guarantee a fixed return to policyholders for life insurance general accounts.
2. Total retirement plan assets include 52% 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 0.7% or 0.8%
Long-term expected rate of return	Mainly 1.0% or 3.3%

3. Defined contribution plan

The contribution to the defined contribution plan of the Company and its consolidated subsidiaries is ¥851 million (US$7,033 thousand).

4. Multi-employer plan

The contribution to the multi-employer plan is ¥94 million (US$776 thousand), and is accounted for in the same manner as the contribution to the defined contribution plan of the Company and its consolidated subsidiaries.

(1) Accumulated funds for the plan (As of March 31, 2015)

	Millions of yen	Thousands of U.S. dollars
Plan assets	¥ 67,088	$ 554,446
Total of actuarial pension liabilities and plan's minimum reserve	82,865	684,834
Difference	¥(15,776)	$(130,380)

Note: Item presented as "Projected benefit obligation" in previous fiscal year.

(2) Ratio of total salaries of the consolidated subsidiary to total funds of the plan (As of March 31, 2015)

2.5%

(3) Supplementary explanation (As of March 31, 2015)

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 10 years and 10 months, and is scheduled to be terminated in January 2026.

	Millions of yen	Thousands of U.S. dollars
Balance of prior service cost	¥17,716	$146,413
Deficient amount carried forward	1,939	16,024

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

Fiscal 2014 (April 1, 2014 to December 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 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
Retirement benefit obligations at beginning of year	¥34,237
Cumulative effect of change in accounting method	4,193
Balance at beginning of year reflecting change in accounting method	38,430
Service costs	1,245
Interest costs	384
Actuarial gain or loss	1,396
Benefits paid	(1,531)
Prior service costs incurred	312
Increase due to change from simplified to principle method	3,086
Other	527
Retirement benefit obligations at end of year	¥43,851

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

	Millions of yen
Plan assets at beginning of year	¥32,915
Expected return on plan assets	584
Actuarial gain or loss	1,349
Contribution from entrepreneur	282
Benefits paid	(912)
Increase due to change from simplified to principle method	1,566
Other	201
Plan assets at end of year	¥35,987

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

	Millions of yen
Net defined benefit liabilities at beginning of year	¥2,094
Retirement benefit expenses	192
Benefits paid	(66)
Contribution to plan assets	(55)
Increase due to addition to consolidation	669
Decrease due to exclusion from consolidation	(609)
Decrease due to change from simplified to principle method	(897)
Other	45
Net defined benefit liabilities at end of year	¥1,372

(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 sheet

	Millions of yen
Installment type retirement benefit obligation	¥ 39,057
Plan assets	(36,407)
Non installment type retirement benefit obligation	2,649
Net amount of net defined benefit obligation and net defined benefit asset recognized on the consolidated balance sheet	6,587
Net defined benefit obligation	10,053
Net defined benefit asset	(816)
Net amount of net defined benefit obligation and net defined benefit asset recognized on the consolidated balance sheet	¥ 9,237

Note: Includes plan that uses the simplified method.

(5) The components of retirement benefit expenses

	Millions of yen
Service costs	¥1,245
Interest costs	384
Expected return on plan assets	(584)
Amortization of actuarial gains or losses	1,022
Amortization of prior service costs	104
Retirement benefit expenses calculated by simplified method	192
Retirement benefit expense pertaining to defined benefit plan	¥2,364

(6) Remeasurements of defined benefit plans (Consolidated comprehensive income)
The following is a breakdown of remeasurements of defined benefit plans (before deductions for the effect of income taxes).

	Millions of yen
Prior service costs	¥(229)
Actuarial gain or loss	788
Total	¥ 559

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

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

	Millions of yen
Unrecognized prior service costs	¥ 199
Unrecognized actuarial gain or loss	(8,031)
Total	¥(7,832)

(8) Plan assets

a. *The components of plan assets*

Debt securities	60%
Equity securities	12%
Life insurance company general accounts (Note 1)	24%
Cash and deposits	0%
Other assets	4%
Total (Note 2)	100%

Notes: 1. Life insurance companies manage the assets in, assume the asset management risk for, and guarantee a fixed return to policyholders for life insurance general accounts.
2. Total retirement plan assets 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 0.7% or 0.8%
Long-term expected rate of return	Mainly 1.0% or 3.3%

3. Defined contribution plan

The contribution to the defined contribution plan of the Company and its consolidated subsidiaries is ¥733 million (US$6,057 thousand).

4. Multi-employer plan

The contribution to the multi-employer plan is ¥65 million (US$537 thousand), and is accounted for in the same manner as the contribution to the defined contribution plan of the Company and its consolidated subsidiaries.

