



kuraray

Broadening Our Horizons

Annual Report 2011
For the year ended March 31, 2011

Profile

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

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

MANAGEMENT PHILOSOPHY

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

CORPORATE PHILOSOPHY

(Established in 1986)

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

GUIDELINES for ACTION

(Established in 1986)

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

CORPORATE MISSION (Established in 2003)

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

PRINCIPLES for BUSINESS CONDUCT (Established in 1998)

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

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

FORWARD-LOOKING STATEMENTS

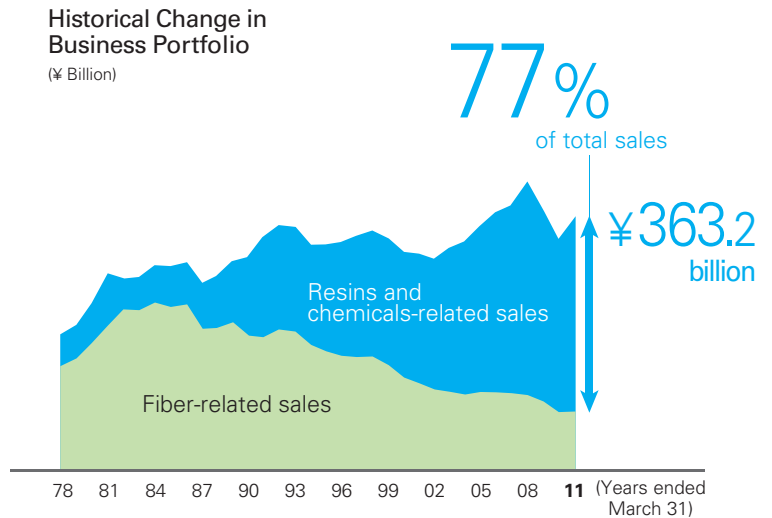
This annual report contains various forward-looking statements, which are based on the current expectations and assumptions of future events. All figures and statements with respect to the future performance, projections, and business plans of Kuraray and its Group companies constitute forward-looking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

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

Milestones

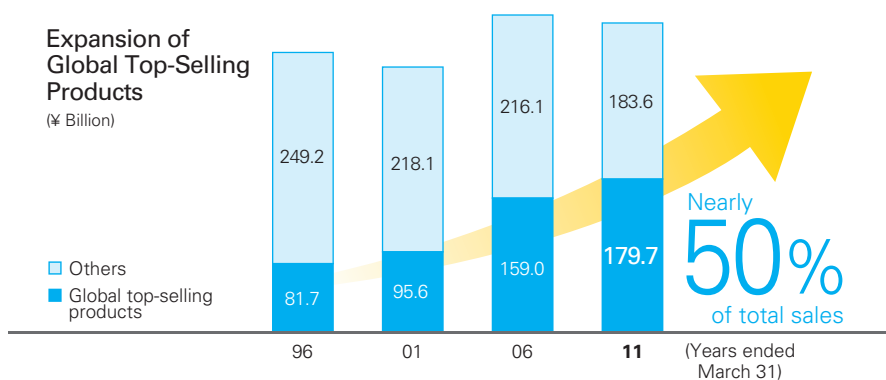
From Fibers to Chemicals

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



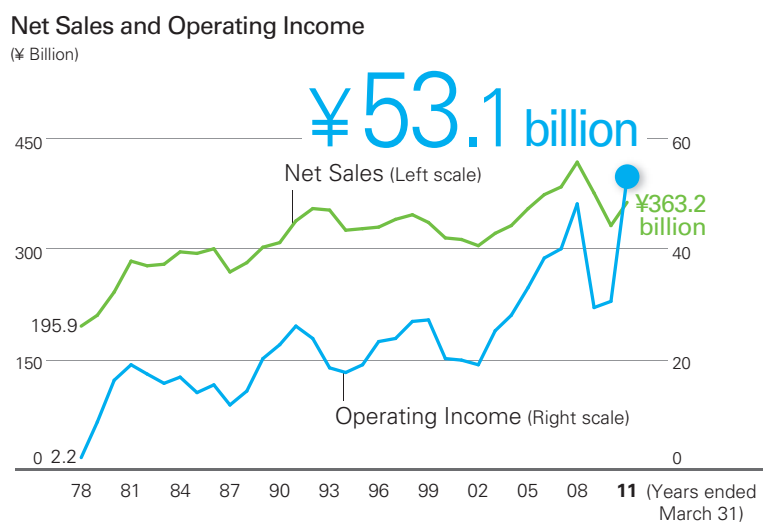
Generating More Global Top-Selling Products

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



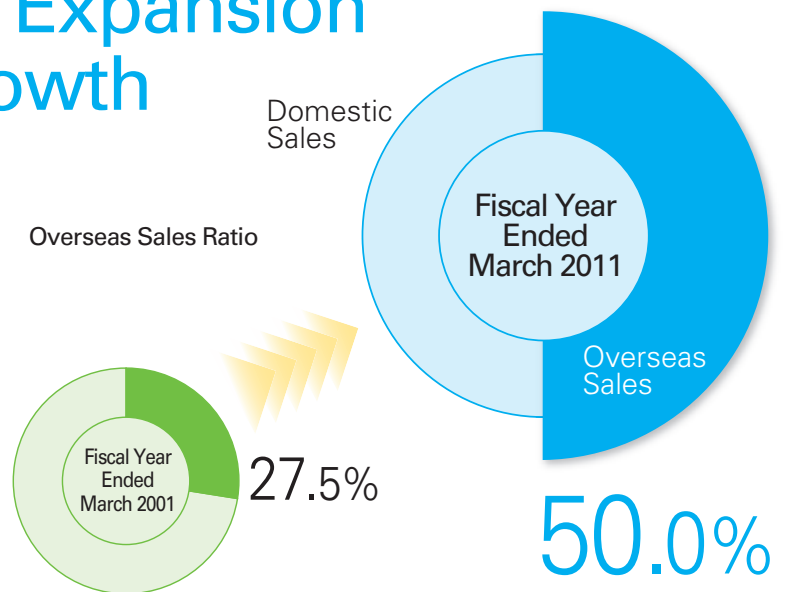
Kuraray's Progress

While drastically transforming its operating structure, Kuraray has steadily expanded its scope of operations. Our agile and aggressive strategy to date helped us achieve record results in the fiscal year ended March 2011 of ¥363.2 billion in net sales and ¥53.1 billion in operating income, for a 14.6% operating income margin. The average growth rate of operating income over the past decade was 10.3%. We will continue our progress toward further growth.



Weaving Global Expansion into Broader Growth

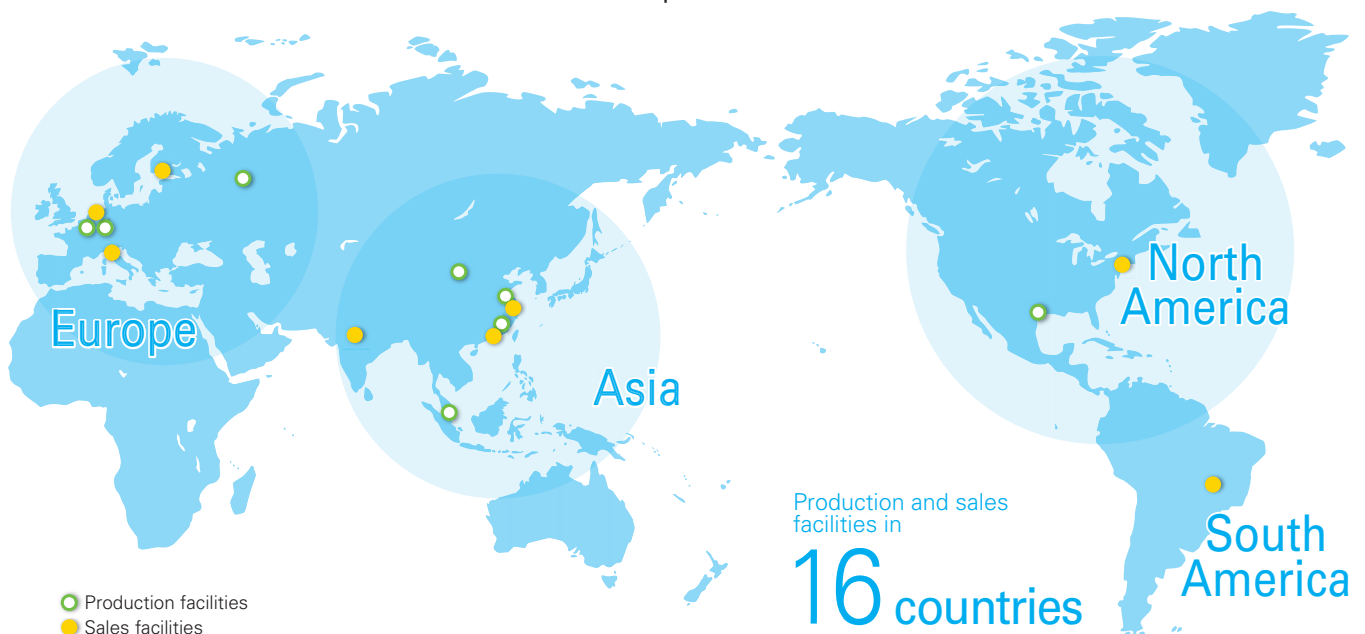
Centered on a product lineup developed using its proprietary technologies, Kuraray works to uncover new needs worldwide and further expand its market share. Overseas sales, which accounted for 27.5% of consolidated sales in the fiscal year ended March 2001, have grown to 50.0% in the fiscal year ended March 2011. Sales to date have focused primarily on developed nations, but today we are committed to increasing sales in emerging markets such as the BRICs countries, where further demand growth is forecast.



Building a Global Presence

Since establishing a foothold with the launch of local production of *EVAL* at a U.S. joint venture in 1986, Kuraray has worked to localize production and sales in response to growing markets around the world. We currently have 39 bases in 16 countries and regions outside Japan and are developing international operations driven by our proprietary technologies under the strategy of “producing in the optimal location and marketing in the optimal location.” We also work to strengthen our international competitiveness by enhancing our sales offices and other initiatives in unexplored fields in countries and regions where Kuraray already operates.

Main Production Facilities and Sales Facilities outside Japan



Consolidated Financial Highlights

Kuraray Co., Ltd. and its consolidated subsidiaries

	Millions of yen					Percent change	Millions of U.S. dollars	Millions of Euro
	FY2010	FY2009	FY2008	FY2007	FY2006		(Note 1)	(Note 2)
Net sales.....	¥363,191	¥332,880	¥376,777	¥417,601	¥385,284	9.1%	\$4,375	€3,077
Cost of sales.....	243,564	237,198	275,912	295,220	275,885	2.7	2,934	2,064
Selling, general and administrative expenses.....	66,531	65,230	71,585	74,250	69,178	2.0	801	563
Operating income.....	53,095	30,451	29,280	48,130	40,220	74.4	639	449
Net income.....	28,742	16,315	12,984	25,554	22,412	76.2	346	243
Capital expenditures.....	¥ 20,558	¥ 19,879	¥ 38,925	¥ 42,720	¥ 37,700	3.4%	\$ 247	€ 174
Depreciation and amortization...	33,536	36,489	37,147	31,485	25,495	(8.1)	404	284
Gross cash flow.....	62,278	52,804	50,131	57,040	47,908	17.9	750	527
Total research and development expenses.....	15,772	15,292	16,358	15,250	13,021	3.1	190	133
Total assets.....	¥507,328	¥502,815	¥471,874	¥490,365	¥508,694	0.9%	\$6,112	€4,299
Total current assets.....	310,594	249,326	201,358	196,282	217,970	24.6	3,742	2,632
Total tangible fixed assets.....	145,238	163,709	181,020	192,362	174,151	(11.3)	1,749	1,230
Total current liabilities.....	86,214	76,550	69,041	89,074	94,404	12.6	1,038	730
Total noncurrent liabilities.....	74,288	88,446	77,816	56,457	55,697	(16.0)	895	629
Total net assets.....	346,825	337,818	325,016	344,833	358,592	2.7	4,178	2,939
Segment information (Note 4)								
Resins								
Net sales.....	¥147,429	¥136,558	¥—	¥—	¥—	8.0%	\$1,776	€1,249
Operating income.....	50,848	39,153	—	—	—	29.9	612	430
Chemicals								
Net sales.....	75,700	66,680	—	—	—	13.5	912	641
Operating income.....	8,676	2,048	—	—	—	323.6	104	73
Fibers and Textiles								
Net sales.....	61,595	58,151	—	—	—	5.9	742	521
Operating income (loss) ..	(221)	(2,819)	—	—	—	—	(2)	(1)
Trading								
Net sales.....	115,161	102,643	—	—	—	12.2	1,387	975
Operating income.....	3,304	2,005	—	—	—	64.8	39	28
Others								
Net sales.....	58,894	50,166	—	—	—	17.4	709	499
Operating income.....	4,906	4,271	—	—	—	14.9	59	41
Amounts per share:								
					Yen		U.S. dollars	Euro
							(Note 1)	(Note 2)
Net income:								
Primary.....	¥ 82.55	¥ 46.86	¥ 37.29	¥ 72.15	¥ 60.95	76.2%	\$ 0.99	€0.70
Fully diluted.....	82.40	46.81	37.26	71.99	60.80	76.0	0.99	0.69
Cash dividends applicable to period...	27.00	16.00	22.00	22.00	18.50	68.8	0.32	0.22
Shareholders' equity.....	985.22	961.24	924.48	981.82	967.80	2.5	11.87	8.34
Financial ratios:								
Cost of sales ratio (%).....	67.1	71.3	73.2	70.7	71.6			
Equity ratio (%).....	67.6	66.5	68.2	69.7	70.0			
Return on equity (ROE) (%).....	8.5	5.0	3.9	7.3	6.4			
Return on assets (ROA) (%) (Note 5)...	10.5	6.2	6.1	9.6	8.1			
Payout ratio (%).....	32.7	34.1	59.0	30.5	30.4			
Number of employees.....	6,544	6,630	6,861	6,770	6,812			

Notes: 1. The United States dollar amounts represent the translation of Japanese yen at the rate of ¥83 = \$1.

2. Euro amounts represent the translation of Japanese yen at the rate of ¥118 = €1.

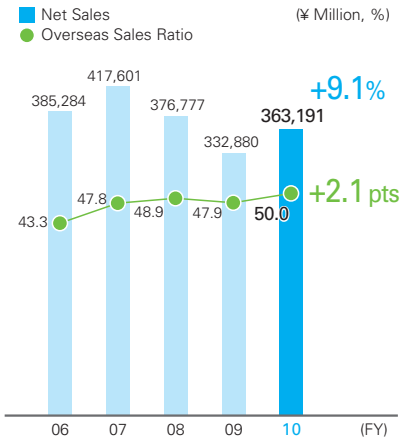
3. Certain reclassifications of previously reported amounts have been made to conform with current classifications.

4. Since fiscal 2010 (the year ended March 31, 2011), business segments have been reclassified from the three segments "Chemicals and Resins," "Fibers and Textiles" and "High-Performance Materials, Medical Products and Others" to the five segments "Resins," "Chemicals," "Fibers and Textiles," "Trading" and "Others." The trading business has been allocated from each of the three former segments Chemicals and Resins, Fibers and Textiles, and High-Performance Materials, Medical Products and Others.

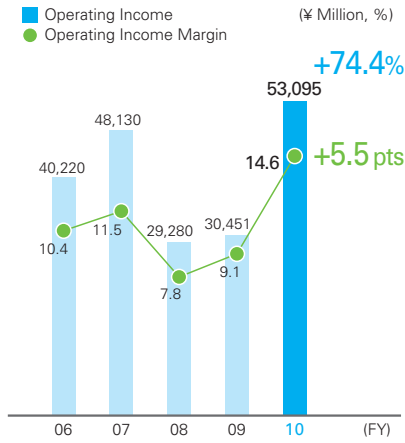
5. Return on assets = Operating income / Average total assets x 100 (%)

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

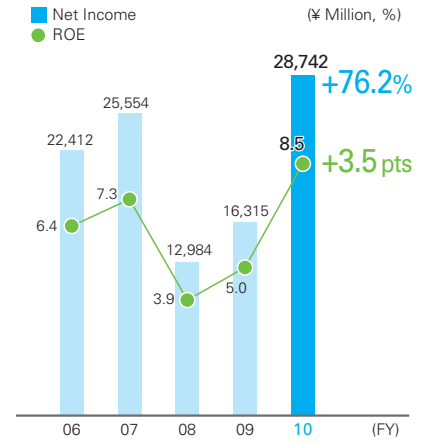
Net Sales & Overseas Sales Ratio



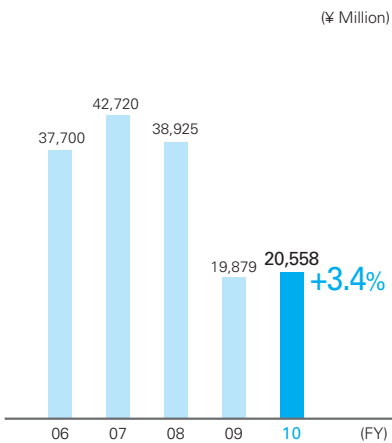
Operating Income & Operating Income Margin



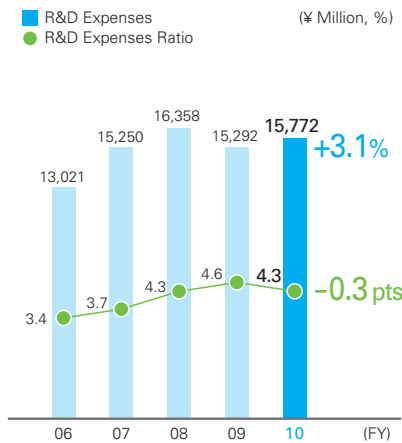
Net Income & ROE



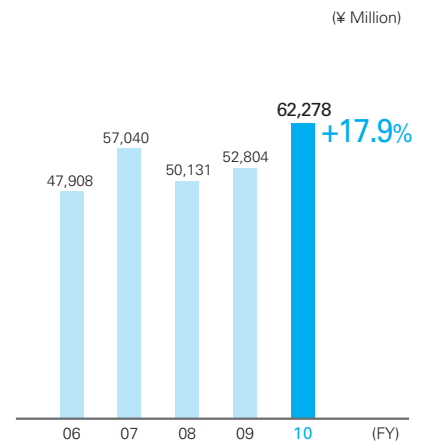
Capital Expenditures



R&D Expenses & R&D Expenses Ratio

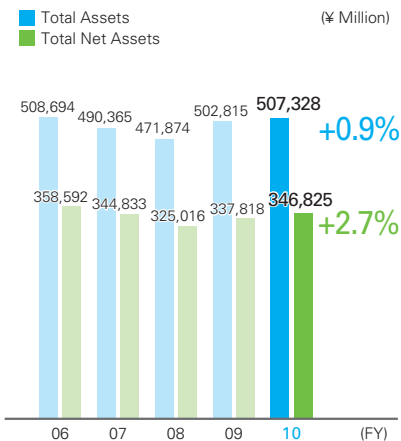


Gross Cash Flow*

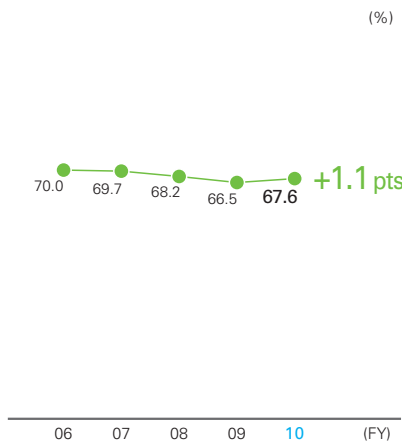


* Gross Cash Flow = Net income + Depreciation and amortization

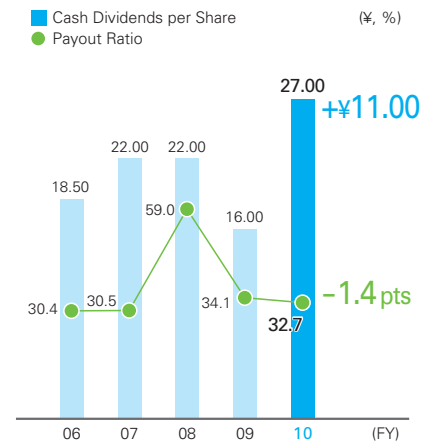
Total Assets & Total Net Assets



Equity Ratio



Cash Dividends per Share & Payout Ratio



To Our Shareholders

Thank you for your continuing patronage of Kuraray. First and foremost, we would like to take this opportunity to remember all those who lost their lives in the Great East Japan Earthquake and to extend our heartfelt sympathy to all those who remain affected by its aftermath.

The operating environment in the fiscal year ended March 31, 2011 saw an overall recovery in the economies of the United States and Europe while those of emerging countries, chiefly China, performed favorably. In contrast, conditions in the Japanese economy were increasingly unclear due to the effects of the yen's rapid appreciation in the second half of the fiscal year, hikes in raw material and fuel prices and the March 11 Great East Japan Earthquake.

Amid these circumstances, Kuraray took proactive measures for further business growth in line with "GS-Twins," its Medium-term Action Plan (from the fiscal year ended March 2010 to the fiscal year ending March 2012). In addition, the Company put into effect measures to bring about an earnings recovery, including the cutting back of fixed costs.

Consequently, consolidated net sales for the period under review grew ¥30,310 million (9.1%) compared with the previous fiscal year to ¥363,191 million, operating income jumped ¥22,643 million (74.4%) to ¥53,095 million, ordinary income surged ¥22,137 million (76.5%) to ¥51,062 million and net income increased ¥12,426 million (76.2%) to ¥28,742 million. In addition to setting all-time records for each income item, the Company achieved its "GS-Twins" operating income target of ¥50 billion a year ahead of schedule.