(1) Accumulated funds for the plan (As of March 31, 2014)

	Millions of yen
Plan assets	¥ 61,919
Projected benefit obligation	88,264
Difference	¥(26,345)

(2) Ratio of total salaries of the consolidated subsidiary to total funds of the plan (As of March 31, 2014)

2.5%

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

14 Stock-Based Compensation Plans

1. Item and amount of expenses for stock options

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Selling, general and administrative expenses	¥80	¥87	$661

2. Details including size and changes of stock options

(1) Stock options plans

	Stock options June 2007	Stock options June 2008	Stock options June 2009
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): 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	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
Total number and type of stocks granted	56,500 shares of common stock	78,500 shares of common stock	86,500 shares of common stock
Grant date	June 5, 2007	June 10, 2008	June 9, 2009
Prerequisite to be vested	No vesting conditions are set.	No vesting conditions are set.	No vesting conditions are set.
Required service period	There is no provision for a required service period.	There is no provision for a required service period.	There is no provision for a required service period.
Exercise period	From June 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.	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.

	Stock options June 2010	Stock options October 2010	Stock options May 2011
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): 16	Directors: 25 Employees: 3,924 Directors or employees of the Company's subsidiaries: 2,010	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 14
Total number and type of stocks granted	83,500 shares of common stock	4,074,500 shares of common stock	89,500 shares of common stock
Grant date	June 9, 2010	October 1, 2010	May 19, 2011
Prerequisite to be vested	No vesting conditions are set.	Note	No vesting conditions are set.
Required service period	There is no provision for a required service period.	From October 1, 2010 to June 24, 2012	There is no provision for a required service period.
Exercise period	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	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.

	Stock options May 2012	Stock options May 2013	Stock options May 2014
Number of eligible persons by position	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 13	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 17	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 17
Total number and type of stocks granted	86,500 shares of common stock	88,000 shares of common stock	78,500 shares of common stock
Grant date	May 17, 2012	May 15, 2013	May 15, 2014
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 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.	From May 15, 2014 to May 14, 2029; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.

	Stock options February 2015
Number of eligible persons by position	Directors of the Company: 12 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 11
Total number and type of stocks granted	59,500 shares of common stock
Grant date	February 17, 2015
Prerequisite to be vested	No vesting conditions are set.
Required service period	There is no provision for a required service period.
Exercise period	From February 17, 2015 to February 16, 2030; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.

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 June 2007	Stock options June 2008	Stock options June 2009	Stock options June 2010	Stock options October 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	6,000	10,500	20,500	21,500	2,715,500
Vested	—	—	—	—	—
Exercised	2,000	3,000	3,000	4,500	363,500
Forfeited	—	—	—	—	233,000
At the end of the fiscal year	4,000	7,500	17,500	17,000	2,119,000

	Stock options May 2011	Stock options May 2012	Stock options May 2013	Stock options May 2014	Stock options February 2015
Unvested stock options (shares)					
At the beginning of the fiscal year	—	—	—	—	—
Granted	—	—	—	—	59,500
Forfeited	—	—	—	—	—
Vested	—	—	—	—	59,500
At the end of the fiscal year	—	—	—	—	—
Vested stock options (shares)					
At the beginning of the fiscal year	39,500	40,500	57,000	63,000	—
Vested	—	—	—	—	59,500
Exercised	10,500	9,000	11,500	10,000	11,000
Forfeited	—	—	—	—	—
At the end of the fiscal year	29,000	31,500	45,500	53,000	48,500

2) Price information

	Yen				
	Stock options June 2007	Stock options June 2008	Stock options June 2009	Stock options June 2010	Stock options October 2010
Exercise prices	¥ 1	¥ 1	¥ 1	¥ 1	¥1,078
Weighted-average exercise date stock price	1,574	1,574	1,574	1,574	1,532
Fair value at the grant date	1,318	1,264	947	1,054	247

	Yen				
	Stock options May 2011	Stock options May 2012	Stock options May 2013	Stock options May 2014	Stock options February 2015
Exercise prices	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Weighted-average exercise date stock price	1,574	1,574	1,574	1,574	1,574
Fair value at the grant date	1,174	1,046	1,482	1,119	1,352

	U.S. dollars				
	Stock options June 2007	Stock options June 2008	Stock options June 2009	Stock options June 2010	Stock options October 2010
Exercise prices	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 8.90
Weighted-average exercise date stock price	13.00	13.00	13.00	13.00	12.66
Fair value at the grant date	10.89	10.44	7.82	8.71	2.04

	U.S. dollars				
	Stock options May 2011	Stock options May 2012	Stock options May 2013	Stock options May 2014	Stock options February 2015
Exercise prices	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Weighted-average exercise date stock price	13.00	13.00	13.00	13.00	13.00
Fair value at the grant date	9.70	8.64	12.24	9.24	11.17

3. Method to estimate fair value of stock options

The fair value of the February 2015 stock options, which were granted in fiscal 2015, are estimated as follows.