In the fiscal year ending March 2012, Kuraray will maintain its course toward further business growth and treat as key issues two initiatives cited in "GS-Twins"—"Acceleration of global strategy for core businesses" and "Creation and expansion of new business"—as the Company targets net sales of ¥400 billion, operating income of ¥60 billion, ordinary income of ¥58.5 billion, and net income of ¥34 billion.

Positioning the payment of dividends to shareholders as a priority management issue, Kuraray is aiming for a dividend payout ratio of 30% or more of consolidated net income in the period covered by "GS-Twins" and dividend increases through sustained improvements in business performance. The planned year-end dividend for the fiscal year ended March 2011 is ¥14. As a result, when added to the interim payment, the full-year dividend payment for the fiscal year ended March 2011 totals ¥27 per share (a payout ratio of 32.7%).

Assuming planned consolidated net income of ¥34 billion, a ¥6 increase in dividend payment is planned for the fiscal year ending March 2012, making for a total full-year dividend payment of ¥33 (a payout ratio of 33.8%).

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

August 2011



Yasuaki Wakui
Representative Director and Chairman



Fumio Ito
Representative Director and President





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

What progress has the Kuraray Group made during the first two years of the three-year “GS-Twins” Medium-term Action Plan that you started in the fiscal year ended March 2010?

“In the fiscal year ended March 2011, the Kuraray Group achieved record high profits and reached the ¥50 billion operating income target of “GS-Twins” one year ahead of schedule.”

We drew up “GS-Twins” just after the collapse of Lehman Brothers Holdings, when the outlook was completely uncertain and we faced a serious global economic recession. Consequently, we made “GS-Twins” an action plan that directed our management initiatives to re-establish the profit structure laid out in “GS-21,” our previous Medium-term Business Plan. We set three key initiatives: improve profit structure; creation and expansion of new business; and acceleration of global strategy for core businesses.

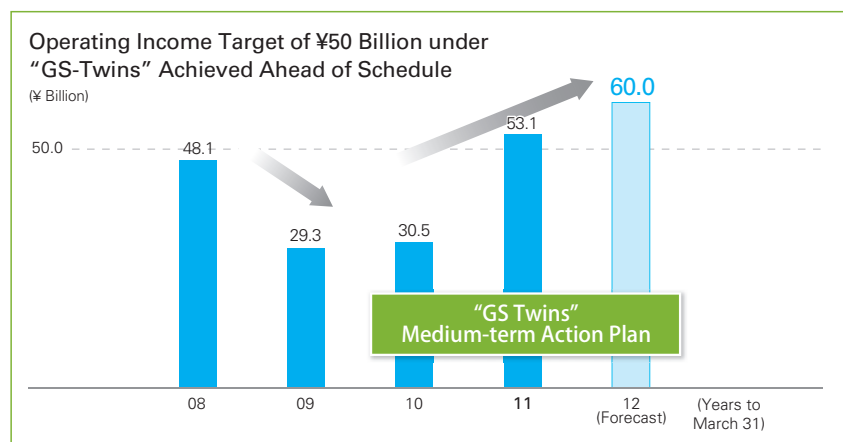
In the fiscal year ended March 2010, we first set out to improve our profit structure with various measures including postponing capital investments, thoroughly reducing inventory and expenses and raising the efficiency of our personnel. In doing so, we placed priority on overcoming the challenges we faced.

In the fiscal year ended March 2011, the rate of market growth in China and

other emerging countries exceeded expectations, while the economies of Europe and North America also headed toward recovery. We expanded sales of our product lines centered on vinyl acetate and poval-related businesses and isoprene-related businesses. Supported by our profit structure improvement measures, this led to a rapid rebound in the Kuraray Group's performance. Although the strong yen had a significant impact on net sales in the fiscal year ended March 2011, we posted record high operating income (¥53.1 billion), ordinary income (¥51.1 billion) and net income (¥28.7 billion). We were thus able to achieve the ¥50 billion operating income target of "GS-Twins" one year ahead of schedule.

In the fiscal year ending March 2012, our focus will shift to the themes of "creation and expansion of new business" and "acceleration of global strategy for core businesses."

With rising raw material and fuel prices and the impact of the Great East Japan Earthquake, the sense of uncertainty in our operating environment is growing. I want to carry out our strategies boldly yet in careful detail, while keeping a close watch on these conditions.



What is the status of creation and expansion of new business?

“ We are creating and expanding a series of new businesses in our three core fields of focus as well as other existing fields.”

Under "GS-Twins," we will invest management resources into selected fields in high-growth markets where the Kuraray Group can display its technological potential, with the aim of creating environment-oriented businesses. We have defined three core fields: the environment, energy, and optical and electronic materials. I will detail our main initiatives in each of these fields.



In the environment field, we are focusing our efforts primarily on our aqua business. Our water treatment technologies that use hollow fiber membranes and polyvinyl alcohol (PVA) gel are being employed in multiple projects in Singapore, the “Mecca” of the aqua business. We will expand our operations, mainly in emerging countries, with plans to establish a joint venture company to handle the water treatment business in China. I also hope to develop two other products into major businesses generating tens of billions of yen each: our recovery system for valuable materials emitted during the manufacturing process of solar cells and semiconductors; and *MICROFADE*, our ballast water management system for the conservation of marine ecosystems.

In the energy field, we recently announced our commercialization of concentrating lenses that help to raise the efficiency of solar power generation. We are also working to increase sales of polyvinyl butyral (PVB) film for use as an encapsulant for solar cell panels and activated carbon for use in capacitors.

In the optical and electronic materials field, our proprietary heat-resistant polyamide resin *GENESTAR*, the only product of its kind on the market, is employed in LED reflectors used in light sources for liquid crystal displays, and sales are growing in tandem with the LED TV market. We expect further growth from the development of *GENESTAR* for LEDs used in general lighting applications, and we are focusing our efforts in this area. In addition, mass production facilities for our acrylic thermoplastic elastomer *KURARITY* will come on line in the fiscal year ending March 2012, and we have high expectations for this product for use in lighting materials.

We have also been developing a series of new businesses in other existing fields. These include the integration of our dental materials business with Noritake Dental Supply Co., Limited in April 2011, development of liquid isoprene rubber *LIR* for automobile tires and gas barrier resin *EVAL* for vacuum insulation panels, and full-scale development of *FELIBENDY*, a new type of non-woven fabric, and environmentally friendly man-made leather.

What is the status of acceleration of global strategy for core businesses?



What are your thoughts on the Kuraray Group's plans for the fiscal year ending March 2012 and the next medium-term business plan?

“ We are expanding production bases to meet robust demand and increasing sales offices in emerging countries.”

First, I would like to take a look at the expansion of our production bases. Product demand is recovering and expanding in both vinyl acetate and poval-related businesses and isoprene-related businesses. As a result, the utilization rate of our production facilities is rising, and we need to augment our production facilities for products including poval, PVB, gas barrier resin *EVAL*, and thermoplastic elastomer *SEPTON*. Currently, construction is underway to expand our poval resin facility in Europe and our poval film facility at the Saijo Plant in Japan. Following our acquisition of industrial-zoned land in Texas, U.S.A., we will make further decisions on capital investment in North America, Europe and Asia during 2011 and 2012.

As for increasing sales offices, we have been working to cultivate markets in emerging countries by adding new offices in India and Brazil to those in China and Singapore. With *EVAL* and *KURALON*, an alternative to asbestos for strengthening cement, as representative examples, most of our products are highly functional and geared toward markets in developed countries. As the standard of living improves in emerging countries, however, I am sure that opportunities for the use of our products will grow substantially.

“ In addition to creation and expansion of new business and acceleration of global strategy for core businesses, we will carry out aggressive initiatives, including mergers and acquisitions, to fulfill our corporate vision.”

The greatest issue for the Kuraray Group in the fiscal year ending March 2012 will be how we can contribute through our business activities to restoration after the Great East Japan Earthquake. At the same time, we will deal with the forecast significant rise in raw materials and fuel prices by continuing to focus on creating high-value-added products and adjusting prices. We will also actively promote the creation and expansion of new business and acceleration of global strategy for core businesses, with the targets of ¥400 billion in net sales and

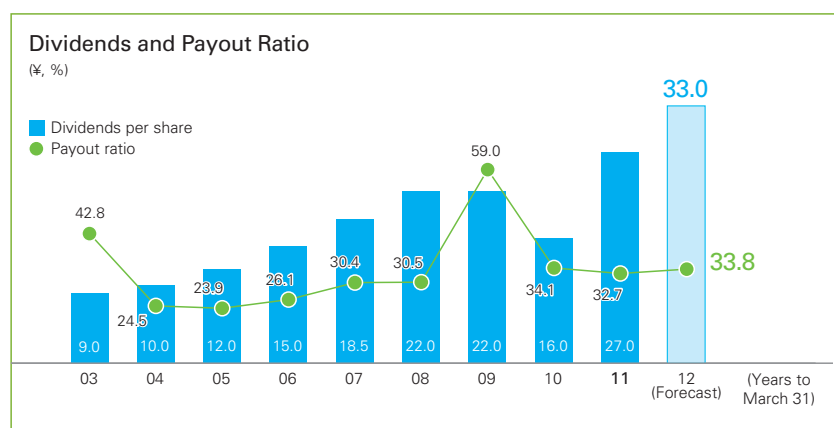
¥60 billion in operating income.

Under its corporate vision of being a “specialty chemical company with sustainable growth,” the Kuraray Group has set the long-term target of achieving ¥1 trillion in net sales by 2018. In our next medium-term business plan, we must structure and formulate the strategies that will help us reach this target. First, we will develop a picture of the company we want to be six or seven years from now, and with that in mind we will make clear the matters we must implement and prepare for during the three years of the next medium-term business plan, starting in the fiscal year ending March 2013. We will develop an aggressive yet feasible action plan that incorporates specific strategies and measures for expansion in order to move this process forward. In light of the situation to date, I believe our long-term target is well within reach if we add mergers and acquisitions to our focus on creation and expansion of new business and acceleration of global strategy for core businesses.

What is Kuraray’s policy on shareholder returns?

“Kuraray focuses on increasing dividends by improving business performance and adhering to its policy of maintaining a payout ratio of 30% or more.”

During the term of “GS-Twins,” Kuraray is focusing on increasing dividends by improving business performance and adhering to its policy of maintaining a payout ratio of 30% or more of consolidated net income. Under this policy, we will seek to further increase profits in the fiscal year ending March 2012 toward a target of ¥34 billion in net income, with the aim of increasing dividends for the fiscal year by ¥6 per share to ¥33 per share, which will be a payout ratio of 33.8%.



I. Generating Unique and

Kuraray has used its original technological capabilities to produce a series of innovative new products. More than ten of these products either already hold a world-leading share or are the sole product in their market.

Above all, we actively conduct research and development in the field of polymer and synthetic technologies, where we have advanced expertise, and in the key areas of the environment, energy, and optical and electronic materials, where the challenges are on a global scale.

In the fiscal year ending March 2012, Kuraray will accelerate the creation of new businesses, including for its new acrylic thermoplastic elastomer **KURARITY** and a concentrating lens for solar power generation.

KURARITY

Features

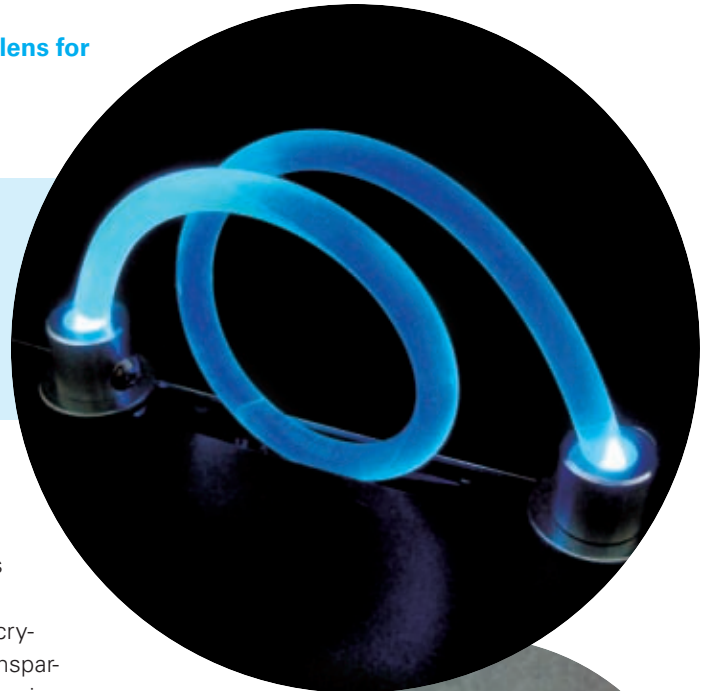
KURARITY is an acrylic thermoplastic elastomer that Kuraray has become the first company in the world to successfully produce commercially. As a block copolymer composed of methyl methacrylate (MMA) and butyl acrylate (BA), *KURARITY* combines the transparency and weather resistance of MMA with the elasticity and adhesive qualities of BA. These diverse features give *KURARITY* the potential for use in a variety of applications, and Kuraray expects it to become the core product of its elastomer business.

Background of Development and Proprietary Technologies

Kuraray has already commercialized the styrenic thermoplastic elastomers *SEPTON* and *HYBRAR*, and the thermoplastic polyurethane elastomer *KURAMIION*. *KURARITY* was developed to meet the market needs uncovered through sales of these products. From the start of development, we faced challenges in commercialization including inability to achieve polymer synthesis except at the ultra-low temperature of -80°C and a long reaction time. However, with the introduction of living anion polymerization using our proprietary catalytic technologies and special reaction chambers, we resolved these challenges and successfully achieved commercial production.

Applications and Future Development

As applications for *KURARITY*, Kuraray is targeting the following fields: adhesives that can capitalize on the product's adhesive qualities; film and light guide components that can leverage its transparency and elasticity; and molding materials that can take advantage of its transparency, elasticity, and adhesive qualities. We are currently building a production line with an annual capacity of 5,000 tons at our Niigata Plant, with the start of production scheduled for the second half of 2011. After starting mass production, we will promote full-scale development of applications and markets with the aim of achieving sales of ¥6 billion in the fiscal year ending March 2016 and ¥10 billion in the fiscal year ending March 2019.



"Only One" New Products

	Fiscal Year Ended March 2009	Fiscal Year Ended March 2010	Fiscal Year Ended March 2011
Optical and Electronic Materials	Heat-resistant polyamide resin GENESTAR Start of sales for LEDs	Acrylic thermoplastic elastomer KURARITY Promotion of development/Decided to construct full-scale facilities (Start of operation in autumn of 2011)	LCP film VECSTAR Start of full-scale adoption for high-speed transmission circuit
Environment (Water)	New environment-friendly man-made leather Start of sales	Ballast water management system MICROFADE Received basic approval	Introduction in multiple water treatment projects in Singapore Planning to establish water-treatment joint venture in China Start/acceleration of worldwide sales of coolant recovery system (Production process of photovoltaic silicon wafer)
Energy			Concentrating lens for solar power generation Start of adoption Activated carbon for electric double layer capacitors: Expansion of sales
Other Fields	Liquid isoprene rubber LIR Full-scale sales for tires New-type non-woven fabric FELIBENDY Start of full-scale adoption	Plastic scintillation fiber (PSF) Expansion of use for detection of elementary particles (Contribution to high-energy physics and cosmology)	Establishment of integrated company with Noritake Dental Supply Co., Limited

Concentrating Lens for Solar Power Generation

Features

A concentrating lens for solar power generation concentrates sunlight on a solar cell while constantly tracing the movement of the sun. This means that cells with higher efficiency than conventional crystalline silicon can be used to produce several times the electricity generating capacity over the same surface area.

Kuraray's concentrating lens for solar power generation uses advanced transcription properties based on precision molding technology to enhance the precision of each individual lens, thus realizing a high degree of light-concentration efficiency. This realizes 31% of the most efficient photovoltaic modules, even with conventional solar power generation technology. In addition, the lens features excellent light resistance and water resistance.

Background of Development and Proprietary Technologies

Large-scale power generation systems, in which concentrating lenses are used, have attracted worldwide attention for their high efficiency. We have been actively promoting commercialization of our concentrating lens for solar power generation in this growth market because we manufacture methacrylic resin, a raw material for the

lenses, and because it is a segment where we can leverage our accumulated precision molding technologies for our laser disk and opto-screen businesses.

Applications and Future Development

Kuraray has commercialized its concentrating lenses for solar power generation and supplies them to Amonix, Inc. of the United States, the global market share leader in concentrated photovoltaic (CPV) solar power systems with a market share of over 70%. Amonix began operations at a new CPV system production plant in March 2011. Kuraray has begun supplying lenses to this plant, with plans to increase supply volume in the future.

II. Achieving Further Growth

Because its business expansion to date has centered on the development of high-value-added products, Kuraray has focused mainly on the markets of developed nations. Demand for Kuraray's high-value-added products has been steadily growing. In recent years, however, economic growth in emerging countries has also been notable, and demand in these markets is steadily growing as their standard of living improves. In the fiscal year ended March 2011, sales in emerging economies grew to 26.1%* of total net sales. As this trend continues and people's lifestyles become more affluent, we believe latent markets for Kuraray products will continue to expand. Going forward, we will make full use of our overseas subsidiaries and our newly established offices in India, Brazil and elsewhere to expand our sales regions. We are also considering establishing additional overseas production bases to meet this demand.

*Ratio of sales in emerging economies: (Sales other than Japan, North America and Europe) ÷ (Kuraray Group net sales)

China

With a total population of some 1.3 billion, China has established a solid position as the world's largest consumer market. Kuraray's unique products such as **EVAL** (used in food packaging and automobile tanks), **SEPTON** (substitute for rubber), and **CLARINO** (man-made leather) have all performed strongly there. In particular, shipments of **EVAL** in the fiscal year ended March 2011 have risen around 30% compared with the previous fiscal year, and we expect double-digit annual growth to continue.



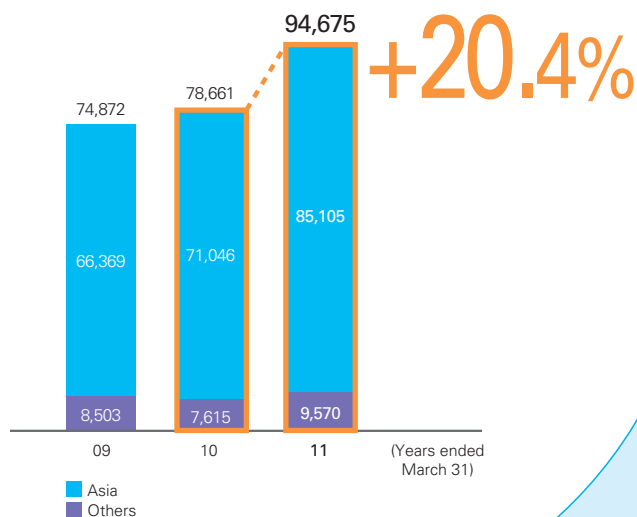
India

Currently, sales volume of **poval resin** is steadily growing in India. We also anticipate firm expansion of demand for **isoprene-related products** because of the traditionally large number of customers there for raw materials for fragrances. Sales volume of **EVAL** for food packaging applications has been growing steadily, and growth in sales for use in gasoline tanks is expected in the future.

In addition, anticipating high demand in the **water treatment-related business**, we have hired workers locally and are currently studying local needs.

in Emerging Countries

Sales in Emerging Economies
(¥ Million)



Russia

One of Kuraray's **polyvinyl butyral (PVB) film*** plants is located in Nizhny Novgorod, Russia. We are accelerating development of this business for the automotive market in Russia and other Eastern European countries.

*Intermediate film for laminated glass

Singapore

In Singapore, Kuraray Asia Pacific Pte. Ltd. manufactures **poval resin** and has become the foundation of our **poval resin** business in the Asia-Pacific region. We are also steadily making inroads into the **water treatment business**, a field that is expected to grow further following its selection as a key theme of the New Energy and Industrial Technology Development Organization (NEDO) in February 2011.

Brazil

We established Kuraray South America, Inc. in Sao Paulo, Brazil in December 2010 to make inroads into the South American market, where we have yet to establish a business presence. Since then, sales volume of **EVAL** in South America has steadily grown. Additionally, with restrictions on the use of asbestos around the world, we foresee a rise in demand for **KURALON** as an asbestos alternative in South America.

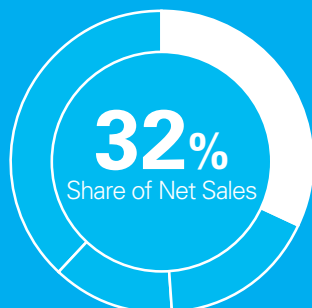


Kuraray at a Glance

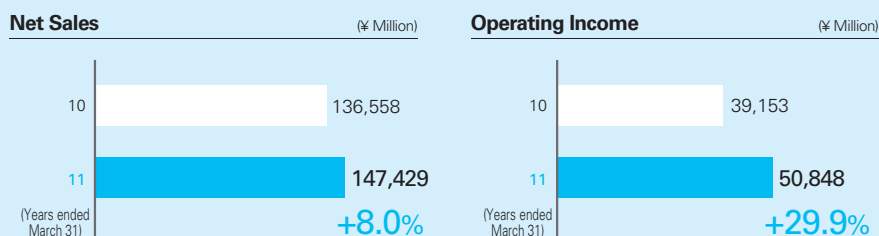
Business Segments

Results by Segment

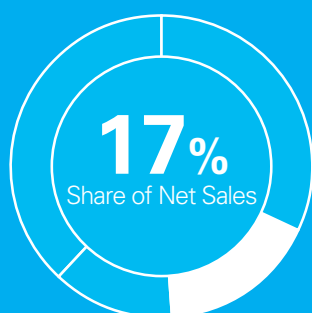
Resins



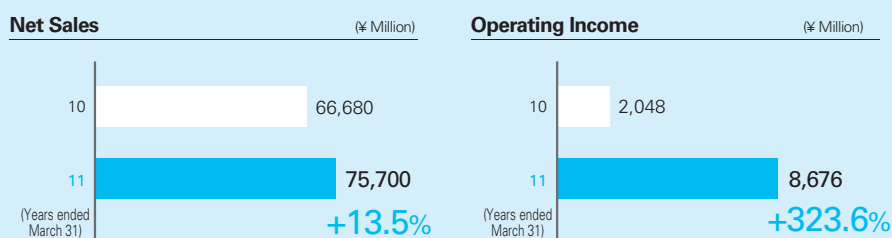
The Resins segment domestically produces poval resin and film, and *EVAL* in Japan and abroad. The segment also produces and sells *EVAL* resin in the United States, poval resin, PVB resin and film, and *EVAL* resin in Europe and poval resin in Asia.



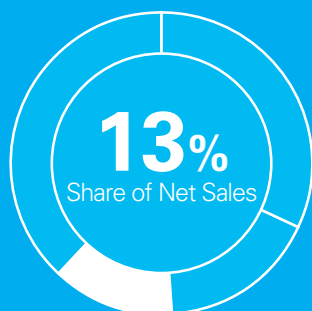
Chemicals



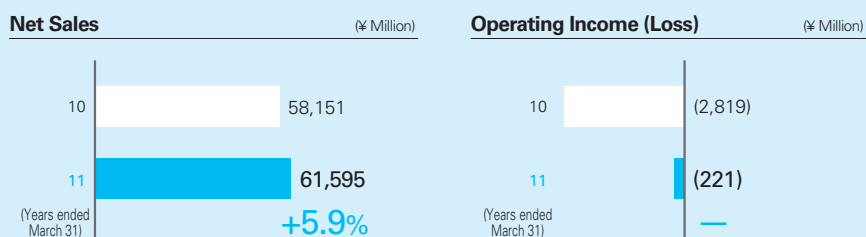
The Chemicals segment domestically produces isoprene, fine chemicals, methacrylic resin, resin finished products, *GENESTAR*, *SEPTON* and other goods for sale in Japan and abroad. The segment also produces and sells the thermoplastic elastomer *SEPTON* in the United States. The segment additionally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



Fibers and Textiles



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



Trading, Others

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

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



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

Paper / fiber processing agents, adhesives and others



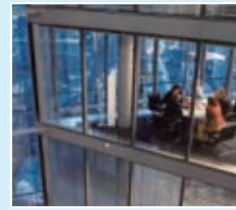
MOWITAL (PVB resin)

Coating compounds, inks, ceramic binders



PVA film

LCD televisions, mobile phone screens and others



TROSIFOL (PVB film)

Interlayers for laminated safety glass and photovoltaic module encapsulation



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

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



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

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



Isoprene chemicals

Pharmaceutical and agricultural intermediates, ingredients for fragrances, cosmetics



SEPTON, HYBRAR (Thermoplastic elastomer)

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



GENESTAR (Heat-resistant polyamide resin)

Mobile phones, personal computers, digital cameras, LCDs, LED reflectors application and others



Dental materials

Materials for treating cavities



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

Reinforcing material for cement and concrete and others



CLARINO (Man-made leather)

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



KURAFLEX, FELIBENDY (Non-woven fabric)

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



MAGIC TAPE (Hook and loop fastener)

Clothing, sporting goods, industrial materials and others



VECTRAN (Polyarylate fiber)

Rope, fishing nets, and other industrial products



Polyester staple / Polyester filament

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



KURARAY COAL (Activated carbon)

Water purification facilities, gas separators, capacitor materials



High-performance membranes / PVA gel

Water purification, wastewater treatment and others



No. 1

Product holds the world's number-one market share



Only 1

Product is the only one of its kind in the world

Review of Operations

Resins

Businesses of the Resin segment saw strong demand in Asian countries as well as in Europe and the United States, leading to increases in sales and profits.



KURARAY POVAL, MOWIOL
(PVA resin)

PVA film



The Fiscal Year Ended March 2011 in Review

Sales of poval resin were brisk in Asian countries as well as in Europe. Given this brisk demand, the Company decided to increase the annual production capacity at its European plant by 24,000 tons. The expanded plant will commence operations in the first quarter of the fiscal year ending March 2014. Despite the impact of production adjustments undertaken by polarized film makers midway through the period under review, sales of optical use poval film grew for the full fiscal year on the back of vigorous demand for LCD TVs, acting as a key driver of profits. In addition, the Company started to construct a new production line at the Saijo Plant, scheduled to commence operations in the first quarter of the fiscal year ending March 2013, which is aimed at increasing annual production by 20 million square meters. With regard to polyvinyl butyral (PVB) film, there were signs of gradual recovery in the European construction market and the market for automobile applications, and demand for PVB film for use as an encapsulant for solar power generators has also expanded.

Demand for *EVAL* ethylene vinyl alcohol copolymer (EVOH resin) was firm, and expanded in emerging countries. Demand for

EVAL's use in automobiles and food packaging showed particularly significant growth in Asian countries. In Europe and the United States, demand for *EVAL* for use in food packaging and automobiles was stable. Furthermore, sales expanded both in Japan and overseas for its use in new applications, such as vacuum insulation panels used in refrigerators.

As a result, Resin segment sales rose 8.0% year on year to ¥147,429 million, while operating income grew 29.9% to ¥50,848 million.

Outlook for the Fiscal Year Ending March 2012

We forecast sales of ¥165,000 million and operating income of ¥56,500 million in the fiscal year ending March 2012.

For poval resin, demand in Asia, Europe and the United States will remain solid, and demand for optical-use poval film in the area of LCD-related products is expected to remain strong. The launch of additional production lines is planned to cope with such strong demand. In addition, *EVAL* is expected to achieve significant growth, mainly for rapidly expanding automotive and food packaging applications in emerging markets.

Chemicals

Although the Kashima Plant (Kamisu City, Ibaraki Prefecture) was partly affected by the Great East Japan Earthquake, performance was strong overall, and profits rose significantly.

The Fiscal Year Ended March 2011 in Review

Demand for methacrylic resin was firm for use in molding materials and sheets, and overall sales grew on the back of improved market conditions. Sales of isoprene chemicals were brisk, with steady expansion in sales of *SEPTON* thermoplastic elastomer and *LIR* liquid isoprene rubber. In addition, sales of chemicals and fine chemicals expanded, and there was an increase in sales of differentiated products, mainly in Japan and other Asian countries. In the medical business, sales of dental materials were healthy on the back of the introduction of new types of composite resins and bonds in the European and U.S. markets as well as the



SEPTON, HYBRAR
(Thermoplastic elastomers)

results of measures to reinforce our sales structure. With the aim of reinforcing and expanding the dental materials business, Kuraray Medical Inc. integrated its dental materials business with Noritake Dental Supply Co., Limited on April 1, 2011. Demand for *GENESTAR* heat-resistant polyamide resin was steady for applications for LED reflectors and for electronics materials, including connectors.

Although some businesses suspended production at the Kashima Plant due to the Great East Japan Earthquake, Chemicals segment sales rose 13.5% year on year to ¥75,700 million, while operating income surged 323.6% year on year to ¥8,676 million.

Outlook for the Fiscal Year Ending March 2012

We forecast sales of ¥90,000 million and operating income of ¥10,000 million in the fiscal year ending March 2012.

As for isoprene chemicals, although *SEPTON* is expected to incur a loss due to partial work suspension at the Kashima Plant, demand is anticipated to be stable. Demand for methacrylic resin is anticipated to grow in Asia, while in the case of *GENESTAR*, demand is anticipated to steadily expand for LED reflector applications and use in electronics materials, including connectors, and

we will work for further sales growth. In the medical business, sales are expected to increase both in Japan and overseas due to business integration. In the second half of the fiscal year ending March 2012, we will commence operation of a mass production facility with an annual capacity of 5,000 tons of acrylic thermoplastic elastomer *KURARITY*, which was developed using the Company's proprietary technology (see the Feature section on page 12 for details).

Fibers and Textiles

In the Fibers and Textiles segment, demand recovered in almost all businesses, including *KURALON*, and profitability improved.

The Fiscal Year Ended March 2011 in Review

Demand for *KURALON* expanded for use in automotive brake hoses and primary cell separators. In addition, demand for use as an asbestos alternative in FRC (fiber reinforced cement) showed a recovery trend throughout the period under review. A drastic business restructuring is being conducted for *CLARINO* man-made leather. The Company is transferring general-purpose product manufacturing to a Chinese joint venture, while promoting the integration of new processing procedures for high-value-added products in domestic plants. In the fiscal year ended March 2011, sales of new eco-friendly processed *CLARINO* products expanded for use in footwear and gloves, while demand for conventional *CLARINO* man-made leather showed signs of recovery for use in high-value-added products. Sales of *KURAFLEX* nonwoven fabrics were stable for use in industrial wipers, although demand for use in commercial counter cloth and industrial masks was stagnant. Demand for *MAGIC TAPE*, hook and loop fasteners was steady

for use in industrial materials and medical and transport-related applications despite stagnant sales for use in automobile and housing-related applications.

As a result, Fibers and Textiles segment sales grew 5.9% year on year to ¥61,595 million. The segment recorded an operating loss of ¥221 million, showing an improvement from an operating loss of ¥2,819 million in the previous fiscal year.

Outlook for the Fiscal Year Ending March 2012

We forecast sales of ¥60,000 million and operating income of ¥500 million in the fiscal year ending March 2012.

Demand for *KURALON* for use in FRC is expected to show gradual recovery. As for *CLARINO*, the business restructuring which is underway now and further market cultivation and sales expansion for new environmentally friendly processed *CLARINO* products are expected to make progress.

Trading, Others

Sales and profits increased, with steady sales in the Trading segment for fiber-related and other business.

The Fiscal Year Ended March 2011 in Review/ Outlook for the Fiscal Year Ending March 2012

The Trading segment saw market recovery in such fiber-related businesses as polyester (in apparel and materials fields), as well as in an increase in differentiated materials. On the back of steady demand, mainly in Asian countries, sales of resins, chemicals and chemical products expanded. As a result, Trading segment sales grew 12.2% year on year to ¥115,161 million, while operating income surged 64.8% to ¥3,304 million.

We forecast sales of ¥120,000 million and operating income of ¥3,500 million in the fiscal year ending March 2012.

The Others segment includes manufacture and marketing of high-performance membranes, activated carbon and other products, and the engineering business, all of which performed steadily. As a result, sales climbed 17.4% to ¥58,894 million, while operating income rose 14.9% to ¥4,906 million.

We forecast sales of ¥60,000 million and operating income of ¥5,000 million in the fiscal year ending March 2012.

Corporate Governance, 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

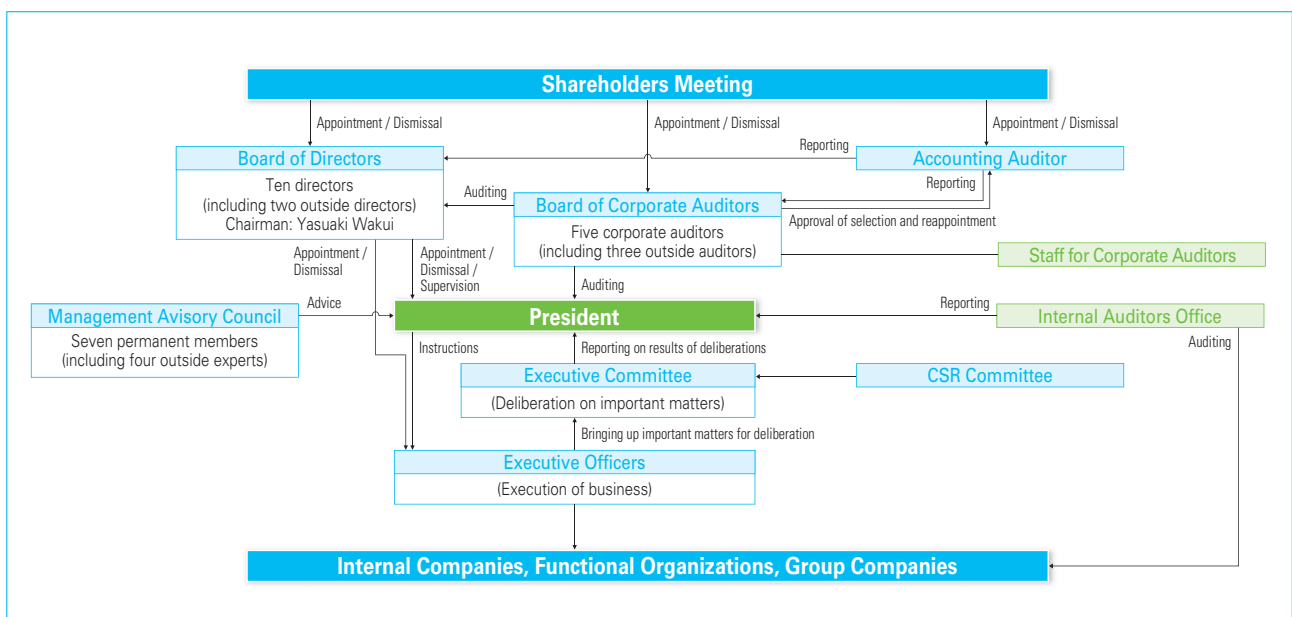
1. Board of Directors and Executive Organization

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 ten, and the term of office

is one year. There are currently ten board members, including two outside directors. No personal, capital, transactional or other relationship that would present a conflict of interest exists between Kuraray and the outside directors.

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

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



2. Board of Corporate Auditors

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

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

3. Management Advisory Council

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

4. Status of Accounting Auditor

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

Internal Control

Basic Philosophy on Internal Control

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

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

Board of Directors, Corporate Auditors, and Executive Officers

Kuraray Co., Ltd. and its consolidated subsidiaries
(As of June 22, 2011)

Board of Directors



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

Yasuaki Wakui

Representative Director
and Chairman



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

Fumio Ito

Representative Director
and President



Chief Technology Officer (CTO) and
Officer Responsible for Technology and
Development Unit

April 1971 Entered Kuraray Co., Ltd.
June 2003 Executive Officer
June 2004 Senior Executive Officer
June 2006 Managing Director and Senior Executive Officer
April 2008 Chief Technology Officer
(Current position)
June 2008 Director and Primary Executive Officer
(Current position),
Chief of Environment and Industrial
Safety Management Center
April 2009 Chief of New Business Development
Division, Chief of Technology Division,
Chief of Environmental Business
Development and Promotion Division
February 2010 Chief of Luminas Business Promotion
Department
April 2010 Chief of Technology and Development
Unit (Current position)
April 2011 Officer Responsible for Technology and
Development Unit
(Current position)

Yoichi Ninagawa

Director and
Primary Executive Officer



Officer Responsible for Administrative Unit,
Officer Responsible for Plants in Japan,
General Manager of Purchasing and
Logistics Division

April 1971 Entered Kuraray Co., Ltd.
June 2003 Executive Officer
April 2004 President of Poval Company
June 2004 Senior Executive Officer
April 2006 General Manager, Poval Resin Division,
Specialty Resin and Film Company
June 2006 Director and Senior Executive Officer
April 2007 President of Specialty Resin and Film Company
June 2007 Managing Director and Senior Executive Officer
April 2008 President of Chemicals and Medical
Products Company
June 2008 Director (Current position) and Senior
Executive Officer
April 2010 Supervisor of Administrative Unit
(Current position), Supervisor of Plants in
Japan (Current position)
June 2010 Director and Primary Executive Officer
(Current position)
April 2011 General Manager of Purchasing and
Logistics Division (Current position)

Shiro Kataoka

Director and
Primary Executive Officer



President of Resin Company, Kuraray Co., Ltd.

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

Keiji Murakami

Director and
Senior Executive Officer



President of Fibers and Textiles Company,
Kuraray Co., Ltd.

April 1974 Entered Kuraray Co., Ltd.
April 2005 President of Fibers and Industrial Materials
Company, Fibers and Textiles Sector
April 2006 General Manager, Fibers and Industrial
Materials Division, Fibers and Textiles
Company
June 2007 Executive Officer
April 2010 President of Fibers and Textiles Company
(Current position)
June 2010 Director and Senior Executive Officer
(Current position)

Kazuhiro Tenkumo

Director and
Senior Executive Officer



Yasuhiro Yamamoto
Director and
Senior Executive Officer

President of Chemicals Company,
Kuraray Co., Ltd.

April 1972 Entered Kuraray Co., Ltd.
April 2004 General Manager, Chemicals Division,
Chemicals Company
April 2005 General Manager, Chemicals Division,
Chemicals Company, Chemicals and
Medical Products Sector
April 2006 General Manager, Chemicals Division,
Chemicals Company
April 2007 General Manager, Isoprene Chemicals
Division, Chemicals and Medical
Products Company
June 2007 Executive Officer
April 2008 General Manager, Methacrylate
Division, Chemicals and Medical
Products Company
April 2010 President of Chemicals Company
(Current position)
June 2010 Director and Senior Executive Officer
(Current position)



Setsuo Yamashita
Director and
Senior Executive Officer

Deputy Officer Responsible for Technology and
Development Unit, General Manager of New
Business Development Division

April 1975 Entered Kuraray Co., Ltd.
April 2004 General Manager, Technology
Development Center, Environment and
Technology Division
April 2005 General Manager, Technology
Development Center, Technology Division
April 2006 General Manager, Technology
Development Center, Environmental,
Industrial Safety and Technology Division
April 2007 General Manager, Technology
Development Center, Technology Division
April 2008 General Manager, Kurashiki Plant
June 2009 Executive Officer (Current position)
April 2010 General Manager of New Business
Development Division (Current position)
June 2010 Director (Current position)
April 2011 Deputy Officer Responsible for Technology
and Development Unit (Current position)
June 2011 Senior Executive Officer (Current position)



Kensaku Aomoto¹
Director

April 1963 Entered The Export-Import Bank of Japan
("EIB")
June 1989 Director General, Loan Department
IV, EIB
April 1991 Director General, Policy Planning and
Coordination Department, EIB
October 1993 Resident Executive Director for Europe,
the Middle East and Africa, EIB
January 1995 Senior Executive Director, EIB
June 1998 Deputy Governor, EIB
June 2000 President (Chief Executive Officer),
Japan Institute for Overseas Investment
January 2005 Counselor, Mitsui & Co., Ltd.
Counselor, Mitsui Oil Exploration
Co., Ltd.
June 2008 Director, Kuraray Co., Ltd. (Current
position)



Takafusa Shioya¹
Director

April 1966 Entered Economic Planning Agency of
Japan ("EPA")
July 1987 Director, Commercial Policy Division,
Industrial Policy Bureau, Ministry of
International Trade and Industry ("MITI")
July 1990 Director, Minister's Secretariat Division, EPA
June 1993 Deputy Director-General, Social Policy
Bureau, EPA
June 1995 Director-General, Planning-Coordination
Bureau, National Land Agency
July 1997 Director-General, Coordination Bureau, EPA
June 1998 Administrative Vice-Minister, EPA
February 2000 President, National Institute for Research
Advancement (NIRA)
May 2005 Management Committee Member,
International Research Center for Japanese
Studies, Inter-University Research Institutes
Corporation
April 2008 Visiting Professor of J. F. Oberlin University
(Current position)
June 2008 Director, Kuraray Co., Ltd. (Current position)
Chairman, Economic Research Association
(Current position)
October 2009 Chairman, The Institute for Science of
Labor (Current position)

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

Corporate Auditors

Standing Corporate Auditors

Junsuke Tanaka
Mitsuaki Manabe

Corporate Auditors

Hiroo Onodera²
Hiroki Yamada²
Mie Fujimoto²

2. Corporate Auditors Hiroo Onodera,
Hiroki Yamada and Mie Fujimoto are
independent outside Corporate
Auditors.

Executive Officers

Senior Executive Officer

Yuichi Kawarasaki
General Manager of Corporate Management Planning Office
Officer Responsible for Environmental Business Development
and Promotion Division

Executive Officers

Noboru Yanagida
General Manager of PVB Division

Kohei Maeda
General Manager of Accounting and Finance Division, and
General Manager of CSR Division

Shinzo Takemura
General Manager of Poval Resin Division

Noritsugu Nagatomo
General Manager of Niigata Plant

Takaaki Fukumori
General Manager of General Affairs and HR Division, and
Manager of Career Development Department

Matthias Gutweiler
President of Kuraray Europe GmbH

Osamu Yamada
General Manager of Kashima Plant

Shuichi Takemoto
Deputy General Manager of Corporate Management
Planning Office
Manager of Corporate Strategy and Planning Department

Tomoyuki Aya
General Manager of Isoprene Chemicals Division

Kunio Yuki Yoshi
General Manager of Kurashiki Plant

Nobuo Fujii
General Manager of Genestar Division

Masanori Onodera
General Manager of Okayama Plant

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

Financial Section: Financial Review

Kuraray Co., Ltd. and its consolidated subsidiaries

Business Environment

The operating environment in the fiscal year ended March 31, 2011 saw a recovery in demand for Kuraray Group products in Europe and the United States as well as strong demand in emerging economies, chiefly China. On the other hand, uncertainties about the Japanese economy mounted due to the rapid appreciation of the yen, price hikes in raw materials and fuel, and the impact of the Great East Japan Earthquake in the latter half of the period.

Amid these circumstances, Kuraray took proactive measures for further business growth stated in "GS-Twins," its Medium-term Action Plan, and also cut back fixed costs to improve its earnings.