1) Valuing method: Black-Scholes model

2) Major basic figures and estimating method

	February 2015 stock options
Stock price volatility (Note 1)	23.3%
Expected remaining life (Note 2)	1.50 year
Expected dividend (Note 3)	¥ 36/share (US$0.297)
Risk-free interest rate (Note 4)	0.04%

Notes: 1. Calculated weekly based on the weekly stock price information over a period from the week that contains August 12, 2013 to the week that contains February 9, 2015.
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. Because the fiscal year ended December 31, 2014 was a nine-month period due to a change in the fiscal year end, the actual dividend of ¥27 per share for the fiscal year has been converted into a figure for a one-year (twelve-month) period.
4. Government bond yield over a period corresponding to the expected remaining life.

4. Method to estimate number of vested stock options

Stock options February 2015

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

15 Income Taxes

1. Significant components of deferred tax assets and liabilities at December 31, 2015 and December 31, 2014

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Deferred tax assets:			
Net defined benefit liabilities	¥ 8,389	¥ 9,001	$ 69,330
Impairment loss	2,355	1,128	19,462
Provision for bonuses	1,140	1,181	9,421
Write-down of investment securities	1,077	1,217	8,900
Write-down of inventories	319	301	2,636
Other	20,287	14,488	167,661
Subtotal deferred tax assets	33,571	27,319	277,446
Valuation allowance	(9,179)	(5,410)	(75,859)
Total deferred tax assets	24,391	21,909	201,578
Deferred tax liabilities:			
Net defined benefit assets	(214)	(288)	(1,768)
Reserve for reduction entry	(1,410)	(1,587)	(11,652)
Unrealized gain on revaluation of securities	(4,402)	(4,214)	(36,380)
Adjustment to book value of assets stated at fair value	(12,054)	(12,551)	(99,619)
Other	(16,452)	(10,396)	(135,966)
Total deferred tax liabilities	(34,532)	(29,038)	(285,388)
Net deferred tax assets (liabilities)	¥(10,141)	¥ (7,129)	$ (83,809)

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Current assets:			
Deferred tax assets	¥ 7,598	¥ 4,694	$ 62,793
Noncurrent assets:			
Deferred tax assets	6,361	8,701	52,570
Noncurrent liabilities:			
Deferred tax liabilities	(24,102)	(20,526)	(199,190)

2. Reconciliation of the differences between the normal effective tax rate and the income tax rate in the accompanying consolidated statement of income at December 31, 2015 and December 31, 2014

	Fiscal 2015	Fiscal 2014
Normal effective tax rate	35.4%	35.3%
Non-taxable income	(0.8)	(1.1)
Tax credit primarily for research and development expenses	(3.1)	(6.2)
Decrease in deferred tax assets at fiscal year-end due to change in tax rate	1.4	—
Income taxes for prior periods	2.6	—
Other	2.1	2.6
Income tax rate per the consolidated statement of income	37.7%	30.5%

3. Revision of deferred tax assets and liabilities due to a change in the income tax rate

The "Act for Partial Revision of the Income Tax Act, etc." and the "Act for Partial Revision of the Local Tax Act, etc." were promulgated on March 31, 2015, resulting in a reduction in the rates of corporate income taxes from fiscal years beginning on or after April 1, 2015. Accordingly, the effective statutory tax rate used to measure deferred tax assets and liabilities will change from the former 35.4% to 32.8% for temporary differences expected to be reversed in the fiscal year beginning January 1, 2016, and to 32.0% for temporary differences expected to be reversed in fiscal years beginning January 1, 2017.

As a result of these changes, deferred tax assets net of deferred tax liabilities have decreased by ¥467 million (US$3,859 thousand), deferred income taxes have increased by ¥840 million ($6,942 thousand), retained earnings have increased by ¥153 million ($1,264 thousand), valuation difference on available-for-sale securities has increased by ¥360 million ($2,975 thousand), deferred gains or losses on hedges has decreased by ¥0 million ($0 thousand), and remeasurements of defined benefit plans have decreased by ¥140 million ($1,157 thousand).