Sales

Consolidated net sales for the fiscal year ended March 31, 2011 (April 1, 2010 to March 31, 2011) grew ¥30,310 million (\$365 million), or 9.1%, compared with the previous fiscal year to ¥363,191 million (\$4,375 million). Operating income increased ¥22,643 million (\$272 million), or 74.4%, to ¥53,095 million (\$639 million), while ordinary income surged ¥22,137 million (\$266 million), or 76.5%, to ¥51,062 million (\$615 million). Net income increased ¥12,426 million (\$149 million), or 76.2%, to ¥28,742 million (\$346 million).

Results by Business Segment

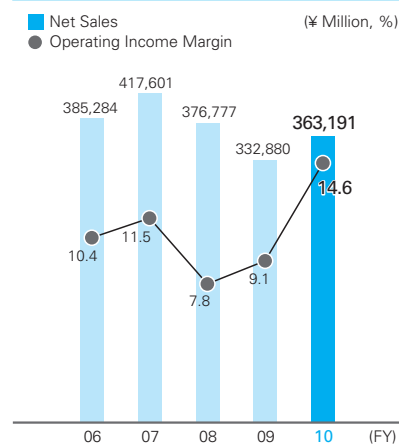
Resins

Businesses of the Resins segment saw strong demand in Asian countries as well as in Europe and the United States. As a result, sales in this segment rose 8.0% year on year to ¥147,429 million (\$1,776 million), while operating income grew 29.9% to ¥50,848 million (\$612 million).

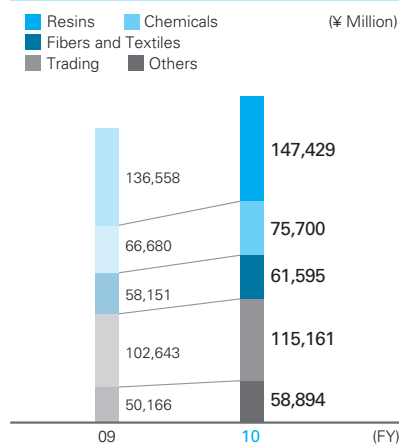
Sales of poval resin were brisk in Asian countries as well as in Europe. Given this, the Company decided to increase the annual production capacity at its European plant by 24,000 tons. The expanded plant will commence operations in the first quarter of fiscal 2013. Despite the impact of production adjustments undertaken by polarized film makers midway through the period under review, sales of optical-use poval film grew on the back of vigorous demand for LCD TVs. Spurred by this, the Company started to construct a new production line at the Saijo Plant aimed at increasing annual production by 20 million square meters. We plan for the new production line to commence operations in the first quarter of fiscal 2012. With regard to polyvinyl butyral (PVB) film, there were signs of a gradual recovery in the European construction market and the market for automobile applications, and demand for PVB film for use as an encapsulant for solar power generators has also expanded.

Demand for EVAL ethylene vinyl alcohol copolymer (EVOH resin) expanded in emerging countries, with demand for EVAL for use in automobiles and food packaging showing particularly significant growth in Asian countries. In Europe and the United States, demand for EVAL for use in food packaging and auto-

Net Sales & Operating Income Margin



Net Sales by Business Segment



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

mobiles was stable. Furthermore, sales expanded both in Japan and overseas for its use in new applications, such as vacuum insulation panels used in refrigerators.

Chemicals

Although some businesses suspended production at the Kashima Plant due to the earthquake that struck on March 11, performance was strong overall. As a result, sales in this segment rose 13.5% year on year to ¥75,700 million (\$912 million), while operating income surged 323.5% year on year to ¥8,676 million (\$104 million).

Demand for methacrylic resin was steady for use in molding materials and sheets. Overall sales also grew on the back of improved market conditions.

In the isoprene chemicals business, sales of *SEPTON* thermoplastic elastomer and *LIR* liquid rubber were brisk. Sales of chemicals and fine chemicals expanded, and there was an increase in sales of differentiated products, mainly in Japan and other Asian countries.

In the medical business, sales of dental materials were healthy on the back of the introduction of new types of composite resins and bonds in the European and U.S. markets. With the aim of reinforcing and expanding the dental materials business, Kuraray Medical Inc. integrated the dental materials business with Noritake Dental Supply Co., Limited in April 2011.

Demand for *GENESTAR* heat-resistant polyamide resin was steady for LED reflector applications and for electronics materials, including connectors.

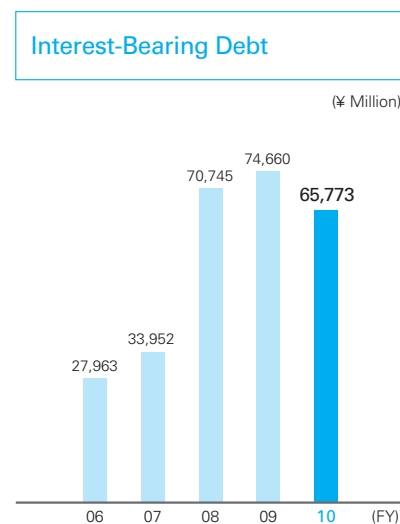
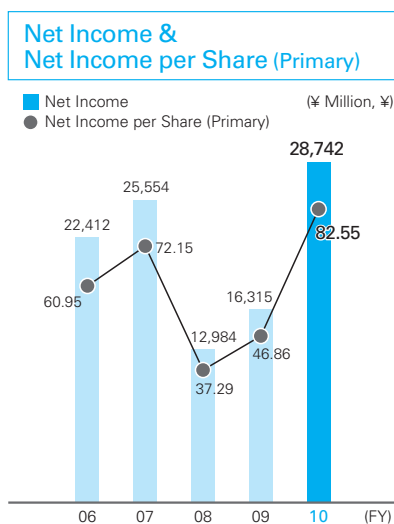
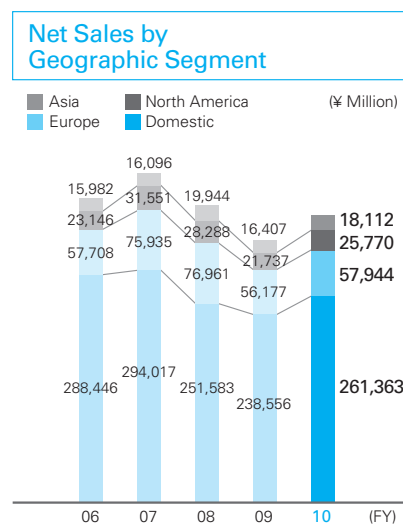
Fibers and Textiles

In the Fibers and Textiles segment, almost all businesses, including *KURALON*, recovered in the period. As a result, sales in this segment grew 5.9% year on year to ¥61,595 million (\$742 million). The Fibers and Textiles segment recorded an operating loss of ¥221 million (\$2 million), showing an improvement from an operating loss of ¥2,819 million in the corresponding period of the previous fiscal year.

Demand for *KURALON* expanded for use in automotive brake hoses and primary cell separators. In addition, demand for use as an asbestos substitute in FRC (fiber reinforced cement) showed a recovery trend throughout the period under review.

Sales of new eco-friendly processed *CLARINO* products expanded for use in footwear and gloves, while demand for conventional *CLARINO* man-made leather showed signs of recovery for use in high-value-added products. Amid a drastic business restructuring, the Company is transferring general-purpose product manufacturing to a Chinese joint venture, while promoting the integration of new processing procedures for high-value-added products in domestic plants.

Sales of *KURAFLEX* nonwoven fabrics were stable for use in industrial wipers, although demand for use in commercial counter cloth and industrial masks was stagnant. Demand for *MAGIC TAPE* hook and loop fasteners was steady for use in industrial materials and medical and transport-related applications despite stagnant sales for use in automobile and housing-related applications.



Trading

The Trading segment saw market recovery in such fiber-related businesses as polyester (in apparel and materials fields), as well as in an increase in differentiated materials. On the back of steady demand, mainly in Asian countries, sales of resins, chemicals and chemical products expanded. As a result, sales in this segment grew 12.2% year on year to ¥115,161 million (\$1,387 million), while operating income increased 64.8% to ¥3,304 million (\$39 million).

Others

Sales of activated carbon for capacitors (electricity storage devices) and applications for environment-related products, etc. were steady, while other business showed signs of gradual recovery. As a result, sales in this segment climbed 17.4% to ¥58,894 million (\$709 million), while operating income rose 14.9% to ¥4,906 million (\$59 million).

Financial Position

As of March 31, 2011, cash and cash equivalents increased ¥13,010 million (\$156 million) to ¥29,423 million (\$354 million). Notes and accounts receivable increased ¥212 million (\$2 million) to ¥76,135 million (\$917 million). Inventories (merchandise and finished goods, work-in-process, and raw materials and supplies) increased ¥3,543 million (\$42 million) to ¥61,389 million (\$739 million), and the number of months' sales in inventory was 2.0 months. As a result of these and other

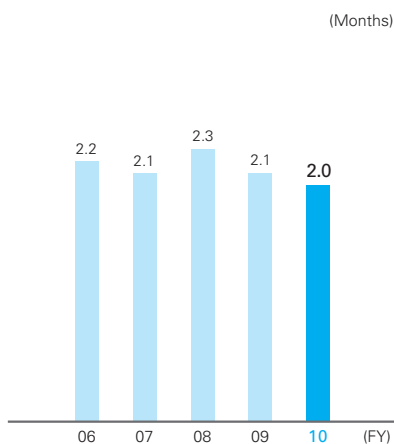
factors, current assets rose 24.6% to ¥310,594 million (\$3,742 million). Working capital (current assets less current liabilities) increased ¥51,604 million (\$621 million) to ¥224,380 million (\$2,703 million).

The current ratio (current assets divided by current liabilities) rose to 360.3% from fiscal 2009's 325.7%. Tangible fixed assets decreased ¥18,470 million (\$222 million) or 11.3% to ¥145,238 million (\$1,749 million). This included factors such as a decrease in buildings and structures of ¥1,178 million (\$14 million) to ¥33,701 million (\$406 million), and a decrease in machinery and equipment of ¥16,954 million (\$204 million) to ¥79,216 million (\$954 million). Investments and other assets decreased by ¥32,063 million (\$386 million) to ¥35,926 million (\$432 million). Total assets increased ¥4,512 million (\$54 million) to ¥507,328 million (\$6,112 million), and return on assets (operating income divided by average total assets for the period) was up 4.3 points from the previous fiscal year to 10.5%.

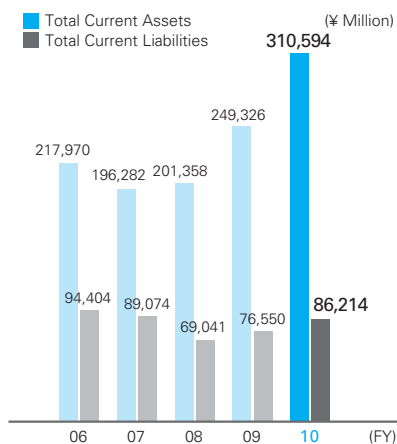
Current liabilities increased ¥9,664 million (\$116 million) to ¥86,214 million (\$1,038 million), due primarily to an increase in notes and accounts payable of ¥3,073 million (\$37 million), to ¥30,308 million (\$365 million).

Noncurrent liabilities decreased ¥14,157 million (\$170 million) to ¥74,288 million (\$895 million). Factors contributing to the decrease included a decrease in long-term loans payable of ¥3,467 million (\$41 million), to ¥43,035 million (\$518 million). Regarding net assets, from fiscal 2006 onward, Japanese accounting standards require presentation of net assets instead of shareholders' equity.

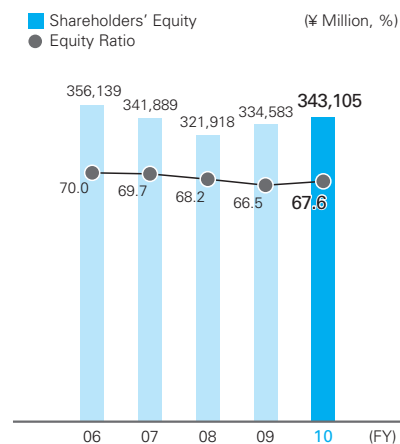
Number of Months' Sales in Inventory



Total Current Assets & Total Current Liabilities



Shareholders' Equity* & Equity Ratio



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

Net assets increased ¥9,006 million (\$108 million) to ¥346,825 million (\$4,178 million). Subtracting minority interests and subscription rights to shares totaling ¥3,720 million (\$44 million), shareholders' equity totaled ¥343,105 million (\$4,133 million), and the equity ratio for the period was 67.6%, up 1.1% from fiscal 2009.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥69,611 million (\$838 million) in the current fiscal year, a decrease of ¥10,927 million (\$131 million) compared with the previous fiscal year. Major components included income before income taxes and minority interests of ¥45,895 million (\$552 million), depreciation and amortization of ¥33,536 million (\$404 million), an increase in notes and accounts receivable of ¥2,580 million (\$31 million), an increase in inventories of ¥6,767 million (\$81 million) and income taxes paid of ¥10,648 million (\$128 million).

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥38,705 million (\$466 million). Major components included a net increase in short-term investment securities of ¥25,004 million (\$301 million) and purchase of tangible fixed assets and intangible fixed assets of ¥18,697 million (\$225 million).

Cash Flows from Financing Activities

Net cash used in financing activities was ¥16,355 million (\$197 million). Major components included a decrease in commercial

paper of ¥6,000 million (\$72 million), repayment of long-term loans payable of ¥4,645 million (\$55 million), and dividends paid of ¥7,310 million (\$88 million).

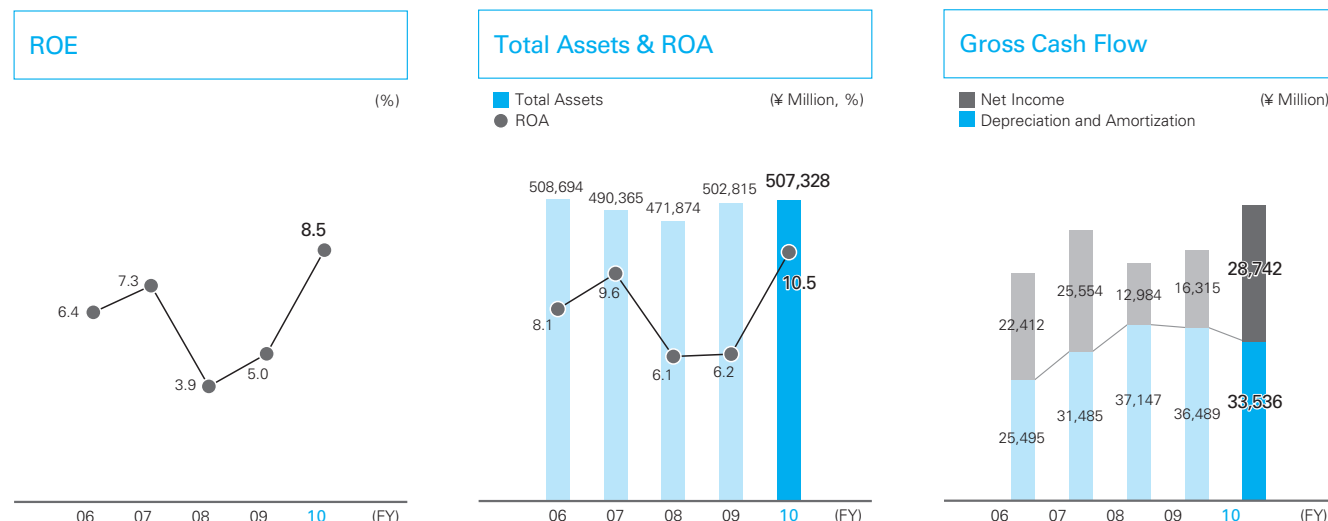
Consequently, as a result of a total cash inflow of ¥14,550 million (\$175 million) in the period under review, cash and cash equivalents at the end of the fiscal year increased ¥13,010 million (\$156 million) from the end of the previous fiscal year to ¥29,423 million (\$354 million).

Capital Expenditure

Capital investment by the Kuraray Group (Kuraray and consolidated subsidiaries) amounted to ¥20,558 million (\$247 million) in fiscal 2010, mainly for expansion of production facilities for optical-use poval film and construction of a new dental materials plant. By segment, capital investment amounted to ¥8,709 million (\$104 million) in the Resins segment, ¥6,183 million (\$74 million) in the Chemicals segment, ¥2,558 million (\$30 million) in the Fibers and Textiles segment, ¥28 million (\$0.3 million) in the Trading segment, and ¥1,665 million (\$20 million) in the Others segment. General (non-segment) capital investment amounted to ¥1,413 million (\$17 million).

Outlook

We expect that our operating environment will suffer from remarkably higher raw materials and fuel prices and exchange rate fluctuations in the fiscal year ending March 2012. In Japan,



we anticipate confusion in the supply chain, from the procurement of raw materials, fuel and parts, to product demand, due to the impact of the Great East Japan Earthquake. As such, it can be said that the environment surrounding Kuraray is extremely uncertain. Under such circumstances, the Company will focus on revising prices of our products to cope with the higher raw materials and fuel prices and enhancing the value-added in our products while giving top priority to the stabilization of product supply. Since the plant utilization ratio has risen for many of our businesses, we will make capital expenditures in facilities mainly to increase capacity.

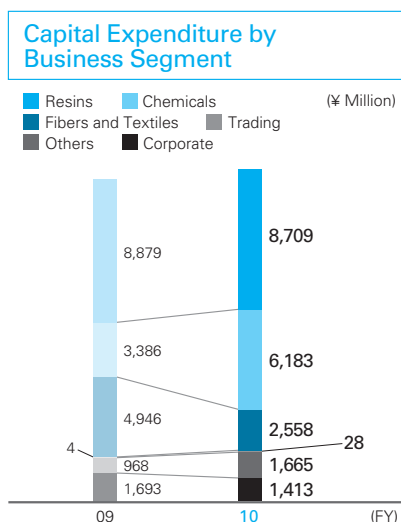
Our forecasts for the year ending March 31, 2012, are net sales of ¥400 billion, operating income of ¥60 billion, ordinary income of ¥58.5 billion and net income of ¥34 billion. We assume average exchanges rates of ¥82 to the U.S. dollar and ¥115 to the euro, as well as a domestic naphtha price of ¥60 thousand per kiloliter.

The outlook for principal businesses for the next fiscal year is as follows.

For poval resin, demand in Asia will remain solid, and demand is expected to expand in Europe and the United States. Demand for optical-use poval film in the area of LCD-related products is expected to remain strong, and the launch of additional production lines is planned to cope with such strong demand. *EVAL* is expected to achieve significant growth, mainly for rapidly expanding automotive and food packaging applications in emerging markets, while demand in Europe and the United States is also expected to be steady.

As for isoprene chemicals, although *SEPTON* thermoplastic elastomer is expected to incur a loss due to partial work suspension at the Kashima Plant, demand is anticipated to be stable. Demand for methacrylic resin is anticipated to grow in Asia while in the case of *GENESTAR*, demand is anticipated to steadily expand for LED reflector applications and use in electronics materials, including connectors. In the medical segment, sales are expected to increase both in Japan and overseas due to business integration with Noritake Dental Supply Co., Limited.

Demand for *KURALON* for use in FRC is expected to show gradual recovery. As for *CLARINO*, the business restructuring which is underway now and further market cultivation and sales expansion for new environmentally friendly processed *CLARINO* products are expected to make progress.



Risk Management

Risks that could have a significant impact on the Kuraray Group's performance (results of operations and financial position) are discussed below. Forward-looking statements in the following section represent the Kuraray Group's best judgment as of March 31, 2011.

(i) Risks associated with changes in the business environment

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

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

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

(ii) Risks associated with accidents and disasters

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

halt to manufacturing operations for long periods.

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

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

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

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

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

(iv) Changes in exchange rates

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

(v) Other risks

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

Consolidated Balance Sheets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

March 31, 2010 and 2011	Millions of yen		Thousands of U.S. dollars
	Fiscal 2009	Fiscal 2010	Fiscal 2010
ASSETS			
I Current assets:			
1 Cash and deposits	¥ 28,991	¥ 34,221	\$ 412,301
2 Notes and accounts receivable — trade	75,923	76,135	917,299
3 Short-term investment securities	73,978	127,128	1,531,673
4 Merchandise and finished goods	38,829	40,534	488,367
5 Work-in-process.....	8,044	8,122	97,860
6 Raw materials and supplies	10,972	12,732	153,400
7 Deferred tax assets	5,824	6,046	72,851
8 Other	7,366	6,475	78,012
9 Allowance for doubtful accounts	(604)	(802)	(9,663)
Total current assets	249,326	310,594	3,742,100
II Noncurrent assets:			
1 Tangible fixed assets:			
(1) Buildings and structures, net* ²	34,880	33,701	406,038
(2) Machinery, equipment and vehicles, net* ²	96,170	79,216	954,412
(3) Land* ²	18,230	17,976	216,581
(4) Construction in progress.....	11,560	11,867	142,985
(5) Other, net* ²	2,867	2,477	29,847
Total tangible fixed assets*¹	163,709	145,238	1,749,865
2 Intangible fixed assets:			
(1) Goodwill.....	17,941	12,725	153,321
(2) Other	3,848	2,842	34,252
Total intangible fixed assets	21,790	15,568	187,573
3 Investments and other assets:			
(1) Investment securities* ^{3 and 5}	49,006	19,577	235,871
(2) Long-term loans receivable.....	1,279	1,189	14,330
(3) Deferred tax assets	6,570	4,725	56,928
(4) Prepaid pension cost	6,666	6,243	75,218
(5) Other	4,999	4,378	52,747
(6) Allowance for doubtful accounts	(532)	(186)	(2,249)
Total investments and other assets.....	67,989	35,926	432,846
Total noncurrent assets.....	253,489	196,733	2,370,285
TOTAL ASSETS	¥502,815	¥507,328	\$6,112,390

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

March 31, 2010 and 2011	Millions of yen		Thousands of U.S. dollars
	Fiscal 2009	Fiscal 2010	Fiscal 2010
LIABILITIES			
I Current liabilities:			
1 Notes and accounts payable — trade	¥ 27,235	¥ 30,308	\$ 365,164
2 Short-term loans payable	12,158	12,738	153,481
3 Commercial papers	6,000	—	—
4 Current portion of bonds	—	10,000	120,481
5 Accrued expenses	5,653	5,193	62,568
6 Income taxes payable	6,038	10,369	124,938
7 Provision for bonuses	6,129	6,670	80,363
8 Provision for loss on disaster	—	300	3,614
9 Other provision	138	1	16
10 Other	13,196	10,632	128,099
Total current liabilities	76,550	86,214	1,038,728
II Noncurrent liabilities:			
1 Bonds payable	10,000	—	—
2 Long-term loans payable	46,502	43,035	518,494
3 Deferred tax liabilities	5,524	4,918	59,254
4 Provision for retirement benefits	14,248	14,641	176,407
5 Provision for directors' retirement benefits	167	167	2,022
6 Provision for environmental measures	1,275	1,122	13,527
7 Asset retirement obligations	—	2,222	26,782
8 Other	10,727	8,179	98,549
Total noncurrent liabilities	88,446	74,288	895,039
TOTAL LIABILITIES	164,996	160,502	1,933,767
NET ASSETS			
I Shareholders' equity:			
1 Capital stock	88,955	88,955	1,071,751
2 Capital surplus	87,192	87,147	1,049,973
3 Retained earnings	204,070	225,743	2,719,800
4 Treasury stock	(41,068)	(40,856)	(492,252)
Total shareholders' equity	339,150	360,989	4,349,272
II Accumulated other comprehensive income			
1 Valuation difference on available-for-sale securities	3,767	2,280	27,472
2 Deferred gains or losses on hedges	(103)	(14)	(174)
3 Foreign currency translation adjustment	(8,230)	(19,916)	(239,962)
4 Pension liability adjustment	—	(233)	(2,808)
Total accumulated other comprehensive income	(4,566)	(17,884)	(215,472)
III Subscription rights to shares	186	560	6,753
IV Minority interests	3,048	3,159	38,068
TOTAL NET ASSETS	337,818	346,825	4,178,622
TOTAL LIABILITIES AND NET ASSETS	¥502,815	¥507,328	\$6,112,390

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

Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Consolidated Statements of Income

Years ended March 31, 2010 and 2011	Millions of yen		Thousands of U.S. dollars
	Fiscal 2009	Fiscal 2010	Fiscal 2010
I Net sales	¥332,880	¥363,191	\$4,375,797
II Cost of sales *2	237,198	243,564	2,934,517
Gross profit	95,682	119,626	1,441,280
III Selling, general and administrative expenses:			
1 Selling expenses	17,389	18,663	224,862
2 General and administrative expenses*2	47,841	47,867	576,716
Total selling, general and administrative expenses*1	65,230	66,531	801,579
Operating income	30,451	53,095	639,700
IV Non-operating income:			
1 Interest income	407	375	4,521
2 Dividends income	1,553	1,418	17,089
3 Equity in earnings of affiliates	39	18	227
4 Rent income	334	276	3,325
5 Other	664	818	9,859
Total non-operating income	2,999	2,906	35,023
V Non-operating expenses:			
1 Interest expenses	1,364	1,135	13,683
2 Personnel expenses for seconded employees	585	652	7,864
3 Other	2,573	3,150	37,960
Total non-operating expenses	4,524	4,939	59,508
Ordinary income	28,925	51,062	615,215
VI Extraordinary income:			
1 Gain on transfer of business*3	657	225	2,718
Total extraordinary income	657	225	2,718
VII Extraordinary loss:			
1 Business structure improvement losses*5	1,834	1,588	19,135
2 Loss on adjustment for changes of accounting standard for asset retirement obligations ...	—	1,548	18,656
3 Loss on disaster*9	—	653	7,873
4 Provision for loss on disaster	—	300	3,614
5 Loss on valuation of investment securities*6	174	574	6,915
6 Loss on disposal of tangible fixed assets*8	—	384	4,637
7 Impairment loss*4	3,073	343	4,141
8 Provision for environmental measures	1,275	—	—
9 Loss on sales of tangible fixed assets*7	143	—	—
Total extraordinary loss	6,500	5,392	64,973
Income before taxes and minority interests	23,082	45,895	552,960
Income taxes - current	8,356	15,115	182,110
Income taxes - deferred	(1,676)	1,915	23,081
Total income taxes	6,680	17,031	205,192
Income before minority interests	—	28,864	347,767
Minority interests	87	122	1,472
Net income	¥ 16,315	¥ 28,742	\$ 346,295

Consolidated Statements of Comprehensive Income

Years ended March 31, 2010 and 2011	Millions of yen		Thousands of U.S. dollars
	Fiscal 2009	Fiscal 2010	Fiscal 2010
I Income before minority interests	—	¥28,864	\$347,767
II Other comprehensive income *2			
1 Valuation difference on available-for-sale securities	—	(1,486)	(17,914)
2 Deferred gains or losses on hedges	—	89	1,078
3 Foreign currency translation adjustment	—	(11,686)	(140,804)
4 Pension liability adjustment	—	11	141
5 Shares of other comprehensive income of associates accounted for using equity method ...	—	0	(5)
Total other comprehensive income	—	(13,072)	(157,504)
III Comprehensive income *1	—	15,791	190,263
Comprehensive income attributable to			
1 Owners of the parent	—	15,669	188,790
2 Minority interests	—	122	1,472

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

Consolidated Statements of Changes in Net Assets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Fiscal 2009 (As of March 31, 2010)	Millions of yen				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2009	¥88,955	¥87,215	¥193,977	¥(40,903)	¥329,244
Changes of items during the period					
Cash dividends			(6,267)		(6,267)
Net income			16,315		16,315
Purchase of treasury stock				(253)	(253)
Disposal of treasury stock		(23)		88	65
Other			45		45
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	(23)	10,093	(164)	9,905
Balance at March 31, 2010	¥88,955	¥87,192	¥204,070	¥(41,068)	¥339,150

Fiscal 2009 (As of March 31, 2010)	Millions of yen						
	Valuation and translation adjustments				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total valuation and translation adjustments			
Balance at March 31, 2009	¥2,825	¥(156)	¥(9,995)	¥(7,326)	¥109	¥2,988	¥325,016
Changes of items during the period							
Cash dividends							(6,267)
Net income							16,315
Purchase of treasury stock							(253)
Disposal of treasury stock							65
Other							45
Net changes of items other than shareholders' equity	942	52	1,765	2,759	77	60	2,896
Total changes of items during the period	942	52	1,765	2,759	77	60	12,802
Balance at March 31, 2010	¥3,767	¥(103)	¥(8,230)	¥(4,566)	¥186	¥3,048	¥337,818

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

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

Fiscal 2010 (As of March 31, 2011)	Thousands of U.S. dollars				
	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31, 2010	\$1,071,751	\$1,050,508	\$2,458,685	\$(494,800)	\$4,086,145
Transfer to pension liability adjustment from retained earnings			2,950		2,950
Changes of items during the period					
Cash dividends.....			(88,083)		(88,083)
Net income			346,295		346,295
Purchase of treasury stock				(164)	(164)
Disposal of treasury stock.....		(582)		2,712	2,129
Transfer to capital surplus from retained earnings		47	(47)		
Net changes of items other than shareholders' equity.....					
Total changes of items during the period	—	(534)	258,163	2,547	260,176
Balance at March 31, 2011	\$1,071,751	\$1,049,973	\$2,719,800	\$(492,252)	\$4,349,272

Fiscal 2010 (As of March 31, 2011)	Thousands of U.S. dollars							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Pension liability adjustment	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at March 31, 2010	\$ 45,393	\$(1,252)	\$ (99,158)	—	\$ (55,017)	\$2,246	\$36,731	\$4,070,106
Transfer to pension liability adjustment from retained earnings				\$(2,950)	(2,950)			—
Changes of items during the period								
Cash dividends.....								(88,083)
Net income								346,295
Purchase of treasury stock								(164)
Disposal of treasury stock.....								2,129
Transfer to capital surplus from retained earnings								—
Net changes of items other than shareholders' equity.....	(17,920)	1,078	(140,804)	141	(157,505)	4,506	1,336	(151,661)
Total changes of items during the period	(17,920)	1,078	(140,804)	141	(157,505)	4,506	1,336	108,515
Balance at March 31, 2011	\$ 27,472	\$ (174)	\$(239,962)	\$(2,808)	\$(215,472)	\$6,753	\$38,068	\$4,178,622

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

Consolidated Statements of Cash Flows

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Years ended March 31, 2010 and 2011	Millions of yen		Thousands of U.S. dollars
	Fiscal 2009	Fiscal 2010	Fiscal 2010
I Net cash provided by (used in) operating activities:			
1 Income before taxes and minority interests.....	¥ 23,082	¥ 45,895	\$552,960
2 Depreciation and amortization.....	36,489	33,536	404,053
3 Increase (decrease) in allowance for doubtful accounts.....	131	(140)	(1,688)
4 Increase (decrease) in provision for retirement benefits.....	277	651	7,851
5 Increase (decrease) in provision for disaster loss.....	—	300	3,614
6 Increase (decrease) in provision for environmental measures.....	1,275	(153)	(1,843)
7 Impairment loss.....	3,073	343	4,141
8 Loss on disposal of tangible fixed assets.....	—	384	4,637
9 Loss (gain) on sales of tangible fixed assets.....	143	—	—
10 Loss on adjustment for changes of accounting standard for asset retirement obligations.....	—	1,548	18,656
11 Loss on valuation of investment securities.....	174	574	6,915
12 Loss (gain) on transfer of business.....	(657)	(225)	(2,718)
13 Interest and dividends income.....	(1,960)	(1,793)	(21,610)
14 Interest expenses.....	1,364	1,135	13,683
15 Decrease (increase) in notes and accounts receivable — trade.....	(9,044)	(2,580)	(31,087)
16 Decrease (increase) in inventories.....	16,031	(6,767)	(81,531)
17 Increase (decrease) in notes and accounts payable — trade.....	3,539	4,579	55,174
18 Decrease (increase) in prepaid pension cost.....	462	423	5,097
19 Other, net.....	6,506	1,309	15,778
Sub-total.....	80,890	79,023	952,084
20 Interest and dividends income received.....	1,907	1,818	21,908
21 Interest expenses paid.....	(1,323)	(1,148)	(13,839)
22 Insurance income.....	—	566	6,823
23 Income taxes paid.....	(935)	(10,648)	(128,289)
Net cash provided by (used in) operating activities.....	80,538	69,611	838,687
II Net cash provided by (used in) investment activities:			
1 Net decrease (increase) in time deposits.....	(12,709)	6,782	81,712
2 Net decrease (increase) in short-term investment securities.....	(72,972)	(25,004)	(301,258)
3 Purchase of tangible fixed assets and intangible fixed assets.....	(21,639)	(18,697)	(225,267)
4 Payments for disposal of tangible fixed assets and intangible fixed assets.....	(167)	(626)	(7,544)
5 Proceeds from sales of tangible fixed assets and intangible fixed assets.....	541	112	1,353
6 Purchase of investment securities.....	(569)	(459)	(5,535)
7 Proceeds from sales and redemption of investment securities.....	12	22	268
8 Proceeds from transfer of business.....	1,157	102	1,229
9 Other, net.....	(1,178)	(936)	(11,283)
Net cash provided by (used in) investment activities.....	(107,525)	(38,705)	(466,326)
III Net cash provided by (used in) financing activities:			
1 Net increase (decrease) in short-term loans payable.....	(7,004)	1,924	23,183
2 Net increase (decrease) in commercial paper.....	3,000	(6,000)	(72,289)
3 Proceeds from long-term loans payable.....	12,000	—	—
4 Repayment of long-term loans payable.....	(4,054)	(4,645)	(55,966)
5 Cash dividends paid to minority shareholders.....	(27)	(11)	(136)
6 Proceeds from sales of treasury stock.....	60	112	1,350
7 Purchase of treasury stock.....	(48)	(13)	(164)
8 Cash dividends paid.....	(6,267)	(7,310)	(88,083)
9 Other, net.....	(449)	(411)	(4,952)
Net cash provided by (used in) financing activities.....	(2,792)	(16,355)	(197,058)
IV Effect of exchange rate changes on cash and cash equivalents.....	34	(1,539)	(18,545)
V Net increase (decrease) in cash and cash equivalents.....	(29,745)	13,010	156,757
VI Cash and cash equivalents, beginning of year.....	46,157	16,412	197,737
VII Cash and cash equivalents, end of year.....	¥ 16,412	¥ 29,423	\$354,495

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

Notes to Consolidated Financial Statements

Kuraray Co., Ltd. and its Consolidated Subsidiaries / Years ended March 31, 2010 and 2009

1 Significant Accounting Policies

Fiscal 2009
(From April 1, 2009 to March 31, 2010)

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 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 and Exchange Law of Japan. The accompanying consolidated financial statements are translation of those filed with the MOF.

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

The United States dollar amounts included herein are provided solely for convenience of readers outside Japan and are stated, at the rate of ¥93=\$1, the approximate exchange rate prevailing on March 31, 2010. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be, converted into United States dollars at this or any other rate.

2. Scope of consolidation

(1) Number of consolidated subsidiaries: 33

(Major consolidated subsidiaries)

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

Kuraray Luminas Co., Ltd., which had been a consolidated subsidiary until the previous fiscal year, is excluded from the scope of consolidation from this fiscal year because it was merged by absorption with the Company in February 2010.

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

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 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 and Exchange Law of Japan. The accompanying consolidated financial statements are translation of those filed with the MOF.

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

The United States dollar amounts included herein are provided solely for convenience of readers outside Japan and are stated, at the rate of ¥83=\$1, the approximate exchange rate prevailing on March 31, 2011. The translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be, converted into United States dollars at this or any other rate.

2. Scope of consolidation

(1) Number of consolidated subsidiaries: 28

(Major consolidated subsidiaries)

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

KURARAY FUDOSAN CO., LTD., which had been a consolidated subsidiary until the previous fiscal year, is excluded from the scope of consolidation from this fiscal year because it was merged by absorption by Kuraray Techno Co., Ltd., which is a consolidated subsidiary, in July 2010.

Kuraray Interior Co., Ltd. and KurarayKiko Co., Ltd., which had been consolidated subsidiaries until the

Fiscal 2009
(From April 1, 2009 to March 31, 2010)

Both the consolidated subsidiaries, Kuraray Singapore Pte., Ltd. and Kuraray Specialities Asia Pte., Ltd. consolidated their business into Kuraray Asia Pacific Pte. Ltd., and a resolution was made in October 2008 to dissolve them.

In March 2010, a resolution was made to dissolve Kuraray Interior Co., Ltd., which had been a consolidated subsidiary.

- (2) Names of major unconsolidated subsidiaries
(Major unconsolidated subsidiaries)
Kuraray Okayama Spinning CO., LTD.
(Reasons for excluding from the scope of consolidation)
The total assets, total sales and net income and loss (amount corresponding to the owned interest) and retained earnings (amount corresponding to the owned interest) of the unconsolidated subsidiary have no material effect on the consolidated financial statements.

3. Scope of application of equity method affiliates and subsidiaries

- (1) Number of unconsolidated subsidiaries accounted for using the equity method: 3
(Major unconsolidated subsidiaries)
Kuraray Okayama Spinning CO., LTD.
- (2) Number of affiliates accounted for using the equity method: 2
(Names of major affiliates)
THE KURASHIKI KOKUSAI HOTEL LTD.
In May 2009, a resolution was made to dissolve Hikari Shoes Co., Ltd., which was an affiliated company accounted for using the equity method until the previous fiscal year.
- (3) Unconsolidated subsidiaries (KURARAY AQUA CO., LTD. and other unconsolidated subsidiaries), and affiliates (Hexin Kuraray Micro Fiber Leather (Jiaxing) Co., Ltd., and other affiliates) have not been accounted for using the equity method, because their net income and loss and retained earnings (amount corresponding to the owned interest) have no material effect on the consolidated financial statements.

Fiscal 2010
(From April 1, 2010 to March 31, 2011)

previous fiscal year, are excluded from the scope of consolidation because the liquidations were completed in January and March 2011, respectively.

Kuraray Singapore Pte., Ltd. and Kuraray Specialities Asia Pte., Ltd., which had been consolidated subsidiaries until the previous fiscal year are excluded from the scope of consolidation because the liquidations were substantially completed in January 2011.

- (2) Names of major unconsolidated subsidiaries
(Major unconsolidated subsidiaries)
Same as Fiscal 2009
(Reasons for excluding from the scope of consolidation)
Same as Fiscal 2009

3. Scope of application of equity method affiliates and subsidiaries

- (1) Number of unconsolidated subsidiaries accounted for using the equity method: 3
(Major unconsolidated subsidiaries)
Same as Fiscal 2009
Kuraflex Ibaraki Co., Ltd., which was an unconsolidated subsidiary accounted for using the equity method, resolved dissolution in November 2010.
- (2) Number of affiliates accounted for using the equity method: 1
(Names of major affiliates)
Same as Fiscal 2009
Hikari Shoes Co., Ltd., which had been an affiliated company accounted for using the equity method until the previous fiscal year, resolved dissolution stipulated in the Companies Act in May 2009 and applied to the court for special liquidation. It was excluded from the scope of affiliated companies accounted for using the equity method, because the proposed agreement which was resolved at the creditors' meeting held in June 2010 was approved by the court in July 2010 and the Company lost its influence over the company.
- (3) Same as Fiscal 2009

Fiscal 2009
(From April 1, 2009 to March 31, 2010)

4. Fiscal years of consolidated subsidiaries

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

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

5. Accounting policies

(1) Valuation standards and methods for significant assets

a) Investments in 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 of "Net assets", at the net of tax amount. The cost of securities sold is determined based on the moving average cost of all such securities held at the time of sale.)

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

b) Derivative financial instruments

All derivatives are stated at fair value.

c) Inventories

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

Supplies are principally stated at the lower of cost or net realizable value (Refer to Note (2)).

Fiscal 2010
(From April 1, 2010 to March 31, 2011)

4. Fiscal years of consolidated subsidiaries

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

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

5. Accounting policies

(1) Valuation standards and methods for significant assets

a) Investments in securities

Same as Fiscal 2009

b) Derivative financial instruments

Same as Fiscal 2009

c) Inventories

Same as Fiscal 2009

Fiscal 2009

(From April 1, 2009 to March 31, 2010)

- (2) Depreciation method of significant depreciable assets
- a) Tangible fixed assets (excluding lease assets)
Depreciation, except for buildings, is principally computed using the declining-balance method over the estimated useful lives of the assets. The depreciation method for buildings is principally computed using the straight-line method.
The estimated useful lives of assets are primarily as follows:
- Buildings and structures: 31 to 50 years
 - Machinery and equipment: 4 to 9 years
- b) Intangible assets (excluding lease assets)
Amortization is principally computed using the straight-line method.
The numbers of years for amortization are primarily as follows:
- Goodwill: 15 years
- However, minor amounts are charged or credited to income directly in the year of acquisition.
- c) Lease assets
Amortization is principally computed using the straight-line method.
- (3) Accounting for significant allowances
- 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) —
- d) Provision for retirement benefits
In order to provide for employee retirement benefits, a provision is made based on the retirement benefit liabilities as of the end of the fiscal year and the forecasted pension assets.
The prior service cost is amortized on a straight-line basis over a certain period (mainly 15 years), which falls within the average remaining years of service of the eligible employees. Actuarial gains or losses are amortized on a straight-line basis over a certain period (mainly 15 years) which falls within the average

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

- (2) Depreciation method of significant depreciable assets
- a) Tangible fixed assets (excluding lease assets)
Same as Fiscal 2009
- b) Intangible assets (excluding lease assets)
Same as Fiscal 2009
- c) Lease assets
Same as Fiscal 2009
- (3) Accounting for significant allowances
- a) Allowance for doubtful accounts
Same as Fiscal 2009
- b) Provision for bonuses
Same as Fiscal 2009
- c) Provision for loss on disaster
In order to provide for the expenditures for restoration from the disaster by the Great East Japan Earthquake, a provision is made based on the estimates as of the end of the current consolidated fiscal year.
- d) Provision for retirement benefits
Same as Fiscal 2009

Fiscal 2009
(From April 1, 2009 to March 31, 2010)

remaining years of service of the eligible employees, allocated proportionately commencing the next year in which each respective gain or loss occurred.

(Change in accounting policies)

Effective the current consolidated fiscal year, the Company adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3) (ASBJ Statement No. 19, issued on July 31, 2008)." In the meantime, this change has no impact on "operating income," "ordinary income" and "income before taxes and minority interests" in the current consolidated fiscal year.

e) Provision for directors' retirement benefits

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

f) Provision for environmental measures

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

(4) Significant hedge accounting

a) Hedge accounting

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

b) Hedging instruments and hedged items

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

c) Hedging policy

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

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

e) Provision for directors' retirement benefits

Same as Fiscal 2009

f) Provision for environmental measures

Same as Fiscal 2009

(4) Significant hedge accounting

a) Hedge accounting

Same as Fiscal 2009

b) Hedging instruments and hedged items

Same as Fiscal 2009

c) Hedging policy

Same as Fiscal 2009

Fiscal 2009

(From April 1, 2009 to March 31, 2010)

d) Assessment method for hedge effectiveness

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

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

—

—

(5) Other accounting policies

Accounting for consumption tax

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

6. Valuation of assets and liabilities of consolidated subsidiaries

Assets and liabilities of the consolidated subsidiaries are recorded at fair value at the time of acquisition.

7. Amortization of goodwill and negative goodwill

The Company amortizes goodwill and negative 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.

8. Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with an original 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.