16 Business Combination through Acquisition

The Company decided to acquire Plantic Technologies Limited, which operates a bio-based barrier film business, and its six subsidiaries. The Company concluded a share acquisition agreement with Gordon Merchant No. 2 Pty Ltd., which owns all of the shares of Plantic Technologies Limited. In line with this agreement, the Company acquired all of the shares of Plantic Technologies Limited on April 2, 2015.

1. Summary of the business combination

(1) Company name and description of acquired business

Company name: Plantic Technologies Limited and its six wholly owned subsidiaries

Description of acquired business: Business related to the manufacture and sale of *PLANTIC*, a bio-based barrier material

(2) Main reason for the business combination

This acquisition will enable the Company to provide barrier materials that meet expanding demand resulting from a growing global shift to bio-based food packaging materials.

The acquisition is in line with the Company's mission of developing new fields of industry using unique technologies and helping to improve both the natural environment and quality of life. The Company aims to further expand its business as a leading producer of barrier materials, including the representative brand *EVAL*.

(3) Closing date

April 2, 2015

(4) Legal form of business combination

Cash purchase of shares

(5) Name of acquired company after business combination

No change in the name

(6) Percentage of voting rights

100%

(7) Reason for decision of the acquiring company

Cash purchase of shares by the Company

2. Period of earnings of the acquired business included in the consolidated financial statements

From April 2, 2015 to December 31, 2015

3. Acquisition cost of the acquired business and breakdown

Acquisition price	¥5,521 million	US$45,628 thousand
Direct expense of acquisition	¥83 million	US$685 thousand
Total cost of acquisition	¥5,604 million	US$46,314 thousand

4. Description of the conditions pertaining to payments for the acquisition set by the business combination agreement and the accounting treatment policy going forward

The acquisition of Plantic Technologies Limited and subsidiaries includes an earn-out provision, whereby, based on specified performance targets, up to an additional $95 million may be required to be paid.

If additional payments are made, it will increase acquisition cost, goodwill recognized and goodwill amortized.

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

(1) Amount of goodwill

¥2,457 million (US$20,305 thousand)

(2) Reason for its recognition

Expected future excess earning power

(3) Amortization method and period

The straight-line method over 20 years

6. The amounts and breakdown of acquired assets and assumed liabilities as of the date of business combination

Current assets	¥1,362 million	US$11,256 thousand
Noncurrent assets	¥1,638 million	US$13,537 thousand
Total assets	¥3,000 million	US$24,793 thousand
Current liabilities	¥543 million	US$4,487 thousand
Noncurrent liabilities	¥83 million	US$685 thousand
Total liabilities	¥626 million	US$5,173 thousand

Note: Does not include costs allocated to technology-related assets and their related deferred tax liabilities.

7. The amounts and breakdown of allocated intangible fixed assets other than goodwill and weighted average amortization period

Technology-related assets:	¥1,105 million (US$9,132 thousand)
Amortization period:	14 years

8. Approximate amount of impact on the consolidated statement of income for fiscal 2015 assuming that the business combination was completed at the beginning of the fiscal year

(1) Estimated impact on the consolidated statement of income

Net sales	¥423 million (US$3,495 thousand)
Operating income	¥(260 million) (US$(2,148) thousand)

(2) Calculation method of estimated impact

Estimated impact is calculated based on figures from the consolidated statement of income of Plantic Technologies Limited for the period from January 1, 2015 to March 31, 2015.

The notes above are unaudited.

17 Asset Retirement Obligations

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

Overview of asset retirement obligations

Some tangible fixed assets of the Company 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 years ended December 31, 2015 and December 31, 2014:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Beginning balance	¥3,500	¥2,656	$28,925
Increase due to decisions to remove	885	138	7,314
Adjustments due to the elapse of time	64	53	528
Decrease due to payment for the obligations	(136)	(123)	(1,123)
Other increase (decrease)	(692)	775	(5,719)
Ending balance	¥3,620	¥3,500	$29,917

18 Segment Information

Segment information

1. Segment overview

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

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

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

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

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

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

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

Fiscal 2015 (January 1, 2015 to December 31, 2015)

	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	¥243,154	¥31,447	¥38,923	¥35,398	¥117,384	¥466,309	¥55,412	¥521,721	—	¥521,721
(2) Inter-segment sales and transfers	31,591	23,537	17,955	10,945	2,255	86,286	14,189	100,475	(100,475)	—
Total	274,746	54,985	56,879	46,344	119,640	552,595	69,601	622,197	(100,475)	521,721
Segment income (loss)	55,740	6,922	5,564	4,108	3,882	76,219	2,773	78,993	(12,915)	66,077
Segment assets	398,050	54,076	44,210	46,542	39,470	582,350	53,965	636,316	65,454	701,770
Other items										
Depreciation and amortization (other than goodwill)	25,004	4,802	3,334	3,485	43	36,670	2,079	38,750	1,489	40,239
Impairment loss	544	—	—	—	—	544	4,302	4,847	—	4,847
Amortization of goodwill	3,761	—	98	—	—	3,859	2	3,862	—	3,862
Balance of goodwill at end of current period	27,543	—	1,014	—	—	28,557	7	28,564	—	28,564
Negative goodwill	—	—	—	—	—	—	2	2	—	2
Investments in equity method affiliates	—	—	—	108	—	108	—	108	—	108
Increase in tangible fixed assets and intangible fixed assets	30,221	2,398	3,239	4,073	27	39,960	2,083	42,044	2,969	45,014

	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	$2,009,537	$259,892	$321,677	$292,545	$970,115	$3,853,793	$457,950	$4,311,743	—	$4,311,743
(2) Inter-segment sales and transfers	261,082	194,520	148,388	90,454	18,636	713,107	117,264	830,371	(830,371)	—
Total	2,270,628	454,421	470,074	383,008	988,760	4,566,900	575,214	5,142,123	(830,371)	4,311,743
Segment income (loss)	460,661	57,206	45,983	33,950	32,082	629,909	22,917	652,834	(106,735)	546,090
Segment assets	3,289,669	446,909	365,371	384,644	326,198	4,812,809	445,991	5,258,809	540,942	5,799,752
Other items										
Depreciation and amortization (other than goodwill)	206,644	39,685	27,553	28,801	355	303,057	17,181	320,247	12,305	332,553
Impairment loss	4,495	—	—	—	—	4,495	35,553	40,057	—	40,057
Amortization of goodwill	31,082	—	809	—	—	31,892	16	31,917	—	31,917
Balance of goodwill at end of current period	227,628	—	8,380	—	—	236,008	57	236,066	—	236,066
Negative goodwill	—	—	—	—	—	—	16	16	—	16
Investments in equity method affiliates	—	—	—	892	—	892	—	892	—	892
Increase in tangible fixed assets and intangible fixed assets	249,760	19,818	26,768	33,661	223	330,247	17,214	347,471	24,537	372,016

Notes: 1. The "Other Business" category incorporates operations not included in reporting segments, including activated carbon, environmental business and engineering business.
2. Adjustment is as follows: Included within segment income (loss) of ¥12,915 million (US$106,735 thousand) is the elimination of inter-segment transactions of ¥1,712 million (US$14,148 thousand) and corporate expenses of ¥14,628 million (US$120,892 thousand). Corporate expenses mainly comprise headquarters' general and administrative expenses and the Company's basic research expenses.
3. Segment income is adjusted with operating income under consolidated statement of income.
4. Adjustment is as follows: Included within segment assets of ¥65,454 million (US$540,942 thousand) is the elimination of inter-segment transactions of ¥32,178 million (US$265,933 thousand) and corporate assets of ¥97,632 million (US$806,876 thousand). Major corporate assets are surplus funds, long-term investment funds, assets related to basic research and corporate administrative divisions of the Company.

Fiscal 2014 (April 1, 2014 to December 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	¥196,949	¥26,779	¥30,746	¥27,236	¥89,537	¥371,249	¥40,158	¥411,408	¥ —	¥411,408
(2) Inter-segment sales and transfers	22,091	17,895	13,290	8,149	1,590	63,016	11,432	74,449	(74,449)	—
Total	219,041	44,674	44,037	35,385	91,127	434,266	51,591	485,857	(74,449)	411,408
Segment income (loss)	35,724	4,874	1,523	2,250	2,791	47,164	1,993	49,158	(8,860)	40,298
Segment assets	398,631	59,352	45,835	43,698	40,642	588,160	54,334	642,494	49,043	691,538
Other items										
Depreciation and amortization (other than goodwill)	20,949	3,615	2,543	2,517	36	29,617	1,465	31,082	956	35,039
Impairment loss	211	—	—	—	—	211	66	277	—	277
Amortization of goodwill	3,581	—	74	—	—	3,656	1	3,657	—	3,657
Balance of goodwill at end of current period	30,095	—	1,112	—	—	31,208	9	31,217	—	31,217
Investments in equity method affiliates	—	—	—	107	—	107	—	107	—	107
Increase in tangible fixed assets and intangible fixed assets	27,343	2,681	2,802	2,668	53	35,549	1,744	37,294	2,168	39,463