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

d) Assessment method for hedge effectiveness

Same as Fiscal 2009

(5) Amortization of goodwill

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

(6) Cash and cash equivalents

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

(7) Other accounting policies

Accounting for consumption tax

Same as Fiscal 2009

—

—

—

2

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

Fiscal 2009
(From April 1, 2009 to March 31, 2010)

—

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

(Accounting standard for asset retirement obligations)

Effective from the fiscal year ended March 31, 2011, the Company and its domestic subsidiaries have applied the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008).

This change has had no significant impact on the Company's operating income and ordinary income in the current consolidated fiscal year. Income before income taxes and minority interests decreased ¥1,550 million (US\$ 18,685 thousand).

From this year, asset retirement obligations of overseas subsidiaries, which had been included in "Other" under noncurrent liabilities, are included in "Asset retirement obligations," with a view to improving clarity on disclosure. Such amount in the previous fiscal year was ¥812 million (US\$9,790 thousand).

3

Changes In Presentation

Fiscal 2009
(From April 1, 2009 to March 31, 2010)

—

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

(Consolidated balance sheets)

Due to the application of the "Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, June 30, 2010), from the current consolidated fiscal year, unrecognized actuarial differences related to the retirement benefits of the US subsidiaries, which had been included in retained earnings until the previous fiscal year, is included in "Pension liability adjustments" under accumulated other comprehensive income, with a view to improving clarity on disclosure. The amount of the relevant item for the previous consolidated fiscal year was ¥244 million (debtor balance).

Fiscal 2009

(From April 1, 2009 to March 31, 2010)

(Consolidated statements of income)

“Rent income,” which had been presented as “Other” in Non-operating income in the previous fiscal year, is reported separately since its amount exceeds 10/100 of non-operating income in the current fiscal year. “Rent income” was ¥283 million in the previous fiscal year.

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

(Consolidated statements of income)

Effective from the fiscal year ended March 31, 2011, the Company has applied the Cabinet Office Ordinance (Cabinet Office Ordinance No. 5, March 24, 2009) which partially revises regulation on the financial statements, etc. based on the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008). As a result, an item of “Income before minority interest” is included in the consolidated statements of income.

4 Additional Information

Fiscal 2009

(From April 1, 2009 to March 31, 2010)

In the current consolidated fiscal year, the Company implemented a comprehensive survey related to PCB waste and other items, based on which a comprehensive disposal policy was determined.

And, it became possible to obtain a reasonable estimate of disposal costs. The Company, therefore, recorded provision for environmental measures.

As a result, income before taxes and minority interests for the current fiscal year decreased ¥1,275 million (US\$13,718 thousand).

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

Effective from the fiscal year ended March 31, 2011, the Company has applied the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No. 25, June 30, 2010). However, the amounts of “Accumulated other comprehensive income” and “Total accumulated other comprehensive income” for the previous consolidated fiscal year are stated at the amounts of “Valuation and translation adjustments” and “Total valuation and translation adjustments” as disclosed in the previous year’s consolidated financial statements included in the Annual Report 2010, respectively.

5 Notes To Consolidated Balance Sheets

Fiscal 2009 (From April 1, 2009 to March 31, 2010)

- *1. Accumulated depreciation of tangible fixed assets: ¥486,188 million
- *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
- | | |
|--|----------------|
| Buildings and structures: | ¥2,019 million |
| (including a ¥27 million deduction for this fiscal year) | |
| Machinery, equipment and vehicles: | ¥925 million |
| (including ¥209 million in the amount of subtraction for this fiscal year) | |
| Land: | ¥1,257 million |
| Other: | ¥36 million |
| (including ¥0 million in the amount of subtraction for this fiscal year) | |
- *3. Investments in unconsolidated subsidiaries and affiliates
- | | |
|------------------------|----------------|
| Investment securities: | ¥3,083 million |
|------------------------|----------------|
- *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:
- | | |
|--|----------------|
| Social welfare corporation | |
| Ishii Kinen Aizenen (Joint and several guarantee): | ¥1,939 million |
| KURARAY MAGICTAPE (SHANGHAI) CO., LTD. and another company: | ¥68 million |
| (including foreign currency-denominated guarantees for 2 companies): | |
| | CNY5,000,000 |
-
- | | |
|-------|----------------|
| Total | ¥2,008 million |
|-------|----------------|
- *5. Security assets and secured liabilities
- | | |
|------------------------|-------------|
| Investment securities: | ¥46 million |
|------------------------|-------------|
- The above investment securities have been provided as collateral for loans of Mizushima Eco-works Co., Ltd.

Fiscal 2010 (From April 1, 2010 to March 31, 2011)

- *1. Accumulated depreciation of tangible fixed assets: ¥505,480 million (US\$6,090,130 thousand)
- *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
- | | |
|--|--------------------------------------|
| Buildings and structures: | ¥2,026 million (US\$24,417 thousand) |
| (including a ¥6 million (US\$80 thousand) deduction for this fiscal year) | |
| Machinery, equipment and vehicles: | ¥924 million (US\$11,137 thousand) |
| (including ¥2 million (US\$33 thousand) in the amount of subtraction for this fiscal year) | |
| Land: | ¥1,257 million (US\$15,149 thousand) |
| Other: | ¥38 million (US\$465 thousand) |
| (including ¥2 million (US\$28 thousand) in the amount of subtraction for this fiscal year) | |
- *3. Investments in unconsolidated subsidiaries and affiliates
- | | |
|------------------------|--------------------------------------|
| Investment securities: | ¥3,269 million (US\$39,388 thousand) |
|------------------------|--------------------------------------|
- *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:
- | | |
|--|--------------------------------------|
| Social welfare corporation | |
| Ishii Kinen Aizenen (Joint and several guarantee): | ¥1,808 million (US\$21,787 thousand) |
| Kuraray Chemical (Ningxia) Environmental Industry Co., Ltd.: | ¥12 million (US\$152 thousand) |
| (including foreign currency-denominated guarantees for 1 company): | |
| | CNY1,000,000 |
-
- | | |
|-------|--------------------------------------|
| Total | ¥1,821 million (US\$21,940 thousand) |
|-------|--------------------------------------|
- *5. Security assets and secured liabilities
- | | |
|------------------------|--------------------------------|
| Investment securities: | ¥46 million (US\$554 thousand) |
|------------------------|--------------------------------|
- Same as Fiscal 2009.

6 Notes to Consolidated Statements of Income

Fiscal 2009

(From April 1, 2009 to March 31, 2010)

- *1. Major items and the amounts under "Selling, general and administrative expenses" are as follows:
- | | |
|---|-----------------|
| Freight and storage | ¥11,334 million |
| Research and development | ¥14,102 million |
| Salaries and legal welfare expense | ¥12,186 million |
| Provision for bonuses | ¥3,352 million |
| Provision for retirement benefits for employees | ¥1,017 million |

- *2. Research and development expenses included in general, administrative and current manufacturing expenses
¥15,292 million

- *3. The gain is mainly attributable to the transfer of business rights of therapeutic apheresis device business.

- *4. Impairment loss

- (1) Identifying the cash-generating unit to which an asset belongs

As a minimum unit for generating cash flow, business assets are grouped into sections used for management accounting, and lent assets, idle assets, and assets associated with discontinued or reorganized businesses are assessed individually. Other head office and research facilities are shared assets.

- (2) Significant components of impairment loss

The impairment loss is ¥3,073 million in total.

The impairment loss on business assets is ¥522 million and on assets associated with discontinued or reorganized businesses is ¥2,550 million.

The significant components of impairment loss for the fiscal year ending March 31, 2010 are as follows:

Location	Assets	Usage	Type	Impairment loss
Okayama, Minami-Ku	Assets expected to become unnecessary due to the business reorganization	Plant and equipment for man-made leather	Plant and equipment	¥1,492 million
Kurashiki, Okayama Prefecture	Business assets	Plant and equipment for polyester	Plant and equipment	¥367 million

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

- *1. Major items and the amounts under "Selling, general and administrative expenses" are as follows:
- | | |
|---|--|
| Freight and storage | ¥12,413 million (US\$149,557 thousand) |
| Provision for doubtful accounts | ¥204 million (US\$2,460 thousand) |
| Research and development | ¥14,710 million (US\$177,238 thousand) |
| Salaries and legal welfare expense | ¥11,671 million (US\$140,622 thousand) |
| Provision for bonuses | ¥3,670 million (US\$44,218 thousand) |
| Provision for retirement benefits for employees | ¥1,041 million (US\$12,546 thousand) |
| Provision for directors retirement benefits | ¥56 million (US\$678 thousand) |

- *2. Research and development expenses included in general, administrative and current manufacturing expenses
¥15,771 million (US\$190,018 thousand)

- *3. Same as Fiscal 2009

- *4. Impairment loss

- (1) Same as Fiscal 2009

- (2) Significant components of impairment loss

The impairment loss is ¥343 million (US\$4,141 thousand) in total.

The impairment loss on assets associated with discontinued or reorganized business is ¥343 million (US\$4,141 thousand).

The significant components of impairment loss for the fiscal year ending March 31, 2011 are as follows:

Location	Assets	Usage	Type	Impairment loss
Kamisu, Ibaraki Prefecture	Assets to be scrapped (expected to be idle due to the operation of new manufacturing facilities resulting from full scale production)	Demonstration facility for mass production of acrylic thermoplastic elastomer	Plant and equipment	¥196 million (US\$2,370 thousand)

Fiscal 2009
(From April 1, 2009 to March 31, 2010)

After separately examining the indications for impairment with respect to those business whose income from operations continue to be negative, and the recoverable amount falls short of the book value, the book value is to be reduced to the recoverable amount. The recoverable amount is measured based on the value in use and calculated with a 4% discount off the future cash flow.

Assets associated with discontinued or reorganized business are categorized into "assets held for sale," "assets which can be converted for use into other business" and "assets to be discarded" and for items to be sold or discarded, the net book value of the assets is to be reduced to their recoverable amount. The recoverable amount of the assets to be used for certain future years is measured based on the value of use during the estimated residual useful life and is calculated by discounting future cash flows by 4% and the recoverable amount of the assets to be discarded is measured based on the net sale price and calculated by deducting the estimated disposal cost from the estimated sale price.

- *5. The loss is mainly attributable to the additional cost due to the temporary freezing of reemployment of the retired employees.
- *6. The loss is incurred due to the write-down of stocks.
- *7. The loss is incurred due to a sale of land.
-
-

Fiscal 2010
(From April 1, 2010 to March 31, 2011)

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

- *5. Mainly realized loss on foreign currency translation adjustments resulting from liquidation of overseas subsidiaries
- *6. Same as Fiscal 2009
- *7. —
- *8. Removal costs of idle facilities
- *9. Mainly the amount of overhead cost during the temporary production shutdown

7 Notes to Consolidated Statements of Comprehensive Income

Fiscal 2010 (April 1, 2010 to March 31, 2011)

*1. Comprehensive income for the fiscal year immediately prior to the current consolidated fiscal year

	(Millions of yen)
Comprehensive income attributable to owners of the parent	19,121
Comprehensive income attributable to minority interests	87
Total	19,209
	(Thousands of U.S. dollars)
Comprehensive income attributable to owners of the parent	230,378
Comprehensive income attributable to minority interests	1,057
Total	231,436

*2. Other comprehensive income for the fiscal year immediately prior to the current consolidated fiscal year

	(Millions of yen)
Valuation difference on available-for-sale securities	942
Deferred gain or losses on hedges	52
Foreign currency translation adjustments	1,765
Pension liability adjustments	45
Share of other comprehensive income of associates accounted for using equity method	0
Total	2,806
	(Thousands of U.S. dollars)
Valuation difference on available-for-sale securities	11,358
Deferred gain or losses on hedges	626
Foreign currency translation adjustments	21,272
Pension liability adjustments	553
Share of other comprehensive income of associates accounted for using equity method	0
Total	33,811

Fiscal 2009 (From April 1, 2009 to March 31, 2010)

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

	Number of shares as of March 31, 2009 (thousands of shares)	Increase in the number of shares (thousands of shares)	Decrease in the number of shares (thousands of shares)	Number of shares as of March 31, 2010 (thousands of shares)
Number of outstanding shares				
Common stock	382,863	—	—	382,863
Total	382,863	—	—	382,863
Number of treasury stocks				
Common stock (Notes 1, 2)	34,647	217	74	34,790
Total	34,647	217	74	34,790

Notes: 1. The increase in treasury stock (common stock) is attributable to the purchase of shares from shareholders whose addresses are unknown (170 thousand shares) and the purchase of less-than-one unit shares (46 thousand shares).

2. The decrease in treasury stock (common stock) is attributable to a transfer of shares upon the exercise of subscription rights (73 thousand shares) and the acquisition of less-than-one unit shares by the shareholders (1 thousand shares).

2. Subscription rights to shares

The Company granted its directors and executive officers the subscription rights to the Company shares as stock option. The balance of the subscription rights to shares as of March 31, 2010 is ¥186 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 19, 2009	Common stock	3,482	10.00	March 31, 2009	June 22, 2009
Board of directors held on November 5, 2009	Common stock	2,785	8.00	September 30, 2009	December 1, 2009

(2) Dividends whose effective date is after the end of Fiscal 2009 and record date is included in Fiscal 2009.

Resolution	Type of share	Amount of dividends (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 24, 2010	Common stock	2,784	Retained earnings	8.00	March 31, 2010	June 25, 2010

4. Increase in retained earnings "other" is due to the recognition of unrecognized pension liabilities in "other comprehensive income", which the Company's consolidated U.S. subsidiary recorded in compliance with the U.S. GAAP.

Fiscal 2010 (From April 1, 2010 to March 31, 2011)

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

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

Notes: 1. The increase in treasury stock (common stock) is attributable to the purchase less-than-one unit shares (11 thousand shares).

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

2. Subscription rights to shares

The Company granted its directors, executive officers, employees, and directors and employees of its subsidiaries the subscription rights to the Company shares as stock option. The balance of the subscription rights to shares as of March 31, 2011 is ¥560 million (US\$6,753 thousand).

3. Dividends

(1) Amount of dividends paid

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

Resolution	Type of share	Amount of dividends (Thousands of U.S. dollars)	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 24, 2010	Common stock	33,549	0.09	March 31, 2010	June 25, 2010
Board of directors held on October 28, 2010	Common stock	54,534	0.15	September 30, 2010	December 1, 2010

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

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

Resolution	Type of share	Amount of dividends (Thousands of U.S. dollars)	Source of dividends	Dividend per share (U.S. dollars)	Record date	Effective date
General shareholders' meeting held on June 22, 2011	Common stock	58,741	Retained earnings	0.16	March 31, 2011	June 23, 2011

9 Notes to Consolidated Statements of Cash Flows

Fiscal 2009

(From April 1, 2009 to March 31, 2010)

1. Cash and cash equivalents as of the year-end are reconciled to the accounts reported in the consolidated balance sheets as follows:

	(As of March 31, 2010) Millions of yen
Cash on hand and in banks	28,991
Time deposits with a deposit period of 3 months or more	(13,579)
Marketable securities with original maturities of three months or less	999
Cash and cash equivalents	16,412

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

1. Cash and cash equivalents as of the year-end are reconciled to the accounts reported in the consolidated balance sheets as follows:

	(As of March 31, 2011) Millions of yen	Thousands of U.S. dollars
Cash on hand and in banks	34,221	412,301
Time deposits with a deposit period of 3 months or more	(6,797)	(81,897)
Marketable securities with original maturities of three months or less	1,999	24,090
Cash and cash equivalents	29,423	354,495

10 Leases

Fiscal 2009

(From April 1, 2009 to March 31, 2010)

1. Finance lease transactions

(1) Lease transactions as a lessee:

Financial leases without transfer of ownership

1) Details of lease assets

a) Tangible fixed assets

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

b) Intangible fixed assets

Software ("Other intangible fixed assets")

2) Depreciation method of lease assets

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

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

1. Finance lease transactions

(1) Lease transactions as a lessee:

Financial leases without transfer of ownership

1) Details of lease assets

a) Tangible fixed assets

Same as Fiscal 2009.

b) Intangible fixed assets

Same as Fiscal 2009.

2) Depreciation method of lease assets

Same as Fiscal 2009.

Fiscal 2009
(From April 1, 2009 to March 31, 2010)

(2) Lease transactions as a lessor

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

There were no lease transactions that commenced after April 1, 2008.

1) Acquisition cost, accumulated depreciation, and net book value at the end of the fiscal year for leased assets are as follows:

Year ended March 31, 2010	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net
Building and structures	196	77	118
Machinery and equipment	49	39	9
Total	245	116	128

2) Future lease payment obligations are as follows:

	Millions of yen
Due within one year	14
Due after one year	150
Total	165

Note: Future lease payment obligations are computed by including interest received because the ratio of future lease payment obligations and estimated salvage value to the balance of operating receivable at the end of the fiscal year is not material.

3) Lease revenue, depreciation expense for the fiscal year

	Millions of yen
Lease revenue	23
Depreciation expense	6

2. Operating leases

Lease transactions as a lessee:

Future lease payment obligations under operating leases are as follows:

	Millions of yen
Due within one year	994
Due after one year	4,392
Total	5,386

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

(2) Lease transactions as a lessor

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

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

1) Acquisition cost, accumulated depreciation, and net book value at the end of the fiscal year for leased assets are as follows:

Year ended March 31, 2011	Millions of yen		
	Acquisition cost	Accumulated depreciation	Net
Building and structures	196	81	114
Machinery and equipment	49	41	7
Total	245	123	122

Year ended March 31, 2011	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net
Building and structures	2,367	983	1,384
Machinery and equipment	593	500	93
Total	2,960	1,483	1,477

2) Future lease payment obligations are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	14	180
Due after one year	136	1,642
Total	151	1,822

Note: Same as Fiscal 2009

3) Lease revenue, depreciation expense for the fiscal year

	Millions of yen	Thousands of U.S. dollars
Lease revenue	15	187
Depreciation expense	6	74

2. Operating leases

Lease transactions as a lessee:

Future lease payment obligations under operating leases are as follows:

	Millions of yen	Thousands of U.S. dollars
Due within one year	1,442	17,382
Due after one year	3,287	39,612
Total	4,730	56,994

Fiscal 2009 (From April 1, 2009 to March 31, 2010)

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

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

Loans, bonds and lease obligations related to finance lease transactions, used to raise funds for working capital and capital expenditures have maturities of at the longest 9 years from the balance sheet date. The debts bearing floating interest rates are exposed to interest rate fluctuation risk, although a part of the exposure is hedged through use of derivatives (interest rate swaps).

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

(3) Risk management for financial instruments

a. Credit Risk Management (customers' default risk)

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

The Company enters into derivative transactions only with financial institutions that have high credit ratings in order to mitigate counterparty risks.

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

The Company and certain consolidated subsidiaries principally use forward foreign exchange contracts to hedge foreign currency exchange fluctuation risk exposure in connection with trade receivables and payables denominated in foreign currencies. Depending on foreign currency exchange rates conditions, trade receivables and payables denominated in foreign currencies that are firmly 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.

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

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

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

c. Liquidity Risk Management on Fund Raising

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

(4) Supplementary explanation concerning fair values of financial instruments

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

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2010 are as follows:

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

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	28,991	28,991	—
(2) Notes and accounts receivable - trade	75,923		
Allowance for doubtful accounts	(604)		
	75,318	75,318	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	115,811	115,811	—
Total assets	220,121	220,121	—
(4) Notes and accounts payable - trade	27,235	27,235	—
(5) Long-term loans payable (*1)	51,147	52,333	1,185
Total liabilities	78,383	79,569	1,185
Derivative transactions (*2)	196	196	—

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

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

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

Assets:

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

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

(3) Short-term investment securities and investment securities

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

Liabilities:

(1) Notes and accounts payable - trade

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

(2) Long-term loans payable

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

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

Derivative financial instruments:

Please see the note "13. Derivative Financial Instruments."

2. Financial instruments whose fair values are not readily determinable

Category	Carrying amount
	Millions of yen
Unlisted equity securities	7,173

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

	Millions of yen			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	28,991	—	—	—
Notes and accounts receivable - trade	75,923	—	—	—
Short-term investment securities and investment securities: o/w securities with contractual maturities:				
(1) Bonds (Corporate)	2,000	—	—	—
(2) Bonds (Others)	17,000	—	—	—
(3) Others	55,000	27,250	—	—
Total	178,915	27,250	—	—

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

(Additional information)

Effective this fiscal year, the Company adopted the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, issued on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, issued on March 10, 2008).

Fiscal 2010 (From April 1, 2010 to March 31, 2011)

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

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

Loans, bonds and lease obligations related to finance lease transactions, used to raise funds for working capital and capital expenditures have maturities of at the longest 9 years from the balance sheet date. The debts bearing floating interest rates are exposed to interest rate fluctuation risk, although a part of the exposure is hedged through use of derivatives (interest rate swaps).

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

(3) Risk management for financial instruments

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

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

The Company enters into derivative transactions only with financial institutions that have high credit ratings in order to mitigate counterparty risks.

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

The Company and certain consolidated subsidiaries principally use forward foreign exchange contracts to hedge foreign currency exchange fluctuation risk exposure in connection with trade receivables and payables denominated in foreign currencies. Depending on foreign currency exchange rates conditions, trade receivables and payables denominated in foreign currencies that are firmly 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.

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

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

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

c. Liquidity Risk Management on Fund Raising

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full at the respective maturity dates.

The Group manages its liquidity risk by diversifying its fund raising instruments, obtaining commitment lines from several financial institutions and adjusting short-term and long-term funding balances in consideration of market environments.

(4) Supplementary explanation concerning fair values of financial instruments

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

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2011 are as follows:

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

	Millions of yen		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	34,221	34,221	—
(2) Notes and accounts receivable - trade	76,135		
Allowance for doubtful accounts	(802)		
	75,333	75,333	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	139,840	139,840	—
Total assets	249,395	249,395	—
(1) Notes and accounts payable - trade	30,308	30,308	—
(2) Long-term loans payable (*1)	46,349	47,653	1,303
Total liabilities	76,658	77,961	1,303
Derivative transactions (*2)	492	492	—
	Thousands of dollars		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	412,301	412,301	—
(2) Notes and accounts receivable - trade	917,299		
Allowance for doubtful accounts	(9,663)		
	907,635	907,635	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	1,684,831	1,684,831	—
Total assets	3,004,769	3,004,769	—
(1) Notes and accounts payable - trade	365,164	365,164	—
(2) Long-term loans payable (*1)	558,428	574,132	15,704
Total liabilities	923,593	939,297	15,704
Derivative transactions (*2)	5,933	5,933	—

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

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

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

Assets:

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

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

(3) Short-term investment securities and investment securities

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

Liabilities:

(1) Notes and accounts payable - trade

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

(2) Long-term loans payable

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

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

Derivative financial instruments:

Please see the note "13. Derivative Financial Instruments."

2. Financial instruments whose fair values are not readily determinable

Category	Millions of yen	Thousands of U.S. dollars
	Carrying amount	
Unlisted equity securities	6,865	82,714

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

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

Category	Thousands of U.S. dollars			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	412,301	—	—	—
Notes and accounts receivable - trade	917,299	—	—	—
Short-term investment securities and investment securities:				
o/w securities with contractual maturities:				
(1) Bonds (Corporate)	12,048	—	—	—
(2) Bonds (Others)	276,891	—	—	—
(3) Others	1,242,734	—	—	—
Total	2,861,275	—	—	—

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

Category	Millions of yen					
	Due within 1 year	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	Due after 5 years
Bonds	10,000	—	—	—	—	—
Long-term loans payable	3,314	1,235	23,900	5,900	—	12,000
Lease obligations	315	200	116	72	28	7
Total	13,629	1,435	24,016	5,972	28	12,007

Category	Thousands of U.S. dollars					
	Due within 1 year	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	Due after 5 years
Bonds	120,481	—	—	—	—	—
Long-term loans payable	39,933	14,880	287,951	71,084	—	144,578
Lease obligations	3,796	2,418	1,400	876	343	92
Total	164,211	17,298	289,352	71,961	343	144,670

12 Securities

Fiscal 2009 (From April 1, 2009 to March 31, 2010)

1. Available-for-sale securities with market value (As of March 31, 2010)

	Millions of yen		
	Book value (estimated fair value)	Cost	Net
Securities with book value exceeding their acquisition cost			
Equity securities	12,214	5,984	6,229
Bonds			
Government and municipal	—	—	—
Corporate	—	—	—
Others	3,998	3,997	0
Others	27,250	26,937	313
Subtotal	43,463	36,920	6,543
Securities with book value not exceeding their acquisition cost			
Equity securities	2,367	2,976	(608)
Bonds			
Government and municipal	—	—	—
Corporate	2,000	2,000	—
Others	12,980	12,983	(3)
Others	55,000	55,000	—
Subtotal	72,347	72,960	(612)
Total	115,811	109,880	5,930

Note: Unlisted equity securities amounting to ¥4,090 million are excluded from the above table, because there is no market price and it is very difficult to identify fair values.

2. Impairment loss on securities

The Group recognized impairment loss on securities (equity securities under available-for-sale securities) in an amount of ¥174 million.

The Group recognizes impairment loss when the fair value declines more than 50% of its acquisition cost and when the fair value declines between 30% and 50% of the acquisition cost, the amount considered to be necessary considering the recoverability is recognized as impairment loss.

Fiscal 2010 (From April 1, 2010 to March 31, 2011)

1. Available-for-sale securities with market value (As of March 31, 2011)

	Millions of yen			Thousands of U.S. dollars		
	Book value (estimated fair value)	Cost	Net	Book value (estimated fair value)	Cost	Net
Securities with book value exceeding their acquisition cost						
Equity securities	9,560	5,114	4,446	115,188	61,620	53,567
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	—	—	—	—	—	—
Others	—	—	—	—	—	—
Others	27,146	26,937	209	327,071	324,547	2,524
Subtotal	36,707	32,051	4,655	442,260	386,168	56,091
Securities with book value not exceeding their acquisition cost						
Equity securities	3,151	4,010	(859)	37,969	48,321	(10,352)
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	1,000	1,000	—	12,048	12,048	—
Others	22,981	22,981	—	276,891	276,891	—
Others	76,000	76,000	—	915,662	915,662	—
Subtotal	103,133	103,992	(859)	1,242,571	1,252,923	(10,352)
Total	139,840	136,044	3,796	1,684,831	1,639,091	45,739

Note: Unlisted equity securities amounting to ¥3,596 million (US\$43,325 thousand) are excluded from the above table, because there is no market price and it is very difficult to identify fair values.

2. Impairment loss on securities

The Group recognized impairment loss on securities (equity securities under available-for-sale securities) in an amount of ¥574 million (US\$6,915 thousand).

The Group recognizes impairment loss when the fair value declines more than 50% of its acquisition cost and when the fair value declines between 30% and 50% of the acquisition cost, the amount considered to be necessary considering the recoverability is recognized as impairment loss.

13 Derivative Financial Instruments

Fiscal 2009 (From April 1, 2009 to March 31, 2010)

1. Derivative transactions to which hedge accounting is not applied:

(1) Currencies

Category	Classification	Millions of yen			
		Notional amount	Notional amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Currency swap contracts:				
	Yen into Euro obligation	6,347	4,554	511	511
	Forward foreign exchange contracts:				
	Yen into Euro obligation	499	—	(25)	(25)
	Total	6,847	4,554	485	485

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

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

2. Derivative transactions to which hedge accounting is applied

(1) Currencies

Hedge accounting method	Classification	Major hedged items	Fiscal 2009 (As of March 31, 2010)		
			Millions of yen		
			Notional amount	Notional amount over one year	Market value
Primary method	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	Accounts receivable - trade	4,439	—	(112)
	Yen into Euro obligation	Accounts receivable - trade	1,658	—	(11)
	U.S. dollar into Yen obligation	Accounts payable - trade	5	—	0
	Euro into Yen obligation	Accounts payable - trade	104	—	(1)
	U.S. dollar into Euro obligation	Accounts receivable - trade	212	—	10
Total			6,420	—	(115)

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

Hedge accounting method	Classification	Major hedged items	Fiscal 2009 (As of March 31, 2010)		
			Millions of yen		
			Notional amount	Notional amount over one year	Market value
Receivables or payables are translated using forward foreign exchange contract rates.	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	Accounts receivable - trade	589	—	Note
	Yen into Euro obligation	Accounts receivable - trade	141	—	Note
	U.S. dollar into Yen obligation	Accounts payable - trade	142	—	Note
	Euro into Yen obligation	Accounts payable - trade	35	—	Note
Total			909	—	Note

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

Hedge accounting method	Classification	Major hedged items	Fiscal 2009 (As of March 31, 2010)		
			Millions of yen		
			Notional amount	Notional amount over one year	Market value
Cash flow hedges for forecasted transactions	Currency swap contracts:				
	Yen into Euro obligation	Forecasted transactions in foreign currencies	6,347	4,554	(181)
	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation	Forecasted transactions in foreign currencies	1,536	—	(2)
	Yen into Euro obligation	Forecasted transactions in foreign currencies	705	—	0
	U.S. dollar into obligation	Forecasted transactions in foreign currencies	344	—	9
Euro into Yen obligation	Forecasted transactions in foreign currencies	0	—	0	
Total			8,935	4,554	(174)

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

(2) Interest rate

Hedge accounting method	Classification	Major hedged items	Fiscal 2009 (As of March 31, 2010)		
			Millions of yen		
			Notional amount	Notional amount over one year	Market value
Interest rate swaps meeting certain conditions	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	3,699	2,499	Note

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

Fiscal 2010 (From April 1, 2010 to March 31, 2011)

1. Derivative transactions to which hedge accounting is not applied:

(1) Currencies

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

Category	Classification	Thousands of U.S. dollars				
		Notional amount	Notional amount due after one year	Market value	Unrealized gain (loss)	
Transactions other than market transactions	Currency swap contracts:					
	Yen into Euro obligation		54,878	41,158	8,035	8,035
	Forward foreign exchange contracts:					
	Yen into U.S. dollar obligation		3,005	3,005	18	18
	Total		57,883	44,164	8,054	8,054

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

2. Derivative transactions to which hedge accounting is applied

(1) Currencies

Hedge accounting method	Classification	Major hedged items	Fiscal 2010 (As of March 31, 2011)					
			Millions of yen			Thousands of U.S. dollars		
			Notional amount	Notional amount over one year	Market value	Notional amount	Notional amount over one year	Market value
Primary method	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Accounts receivable - trade	4,591	—	(70)	55,317	—	(853)
	Yen into Euro obligation	Accounts receivable - trade	1,682	—	(78)	20,268	—	(941)
	U.S. dollar into Yen obligation	Accounts payable - trade	86	—	1	1,042	—	16
	U.S. dollar into Euro obligation	Accounts receivable - trade	164	—	(4)	1,983	—	(49)
Total			6,524	—	(151)	78,612	—	(1,828)

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

Hedge accounting method	Classification	Major hedged items	Fiscal 2010 (As of March 31, 2011)					
			Millions of yen			Thousands of U.S. dollars		
			Notional amount	Notional amount over one year	Market value	Notional amount	Notional amount over one year	Market value
Receivables or payables are translated using forward foreign exchange contract rates.	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Accounts receivable - trade	942	—	Note	11,356	—	Note
	Yen into Euro obligation	Accounts receivable - trade	68	—	Note	825	—	Note
	U.S. dollar into Yen obligation	Accounts payable - trade	207	—	Note	2,502	—	Note
Total			1,218	—	Note	14,684	—	Note

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

Hedge accounting method	Classification	Major hedged items	Fiscal 2010 (As of March 31, 2011)					
			Millions of yen			Thousands of U.S. dollars		
			Notional amount	Notional amount over one year	Market value	Notional amount	Notional amount over one year	Market value
Cash flow hedges for forecasted transactions	Currency swap contracts:							
	Yen into Euro obligation	Forecasted transactions in foreign currencies	4,554	3,416	(24)	54,878	41,158	(290)
	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Forecasted transactions in foreign currencies	1,871	—	(3)	22,547	—	(45)
	Yen into Euro obligation	Forecasted transactions in foreign currencies	1,430	—	(1)	17,234	—	(16)
	Euro into Yen obligation	Forecasted transactions in foreign currencies	565	—	5	6,813	—	60
Total			8,422	3,416	(24)	101,474	41,158	(292)

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

(2) Interest rate

Hedge accounting method	Classification	Major hedged items	Fiscal 2010 (As of March 31, 2011)					
			Millions of yen			Thousands of U.S. dollars		
			Notional amount	Notional amount over one year	Market value	Notional amount	Notional amount over one year	Market value
Interest rate swaps meeting certain conditions	Interest rate swaps:							
	Floating rate into fixed rate	Long-term loans payable	2,132	576	Note	25,696	6,947	Note

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

14 Retirement Benefits

1. Summary of retirement benefit plan

The Company and some of its domestic consolidated subsidiaries have retirement pension plans and lump-sum benefit plans. The Company has cash balance plans and defined contribution pension plans. Some of the domestic subsidiaries have tax-qualified pension plans, cash balance plans or defined contribution pension plans. Some foreign consolidated subsidiaries have defined benefit pension plans or defined contribution pension plans. Additional benefits may be granted to employees depending on the conditions under which termination of employment occurs.

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

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

(1) Accumulated funds for the plan

	Fiscal 2009 (As of March 31, 2009)	Fiscal 2010 (As of March 31, 2010)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Plan assets:	56,798	63,828	769,023
Amount of benefit obligation as a result of pension's financial calculation:	104,558	92,696	1,116,827
Difference:	(47,760)	(28,867)	(347,804)

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

(As of March 31, 2009) 1.9%

(As of March 31, 2010) 2.0%

(3) Supplementary explanation

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

	Fiscal 2009 (As of March 31, 2009)	Fiscal 2010 (As of March 31, 2010)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Balance of prior service cost	12,243	21,234	255,834
Deficient amount carried forward	35,516	—	—
Adjustment to asset appraisal value (Note 1)	—	9,745	117,411
General reserve	—	2,111	25,441

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

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

The numbers for the disclosure above were of the years previous to the corresponding fiscal year.

2. Retirement benefit obligations

	Fiscal 2009 (From April 1, 2009 to March 31, 2010)	Fiscal 2010 (From April 1, 2010 to March 31, 2011)	
	Millions of yen Fiscal 2009 (As of March 31, 2010)	Millions of yen Fiscal 2010 (As of March 31, 2011)	Thousands of U.S. dollars Fiscal 2010 (As of March 31, 2011)
a. Retirement benefit obligations:	(38,796)	(37,165)	(447,773)
b. Plan assets:	20,651	18,519	223,125
c. Unfunded retirement benefit obligations: (a+b)	(18,145)	(18,645)	(224,648)
d. Unrecognized actuarial gains or losses:	11,429	11,009	132,646
e. Unrecognized prior service costs:	(866)	(762)	(9,187)
f. Net retirement benefit obligations recognized in the consolidated balance sheets: (c+d+e)	(7,582)	(8,398)	(101,189)
g. Prepaid pension costs:	6,666	6,243	75,218
h. Provision for retirement benefits: (f-g)	(14,248)	(14,641)	(176,407)

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

3. Retirement benefit expenses

Fiscal 2009 (From April 1, 2009 to March 31, 2010)		Fiscal 2010 (From April 1, 2010 to March 31, 2011)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
	Fiscal 2009 (From April 1, 2009, to March 31, 2010)	Fiscal 2010 (From April 1, 2010, to March 31, 2011)	Fiscal 2010 (From April 1, 2010, to March 31, 2011)
a. Service costs: (Note)	1,456	1,368	16,488
b. Interest costs:	764	727	8,765
c. Expected return on plan assets:	(659)	(654)	(7,884)
d. Amortization of actuarial gains or losses:	1,272	1,270	15,306
e. Amortization of prior service costs:	(103)	(103)	(1,246)
f. Retirement benefit expenses: (a+b+c+d+e)	2,731	2,608	31,428
g. Defined contribution pension plans installment:	537	645	7,781
Total	3,269	3,254	39,209

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

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

	Fiscal 2009 (As of March 31, 2010)	Fiscal 2010 (As of March 31, 2011)
a. Method of attributing the projected benefit obligations to periods of service	Straight-line	Same as Fiscal 2009
b. Discount rate	mainly 2.0%	Same as Fiscal 2009
c. Expected rate of return on plan assets	mainly 3.3%	Same as Fiscal 2009
d. Amortization period for prior service cost	mainly 15 years (On a straight-line basis over a certain period, which falls within the average remaining years of service of the eligible employees.)	Same as Fiscal 2009
e. Amortization period for actuarial gains and losses	mainly 15 years (On a straight-line basis over a certain period, which falls within the average remaining years of service of the eligible employees, allocated proportionally commencing the next year in which each respective gain or loss occurred.)	Same as Fiscal 2009

15 Stock-Based Compensation Plans

Fiscal 2009 (From April 1, 2009 to March 31, 2010)

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

Selling, general and administrative expenses: ¥81 million

2. Details including size and changes of stock options

(1) Stock options plans

	Stock options 2002		Stock options 2003	
Number of eligible persons by positions	Directors	18	Employees	2,200
	Corporate auditors	3	Employees of subsidiaries	3,422
	Managers	396		
	Directors of subsidiaries	67		
	Corporate auditors of subsidiaries	4		
	Managers of subsidiaries	451		
Total number and type of stocks granted	1,076,500 shares of common stocks		2,811,000 shares of common stocks	
Grant date	October 1, 2002		October 1, 2003	
Prerequisite to be vested	Directors, corporate auditors and employees of the Company and its subsidiaries. Directors, corporate auditors and associate directors of the Company and presidents of the significant subsidiaries (Note) can exercise after they retire.		Directors, corporate auditors, executive officers and employees of the Company and its subsidiaries	
Required service period	From October 1, 2002 to June 27, 2004		From October 1, 2003 to June 26, 2005	
Exercise period	From June 28, 2004 to June 27, 2012		From June 27, 2005 to June 26, 2013	

Note: Significant subsidiaries are as follows:

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

	Stock options June 2007		Stock options June 2008		Stock options June 2009	
Number of eligible persons by positions	Directors of the Company:	10	Directors of the Company:	10	Directors of the Company:	9
	Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas):	11	Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas):	16	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.	

(2) Size and changes of stock options

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

1) Number of stock options

	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008	Stock options June 2009
Unvested stock options (shares)					
At the beginning of the fiscal year			—	—	—
Granted	—	—	—	—	86,500
Forfeited	—	—	—	—	—
Vested	—	—	—	—	86,500
At the end of the fiscal year	—	—	—	—	—
Vested stock options (shares)					
At the beginning of the fiscal year	378,000	1,415,500	32,500	52,500	—
Vested	—	—	—	—	86,500
Exercised	50,000	19,000	1,000	1,500	1,500
Forfeited	11,000	73,000	—	—	—
At the end of the fiscal year	317,000	1,323,500	31,500	51,000	85,000

2) Price information

	Yen				
	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008	Stock options June 2009
Exercise prices	825	918	1	1	1
Weighted-average exercise date stock price	1,096	1,103	994	994	994
Fair value at the grant date	—	—	1,318	1,264	947

3. Method to estimate fair value of stock options

The fair value of the June 2009 stock options, which were granted in fiscal 2009, are estimated as follows.

1) Valuing method: Black-Scholes model

2) Major basic figures and estimating method

	June 2009 stock option
Stock price volatility (Note 1)	40.3%
Expected remaining life (Note 2)	2 years
Expected dividend (Note 3)	¥22.00/share (US\$ 0.23 /share)
Risk-free interest rate (Note 4)	0.37%

- Notes: 1. Calculated weekly based on the weekly stock price information over a period from the week that contains June 4, 2007 to the week that contains June 1, 2009.
2. Calculated by subtracting the average period of service of directors and executive officers who are currently in office as of the day of grant from the past average period of service of directors and executive officers.
3. Based on the average of ¥22 (US\$0.23), the dividend paid for the fiscal year ended March 2009.
4. Government bond yield over a period corresponding to the expected remaining life.

4. Method to estimate number of vested stock options

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.

Fiscal 2010 (From April 1, 2010 to March 31, 2011)

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

Cost of goods manufactured: ¥133 million (US\$1,605 thousand)

Selling, general and administrative expenses: ¥283 million (US\$3,421 thousand)

Non-operating expense: ¥21 million (US\$263 thousand)

2. Details including size and changes of stock options

(1) Stock options plans

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

Note: Significant subsidiaries are as follows:

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

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

Stock options October 2010	
Number of eligible persons by position	Directors: 25 Employees: 3,924 Directors or employees of the Company's subsidiaries: 2,010
Total number and type of stocks granted	4,074,500 shares of common stocks
Grant date	October 1, 2010
Prerequisite to be vested	Eligible persons shall be directors, executive officers, counselors, full-time consultants or employees of the Company or the Companies' subsidiaries at the time of exercise. However, those who were directors, executive officers or associate executive officer of the Company or presidents of the significant subsidiaries of the Company (Kuraray Engineering Co., Ltd., Kuraray Chemical Co., Ltd., Kuraray Trading Co., Ltd., Kuraray Plastics Co., Ltd., Kuraray Techno Co., Ltd., Kuraray America, Inc., Kuraray Europe GmbH and EVAL Europe N.V.) can exercise even after retirement. Other conditions are prescribed in the "Contracts on Subscription Rights to Shares" to be entered between the Company and eligible persons who were granted subscription rights to shares
Required service period	From October 1, 2010 to June 24, 2012
Exercise period	From June 25, 2012 to June 24, 2020

(2) Size and changes of stock options

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

1) Number of stock options

	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008
Unvested stock options (shares)				
At the beginning of the fiscal year	—	—	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Vested	—	—	—	—
At the end of the fiscal year	—	—	—	—
Vested stock options (shares)				
At the beginning of the fiscal year	317,000	1,323,500	31,500	51,000
Vested	—	—	—	—
Exercised	87,000	42,500	5,500	10,500
Forfeited	29,000	85,500	—	—
At the end of the fiscal year	201,000	1,195,500	26,000	40,500

	Stock options June 2009	Stock options June 2010	Stock options October 2010
Unvested stock options (shares)			
At the beginning of the fiscal year	—	—	—
Granted	—	83,500	4,074,500
Forfeited	—	—	41,500
Vested	—	83,500	362,000
At the end of the fiscal year	—	—	3,671,000
Vested stock options (shares)			
At the beginning of the fiscal year	85,000	—	—
Vested	—	83,500	362,000
Exercised	21,000	23,000	—
Forfeited	—	—	—
At the end of the fiscal year	64,000	60,500	362,000

2) Price information

	Yen						
	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008	Stock options June 2009	Stock options June 2010	Stock options October 2010
Exercise prices	825	918	1	1	1	1	1,078
Weighted-average exercise date stock price	1,142	1,139	1,078	1,078	1,078	1,078	—
Fair value at the grant date	—	—	1,318	1,264	947	1,054	247

	U.S. dollars						
	Stock options 2002	Stock options 2003	Stock options June 2007	Stock options June 2008	Stock options June 2009	Stock options June 2010	Stock options October 2010
Exercise prices	9.93	11.06	0.01	0.01	0.01	0.01	12.98
Weighted-average exercise date stock price	13.75	13.72	12.98	12.98	12.98	12.98	—
Fair value at the grant date	—	—	15.87	15.22	11.40	12.69	2.97

3. Method to estimate fair value of stock options

The fair value of the June 2010 stock options and October 2010 stock options, which were granted in fiscal 2010, are estimated as follows.