Notes: 1. The "Other Business" category incorporates operations not included in reporting segments, including activated carbon, environmental business and engineering business.
2. Adjustment is as follows: Included within segment income (loss) of ¥8,860 million (US$73,223 thousand) is the elimination of inter-segment transactions of ¥1,192 million (US$9,851 thousand) and corporate expenses of ¥10,052 million (US$83,074 thousand). Corporate expenses mainly comprise headquarters' general and administrative expenses and the Company's basic research expenses.
3. Segment income is adjusted with operating income under consolidated statement of income.
4. Adjustment is as follows: Included within segment assets of ¥49,043 million (US$405,314 thousand) is the elimination of inter-segment transactions of ¥31,640 million (US$261,487 thousand) and corporate assets of ¥80,684 million (US$666,809 thousand). Major corporate assets are surplus funds, long-term investment funds, assets related to basic research and corporate administrative divisions of the Company.

(Related Information)

Fiscal 2015 (January 1, 2015 to December 31, 2015)

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	¥274,164	¥51,544	¥60,313	¥69,908	¥65,791	¥521,721

	Thousands of U.S. dollars					
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Other Business	Total
Net sales to outside customers	$2,265,818	$425,983	$498,454	$577,752	$543,727	$4,311,743

Note: Principal products of each segment are as follows:
Vinyl Acetate: PVA resin and film, *EVAL* resin and others
Isoprene: *SEPTON* thermoplastic elastomers 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, environmental business and engineering business and others

2. Performance by geographical segment

(1) Net sales

Millions of yen						
Japan	United States	China	Europe	Asia	Other Area	Total
¥184,324	¥82,266	¥49,409	¥103,030	¥78,833	¥23,856	¥521,721

Thousands of U.S. dollars						
Japan	United States	China	Europe	Asia	Other Area	Total
$1,523,338	$679,884	$408,338	$851,487	$651,512	$197,157	$4,311,743

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

(2) Tangible fixed assets

Millions of yen					Thousands of U.S. dollars				
Japan	United States	Germany	Other Overseas	Total	Japan	United States	Germany	Other Overseas	Total
¥122,921	¥97,865	¥25,633	¥15,599	¥262,019	$1,015,876	$808,801	$211,842	$128,917	$2,165,446

3. Major customers

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

Fiscal 2014 (April 1, 2014 to December 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..................	¥219,803	¥43,615	¥46,795	¥52,974	¥48,219	¥411,408

Note: Principal products of each segment are as follows:
- Vinyl Acetate: PVA resin and film, *EVAL* resin and others
- Isoprene: *SEPTON* thermoplastic elastomers 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, environmental business and engineering business and others

2. Performance by geographical segment

(1) Net sales

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

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

(2) Tangible fixed assets

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

3. Major customers

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

Information about impairment loss of fixed assets by reporting segment

Fiscal 2015: This information is omitted since similar information is disclosed in the segment information.

Fiscal 2014: 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 2015: This information is omitted since similar information is disclosed in the segment information.

Fiscal 2014: This information is omitted since similar information is disclosed in the segment information.

Information about gain on negative goodwill

Fiscal 2015: This information is omitted since similar information is disclosed in the segment information.

Fiscal 2014: No gain on negative goodwill to report.

19 Related Party Disclosures

Fiscal 2015: Not applicable
Fiscal 2014: Not applicable

20 Per Share Information

	Yen		U.S. dollars
	Fiscal 2015	Fiscal 2014	Fiscal 2015
Net assets per share	¥1,412.46	¥1,354.21	$11.67
Basic net income per share	101.84	60.77	$ 0.84
Diluted net income per share	101.57	60.65	$ 0.83

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 2015	Fiscal 2014	Fiscal 2015
Basic net income per share			
Net income	¥ 35,749	¥ 21,296	$ 295,446
Net income unallocated to common stock	—	—	—
Net income allocated to common stock	35,749	21,296	295,446
Average number of common stock outstanding during the fiscal year (thousand shares)	351,015	350,424	2,900,950
Diluted net income per share			
Adjustment made on net income	—	—	—
Increase of common stocks (thousand shares)	948	734	7,834
(New subscription rights to shares (thousand shares))	(948)	(734)	(7,834)
Outline of the residual securities which were not included in the calculation of the diluted net income per share because there was no dilutive effect.	—	—	—

21 Supplementary Schedule

Bond schedule

(Millions of yen)

Company name	Issue	Date of issue	Balance at beginning of period	Balance at end of period	Yield	Security	Date of redemption
Kuraray	No. 4 Unsecured bonds	December 9, 2011	¥10,000 (US$82,644 thousand)	¥10,000 (US$82,644 thousand)	1.24%	None	December 9, 2021
	Total	—	¥10,000 (US$82,644 thousand)	¥10,000 (US$82,644 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 January 1, 2015	Balance as of December 31, 2015	Average interest rate (%)	Due date
Short-term loans	¥11,980	¥ 7,040 (US$58,181 thousand)	0.4	—
Current portion of long-term loans due within one year	107	147 (US$1,214 thousand)	2.2	—
Current portion of long-term lease due within one year (Note 2)	375	369 (US$3,049 thousand)	—	—
Long-term loans (Excluding current portion) (Note 3)	42,326	42,257 (US$349,231 thousand)	1.2	From January 2017 to March 2024
Lease liabilities (Excluding current portion) (Notes 2, 3)	1,589	1,537 (US$12,702 thousand)	—	From January 2017 to November 2046
Other interest-bearing debts				
Commercial papers	10,000	—	—	
Total	¥66,378	¥51,352 (US$424,396 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	¥ 19	¥ 6	¥12,049	¥ —
Lease liabilities	291	222	174	138

(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	$ 157	$ 49	$99,578	$ —
Lease liabilities	2,404	1,834	1,438	1,140

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 January 1, 2015 and December 31, 2015.

Other

Quarterly information in Fiscal 2015

(Millions of yen)

Accumulated	First quarter From January 1 to March 31, 2015	Second quarter From January 1 to June 30, 2015	Third quarter From January 1 to September 30, 2015	Fiscal 2015
Net sales	¥131,194	¥262,877	¥391,905	¥521,721
Income (loss) before income taxes	17,889	32,088	48,501	58,514
Net income (loss)	11,544	20,931	31,858	35,749
Net income (loss) per share (Yen)	32.92	59.65	90.77	101.84

Quarterly	First quarter From January 1 to March 31, 2015	Second quarter From April 1 to June 30, 2015	Third quarter From July 1 to September 30, 2015	Fourth quarter From October 1 to December 31, 2015
Net income (loss) per share (Yen)	32.92	26.74	31.12	11.08

(Thousands of U.S. dollars)

Accumulated	First quarter From January 1 to March 31, 2015	Second quarter From January 1 to June 30, 2015	Third quarter From January 1 to September 30, 2015	Fiscal 2015
Net sales	$1,084,247	$2,172,537	$3,238,884	$4,311,743
Income (loss) before income taxes	147,842	265,190	400,834	483,586
Net income (loss)	95,404	172,983	263,289	295,446
Net income (loss) per share (Yen)	0.27	0.49	0.75	0.84

Quarterly	First quarter From January 1 to March 31, 2015	Second quarter From April 1 to June 30, 2015	Third quarter From July 1 to September 30, 2015	Fourth quarter From October 1 to December 31, 2015
Net income (loss) per share (Yen)	0.27	0.22	0.25	0.09

pwc

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 December 31, 2015, 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.

PricewaterhouseCoopers Aarata
Sumitomo Fudosan Shiodome Hamarikyu Bldg., 8-21-1 Ginza, Chuo-ku, Tokyo 104-0061, Japan
T: +81 (3) 3546 8450, F: +81 (3) 3546 8451, www.pwc.com/jp/assurance

To the Board of Directors of
Kuraray Co., Ltd.
Page 2

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 December 31, 2015, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2015 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

May 27, 2016

Main Group Companies

(As of December 31, 2015)

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
Kuraraylíving Co., Ltd.	Osaka	101	Manufacture and sales of packaging materials
Kuraray Techno Co., Ltd.	Osaka	100	Production subcontracting, Temporary personnel service
Kuraray Kuraflex 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$25.2 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$8.0 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$29.7 million	Manufacture and sales of PVA resins
Kuraray India Private Limited	Delhi, India	Rupees 222 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
Plantic Technologies Limited	Victoria, Australia	AU$131.5 million	Manufacture and sales of biomass-derived *PLANTIC* film

Note: Kuraray Co., Ltd. has 25 affiliated companies in Japan and 46 overseas.

Investor Information

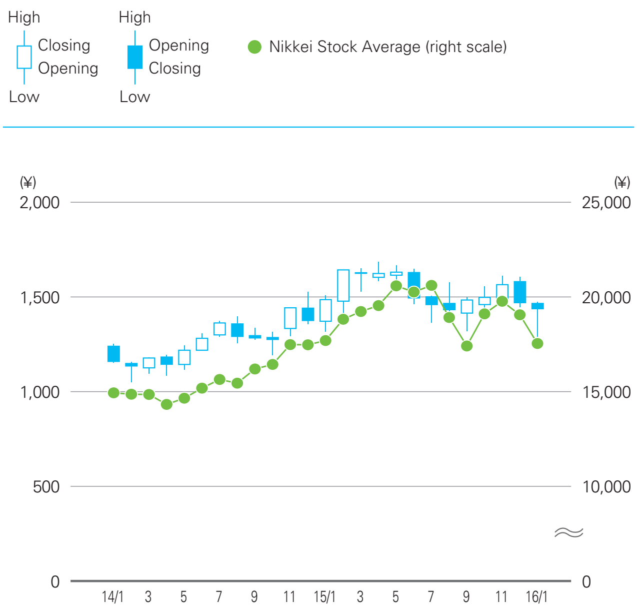
(As of December 31, 2015)

KURARAY CO., LTD.

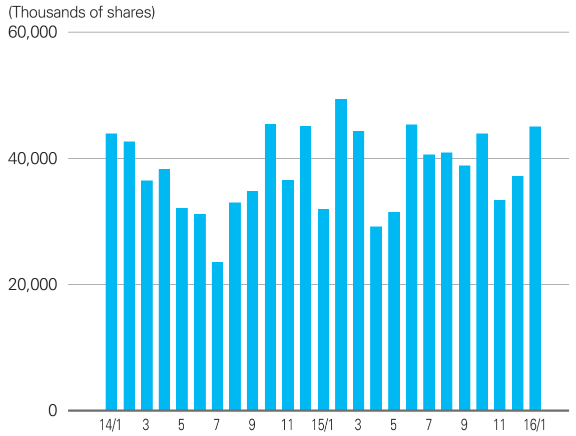
Established:	June 24, 1926
Capital:	¥88,955 million
Shares Authorized:	1,000,000,000 shares
Issued:	354,863,603 shares
Number of Shareholders:	48,652
Head Offices:	Tokyo, Osaka

Share Price Movement

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



Trading Volume



Shareholder Register Agent for Common Stock

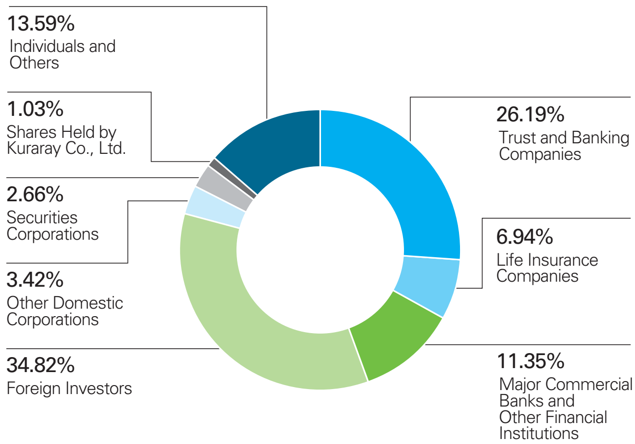
Sumitomo Mitsui Trust Bank, Limited
Stock Transfer Agency Business Planning Department
1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8223, Japan

Principal Shareholders

Name or Company Name	Number of Shares Held (thousands)	Percentage of Shares Held
The Master Trust Bank of Japan, Ltd. -Trust Account-	25,566	7.20%
Japan Trustee Services Bank, Ltd. -Trust Account-	21,358	6.02%
National Mutual Insurance Federation of Agricultural Cooperatives	11,002	3.10%
Nippon Life Insurance Company	10,448	2.94%
THE BANK OF NEW YORK MELLON SA/NV	6,308	1.78%
Meiji Yasuda Life Insurance Company	5,969	1.68%
NORTHERN TRUST CO (AVFC) RE - SSDOO	5,713	1.61%
STATE STREET BANK WEST CLIENT - TREATY 505234	5,481	1.54%
TRUST & CUSTODY SERVICES BANK, LTD -Trust Collateral Account	5,307	1.50%
TRUST & CUSTODY SERVICES BANK, LTD -Securities Inv. Trust Account	5,204	1.47%

Note: Although the Company owns 3,658,647 shares of treasury stock, it is excluded from the major shareholders listed above.

Breakdown of Issued Shares by Type of Shareholder



KURARAY CO., LTD.

TOKYO HEAD OFFICE

Ote Center Bldg., 1-1-3, Otemachi,
Chiyoda-ku, Tokyo 100-8115, Japan
tel. +81-3-6701-1000 fax. +81-3-6701-1005

OSAKA HEAD OFFICE

Umeda Hankyu Building Office Tower, 8-1,
Kakudacho, Kita-ku, Osaka 530-8611, Japan
tel. +81-6-7635-1000 fax. +81-6-7635-1005