1) Valuing method: Black-Scholes model

2) Major basic figures and estimating method

	June 2010 stock option
Stock price volatility (Note 1)	40.0%
Expected remaining life (Note 2)	2 years
Expected dividend (Note 3)	¥16.00/share (US\$0.19)
Risk-free interest rate (Note 4)	0.15%

Notes: 1. Calculated weekly based on the weekly stock price information over a period from the week that contains June 2, 2008 to the week that contains May 31, 2010.

2. Calculated by subtracting the average period of service of directors and executive officers who are currently in office as of the day of grant from the past average period of service of directors and executive officers.

3. Based on the dividend paid for the fiscal year ended March 2010.

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

	October 2010 stock option
Stock price volatility (Note 1)	31.0%
Expected remaining life (Note 2)	5.40 years
Expected dividend (Note 3)	¥16.00/share (US\$0.19)
Risk-free interest rate (Note 4)	0.29%

Notes: 1. Calculated weekly based on the weekly stock price information over a period from the week that contains May 2, 2005 to the week that contains September 27, 2010.

2. Expected remaining life is calculated considering the forfeiture due to age retirement, in addition to the assumption that the options will be exercised at the middle point of the exercise period, since it is difficult to make a reasonable estimation.

3. Based on the dividend paid for the fiscal year ended March 2010.

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

4. Method to estimate number of vested stock options

a) June 2010 stock option

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.

b) Stock options October 2010

According to the prerequisite to be vested, stock options granted to the eligible directors and other persons described above have been vested on the grant date.

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

Fiscal 2009
(From April 1, 2009 to March 31, 2010)

1. The significant components of deferred tax assets and liabilities at March 31, 2010 are as follows:

	Millions of yen
Deferred tax assets	
Provision for retirement benefits	5,215
Impairment loss	3,041
Provision for bonuses	2,289
Write-down of investment securities	1,955
Write-down of inventories	1,107
Other	11,203
Sub-total deferred tax assets	24,814
Valuation allowance	(4,488)
Total deferred tax assets	20,325
Deferred tax liabilities	
Prepaid pension cost	(2,662)
Reserve for reduction entry	(2,611)
Unrealized gain on revaluation of securities	(2,024)
Other	(6,154)
Total deferred tax liabilities	(13,453)
Net deferred tax assets (liabilities)	6,871

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

	Millions of yen
Current assets:	
Deferred tax assets	5,824
Noncurrent assets:	
Deferred tax assets	6,570
Noncurrent liabilities:	
Deferred tax liabilities	(5,524)

2. Reconciliation of the difference between the normal effective tax rate and the income tax rate in the accompanying consolidated statements of income is as follows:

	Fiscal 2009
Normal effective tax rate	40.3%
Non-taxable income	(1.1)
Tax credit primarily for research and development expenses	(4.0)
Loss incurred by consolidated subsidiaries and other	(6.2)
Income tax rate per statements of income	28.9%

Fiscal 2010
(From April 1, 2010 to March 31, 2011)

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

	Millions of Yen	Thousands of U.S. dollars
Deferred tax assets		
Provision for retirement benefits	5,436	65,498
Impairment loss	2,485	29,949
Provision for bonuses	2,476	29,834
Write-down of investment securities	1,750	21,086
Write-down of inventories	1,023	12,332
Other	7,449	89,749
Sub-total deferred tax assets	20,621	248,450
Valuation allowance	(3,204)	(38,613)
Total deferred tax assets	17,416	209,836
Deferred tax liabilities		
Prepaid pension cost	(2,522)	(30,387)
Reserve for reduction entry	(2,414)	(29,084)
Unrealized gain on revaluation of securities	(1,237)	(14,907)
Other	(5,389)	(64,931)
Total deferred tax liabilities	(11,562)	(139,311)
Net deferred tax assets (liabilities)	5,853	70,525

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

	Millions of yen	Thousands of U.S. dollars
Current assets:		
Deferred tax assets	6,046	72,851
Noncurrent assets:		
Deferred tax assets	4,725	56,928
Noncurrent liabilities:		
Deferred tax liabilities	(4,918)	(59,254)

2. Reconciliation of the difference between the normal effective tax rate and the income tax rate in the accompanying consolidated statements of income is as follows:

	Fiscal 2010
Normal effective tax rate	40.4%
Non-taxable income	(0.6)
Tax credit primarily for research and development expenses	(1.9)
Loss incurred by consolidated subsidiaries and other	(0.8)
Income tax rate per statements of income	37.1%

17 Business Combination

Fiscal 2009 (From April 1, 2009 to March 31, 2010)

Transactions under common control (absorption-type merger)

1. Names of combining companies or targeted businesses, details of the businesses, legal form of the business combination, name of the company after the business combination and overview of the transaction including the purpose of the transaction

(1) Names of combining companies or targeted businesses, details of the businesses and overview of the transaction including the purpose of the transaction

Kuraray Luminas Co., Ltd. (a wholly owned consolidated subsidiary of the Company), which is engaged in development of radiation materials and elements of inorganic electroluminescence (EL), was absorbed and merged into the Company on February 1, 2010.

The objective of this merger was to promote the development efforts on inorganic EL and its related subjects by utilizing the development technologies held by the Company and sharing the information about the market trends.

(2) Name of company after the business combination

Kuraray Co., Ltd.

(3) Legal form of business combination

Absorption-type merger in which the Company became the successor company, while Kuraray Luminas Co., Ltd. was dissolved.

2. Overview of accounting methods used

Since the said absorption-type company split corresponded to a transaction under common control, that is, an internal transaction, all profits and losses were eliminated. Hence, this accounting method has no material effect on the consolidated financial statements.

Fiscal 2010 (From April 1, 2010 to March 31, 2011)

KURARAY FUDOSAN CO., LTD., which had been a consolidated subsidiary until the previous year, was merged by Kuraray Techno Co., Ltd., which is a consolidated subsidiary, and absorbed in July 2010. This merger is omitted from the disclosure, since this merger was accounted for as a business combination of entities under common control and had no material effect on the consolidated financial statements.

18 Asset Retirement Obligations

Fiscal 2010 (For the year ended March 31, 2011)

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

Overview of asset retirement obligations

Some tangible fixed assets of the Company include assets containing asbestos, PCB (polychlorinated biphenyl) and fluorocarbon which are required to be treated in the manner stipulated by the laws and ordinances when they are scrapped or removed. Accordingly, asset retirement obligations are recognized based on the estimated disposal costs, excluding removal costs for aforementioned toxic substances incurred through the repair and maintenance activities in the normal service of the tangible fixed assets. The grounds laws and ordinances are as follows:

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

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

Calculation method for the amount of asset retirement obligations:

The Company

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

Consolidated subsidiaries

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

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

	Millions of yen	Thousands of U.S. dollars
Beginning balance (Notes 1 and 2)	2,377	28,640
Increase due to acquisition of tangible fixed assets	21	258
Increase due to decisions to remove	73	886
Adjustments due elapse	41	501
Decrease due to payment for the obligations	(156)	(1,879)
Other increase (decrease)	(134)	(1,624)
Ending balance	2,222	26,782

Notes: 1. "Beginning balance" resulted from application of "Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18, issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, issued on March 31, 2008) effective the fiscal year ended March 31, 2011.
2. Asset retirement obligations of overseas subsidiaries as of March 31, 2010 are included in "Beginning balance".

19 Segment Information

Fiscal 2009 (From April 1, 2009 to March 31, 2010)

Industry segment information

	Millions of yen					Consolidated Total
	Chemicals and resins	Fibers and textiles	High performance materials, medical products and others	Total	Eliminated on consolidation and corporate	
I Net sales and operating income						
(1) Outside customers	¥202,855	¥79,983	¥50,042	¥332,880	¥ —	¥332,880
(2) Inter-segment	163	498	7,003	7,666	(7,666)	—
Total	203,019	80,482	57,045	340,546	(7,666)	332,880
Operating expenses	160,055	82,218	52,807	295,081	7,347	302,429
Operating income (loss)	42,963	(1,736)	4,238	45,465	(15,014)	30,451
II Identifiable assets, depreciation and amortization and capital expenditure						
Identifiable assets	227,285	66,160	58,719	352,166	150,649	502,815
Depreciation and amortization	22,293	7,149	4,726	34,168	2,321	36,489
Capital expenditure	¥ 11,851	¥ 4,946	¥ 1,336	¥ 18,135	¥ 1,744	¥ 19,879

Notes: 1. Industry segments above are split based upon for the classification of sales.

2. Principal products of each Industry segment.

(1) Chemicals and resins Poval resin and film, PVB resin and film, EVOH resin *EVAL*, isoprene chemicals, fine chemicals, methacrylic resin, resin-finished goods and others.

(2) Fibers and textiles *KURALON*, man-made leather *CLARINO*, non-woven fabrics *KURAFLEX*, hook and loop fasteners *MAGIC TAPE*, polyester, textiles and others.

(3) High performance materials, medical products and others Medical products, high-performance materials, activated carbon, high-performance membranes, engineering and others.

3. Corporate operating expenses included in the "Eliminated on consolidation and corporate" account totaled ¥15,391 million, for years ended March 31, 2010.

4. Corporate assets included in the "Eliminated on consolidation and corporate" account are ¥152,266 million as of March 31 2010.

Corporate assets mainly represent surplus operating funds, long-term investment funds and assets held by the fundamental research departments and the corporate division of the Companies

5. For the fiscal year ended March 31, 2010, the company posted an impairment loss of ¥3,073 million in respect to impairment losses as an extraordinary loss.

The detail of the impairment loss recorded for each segment is as follows: ¥174 million in "Chemical and resins," ¥2,117 million in "Fibers and textiles," ¥553 million in "High performance materials, medical products and others," ¥227 million in "Eliminated on consolidation and corporate" account.

Assets in each respective segment decreased by the same amount.

Geographic segment information

	Millions of yen					Eliminated on consolidation and corporate	Consolidated Total ¹
	Japan	North America	Europe	Asia	Total		
I Net sales and operating income							
(1) Outside customers	¥238,556	¥21,737	¥56,177	¥16,407	¥332,880	¥ —	¥332,880
(2) Inter-segment	22,390	3,462	2,619	1,837	30,310	(30,310)	—
Total	260,947	25,200	58,797	18,245	363,191	(30,310)	332,880
Operating expenses	220,270	23,105	56,251	18,207	317,835	(15,406)	302,429
Operating income (loss)	40,676	2,094	2,546	37	45,355	(14,904)	30,451
II Identifiable assets	¥247,278	¥31,589	¥70,439	¥13,233	¥362,539	¥140,275	¥502,815

Notes: 1. The segmentation of country or region is based on the geographical proximity.

2. Major countries and regions included in each category are as follows:

- (1) North America..... United States of America
- (2) Europe..... Germany and Belgium
- (3) Asia..... Singapore, Hong Kong and China

3. Corporate operating expenses included in the "Eliminated on consolidation and corporate" account is the same as in "Note 3" of the "Industry segment".

4. Corporate assets included in the "Eliminated on consolidation and corporate" account are the same as "Note 4" in "Industry segment".

5. For the fiscal year ended March 31, 2010, the company posted an impairment loss of ¥3,073 million in respect to impairment losses as an extraordinary loss.

The detail of the impairment loss recorded for each segment is as follows: ¥2,588 million in "Japan," ¥257 million in "North America," ¥227 million in "Eliminated on consolidation and corporate" account.

Assets in each respective segment decreased by the same amount.

Overseas sales

	Millions of yen				Consolidated Total ¹
	North America	Europe	Asia	Other	
I Overseas sales	¥20,579	¥60,128	¥71,046	¥7,615	¥159,368
II Consolidated net sales	—	—	—	—	332,880
III Percentage of consolidated net sales	6.2%	18.1%	21.3%	2.3%	47.9%

Notes: 1. The segmentation of country or region is based on the geographical proximity.

2. Major countries and regions included in each category are as follows:

- (1) North America..... United States of America and Canada
- (2) Europe..... Germany and France
- (3) Asia..... Korea and China
- (4) Other..... Latin America and Africa

3. Overseas sales represent the total of all the sales achieved outside Japan by the Company and its consolidated subsidiaries.

Segment information

1. Overview of reporting segment

The Company's reporting segments are composed of those individual business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigations to determine distribution of management resources and evaluate their business results.

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

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

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

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

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

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

Fiscal 2009 (April 1, 2009 to March 31, 2010)

	Millions of yen								
	Reporting Segment					Other Business ¹	Total	Adjustment ^{2, 4}	Consolidated Financial Statements ³
	Resins	Chemicals	Fibers and Textiles	Trading	Total				
Net sales									
(1) Outside customers	¥111,961	¥43,309	¥39,226	¥99,521	¥294,019	¥38,860	¥332,880	¥ —	¥332,880
(2) Inter-segment	24,596	23,370	18,924	3,121	70,013	11,305	81,319	(81,319)	—
Total	136,558	66,680	58,151	102,643	364,032	50,166	414,199	(81,319)	332,880
Segment income (loss)	39,153	2,048	(2,819)	2,005	40,388	4,271	44,660	(14,208)	30,451
Segment assets	161,900	79,572	56,016	33,388	330,879	39,229	370,108	132,706	502,815
Other items									
Depreciation and amortization									
(except for goodwill)	14,834	7,881	7,129	38	29,884	2,018	31,902	2,108	34,010
Impairment loss	—	573	2,117	—	2,691	154	2,845	227	3,073
Amortization of goodwill	2,479	—	—	—	2,479	—	2,479	—	2,479
Balance of goodwill at the end of current period	17,941	—	—	—	17,941	—	17,941	—	17,941
Investments in associates accounted for using equity method	—	—	143	—	143	299	442	—	442
Increase in tangible fixed assets and intangible fixed assets	8,879	3,386	4,946	4	17,217	968	18,186	1,693	19,879

- Notes: 1. The "Other Business" category incorporates operations not included in reporting segments, including activated carbon, water treatment related business and engineering.
2. Adjustment is as follows: Included within segment income (loss) of ¥14,208 million is the elimination of inter-segment transactions of ¥536 million and corporate expenses of ¥14,745 million. Corporate expenses mainly comprise headquarters' general and administrative expenses and the Company's basic research expenses.
3. The total amounts of segment income (loss) is adjusted to operating income described in the Consolidated Statements of Income.
4. Adjustment is as follows: Included within segment assets of ¥132,706 million is the elimination of intersegment transactions of ¥23,253 million and corporate assets of ¥155,960 million. Major corporate assets are surplus fund, long-term investment fund, assets related to basic research and corporate administrative divisions of the Company.

Fiscal 2010 (April 1, 2010 to March 31, 2011)

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

	Thousand of U.S. dollars								
	Reporting Segment					Other Business ¹	Total	Adjustment ^{2,4}	Consolidated Financial Statements ³
	Resins	Chemicals	Fibers and Textiles	Trading	Total				
Net sales									
(1) Outside customers	\$1,408,498	\$570,026	\$515,829	\$1,348,579	\$3,842,934	\$532,863	\$4,375,797	\$ —	\$4,375,797
(2) Inter-segment	367,763	342,022	226,290	38,912	974,988	176,708	1,151,697	(1,151,697)	—
Total	1,776,262	912,049	742,119	1,387,491	4,817,922	709,572	5,527,494	(1,151,697)	4,375,797
Segment income (loss)	612,628	104,537	(2,666)	39,815	754,315	59,118	813,434	(173,733)	639,700
Segment assets	1,813,936	923,221	637,675	425,038	3,799,872	518,719	4,318,591	1,793,798	6,112,390
Other items									
Depreciation and amortization (except for goodwill)	178,050	78,998	73,124	384	330,558	23,843	354,402	24,857	379,259
Impairment loss	—	3,183	244	—	3,427	—	3,427	713	4,141
Amortization of goodwill	24,793	—	—	—	24,793	—	24,793	—	24,793
Balance of goodwill at the end of current period	153,321	—	—	—	153,321	—	153,321	—	153,321
Investments in associates accounted for using equity method	—	—	1,258	—	1,258	3,979	5,237	—	5,237
Increase in tangible fixed assets and intangible fixed assets	104,928	74,500	30,826	339	210,594	20,070	230,665	17,024	247,689

Notes: 1. The "Other Business" category incorporates operations not included in reporting segments, including activated carbon, water treatment related business and engineering.
2. Adjustment is as follows: Included within segment income (loss) of ¥14,419 million (US\$173,733 thousand) is the elimination of intersegment transactions of ¥52 million (US\$632 thousand) and corporate expenses of ¥14,472 million (US\$174,365 thousand). Corporate expenses mainly comprise headquarters' general and administrative expenses and the Company's basic research expenses.
3. The total amounts of segment income (loss) is adjusted to operating income described in the Consolidated Statements of Income.
4. Adjustment is as follows: Included within segment assets of ¥148,885 million (US\$1,793,798 thousand) is the elimination of intersegment transactions of ¥27,940 million (US\$336,628 thousand) and corporate assets of ¥176,825 million (US\$2,130,427 thousand). Major corporate assets are surplus fund, long-term investment fund, assets related to basic research and corporate administrative divisions of the Company.
5. Effective from the fiscal year ended March 31, 2011, the Company and its domestic subsidiaries have applied the "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008). This change has had no significant impact on each segment.

Additional information

Effective from the fiscal year ended March 31, 2011, the Company has applied the "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17 of March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20 of March 21, 2008).

Related information

Fiscal year 2010 (April 1, 2010 to March 31, 2011)

1. Information about products and services

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

	Thousand of U.S. dollars				
	Resins	Chemicals	Fibers and Textiles	Other Business	Total
Net sales for outside customers	1,804,984	929,018	987,923	653,871	4,375,797

Notes: Principal products of each segment are as follows:

Resins: Poval resin and film, EVAL resin and others.

Chemicals: SEPTON thermoplastic elastomer, isoprene chemicals, methacrylic resin, GENESTAR heat-resistant polyamide resin, medical products and others.

Fibers and textiles: Vinylon, CLARINO man-made leather, KURAFLEX non-woven fabrics, MAGIC TAPE hook and loop fasteners, polyester and others.

Other Business: Activated carbon, environmental business and engineering and others.

2. Information about geographic areas

(1) Net sales

					(Millions of yen)
Japan	North America	Europe	Asia	Other area	Total
181,826	23,817	62,870	85,105	9,570	363,191

					(Thousands of U.S. dollars)
Japan	North America	Europe	Asia	Other area	Total
2,190,685	286,959	757,470	1,025,371	115,310	4,375,797

(2) Tangible fixed assets

			(Millions of yen)
Japan	United States	Other overseas	Total
105,538	18,456	21,244	145,238

			(Thousands of U.S. dollars)
Japan	United States	Other overseas	Total
1,271,542	222,367	255,955	1,749,865

3. Information about major customers

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

Information about impairment loss of fixed assets by reportable segment:

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

Information about amortization of goodwill and unamortized balance of goodwill by reportable segment:

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

Information about gain on negative goodwill:

Not applicable

20 Related Party Disclosures

Fiscal 2009 (From April 1, 2009 to March 31, 2010)

Not applicable.

Fiscal 2010 (From April 1, 2010 to March 31, 2011)

Not applicable.

21 Per Share Information

Fiscal 2009 (From April 1, 2009 to March 31, 2010)		Fiscal 2010 (From April 1, 2010 to March 31, 2011)	
	Yen	Yen	U.S. dollars
Net assets per share	961.24	985.22	11.87
Basic net income per share	46.86	82.55	0.99
Diluted net income per share	46.81	82.40	0.99

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

	Fiscal 2009	Fiscal 2010	
	(From April 1, 2009 to March 31, 2010)	(From April 1, 2010 to March 31, 2011)	
	Millions of yen	Millions of yen	Thousands of U.S. dollars
Basic net income per share			
Net income	16,315	28,742	346,295
Net income unallocated to common stock	—	—	—
Net income allocated to common stock	16,315	28,742	346,295
Average number of common stock outstanding during the fiscal year (thousands shares)	348,203	348,174	
Diluted net income per share			
Adjustment made on net income	—	—	—
Increase of common stocks (thousands shares)	386	654	
(New subscription rights to shares (thousands shares))	(386)	(654)	
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.	—	—	—

22 Subsequent Events

Fiscal 2009

(From April 1, 2009 to March 31, 2010)

(Grant of subscription rights to shares)

At the meetings the Board of Directors held on May 19, 2010 and June 8, 2010, the Company resolved to grant directors and executive officers of the Company stock acquisition rights as a stock option in accordance with Article 238, Paragraphs 1 and 2, and Article 240, Paragraph 1 of the Companies Act.

Details are described below

Resolution date	Resolutions of Board of Directors Meeting held on May 19, 2010
Number of people and office of people receiving grant	Directors: 9 Officers: 16 (excluding individuals serving concurrently as directors of the Company and overseas employee)
Classification of shares allocated for the stock acquisition rights	Common stock
Number of shares	83,500
Pay-in amount upon exercise of the stock acquisition rights	1 yen per share
Exercise period of the stock acquisition rights	From June 10, 2010 to June 9, 2025 Note: If the final day of the exercise period falls on a Company holiday, the last normal business day before that date shall become the final day
Conditions to exercise stock acquisition rights	Note 1
Matters concerning the transfer of stock acquisition rights	Acquiring stock acquisition rights by transfer is conditional upon approval by a resolution at a meeting of the Board of Directors
Matters concerning proxy payment	—
Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization	Note 2

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

(Grant of subscription rights to shares)

At the meetings of the Board of Directors held on April 27 and May 18, 2011, the Company resolved to grant directors and executive officers of the Company subscription rights to shares as a stock option in accordance with Article 238, paragraphs 1 and 2 and Article 240, paragraph 1 of the Companies Act.

Details are described below

Resolution date	Resolutions of Board of Directors Meeting held on April 27, 2011
Number of people and office of people receiving grant	Directors: 10 Officers: 14 (excluding individuals serving concurrently as directors of the Company and overseas employee)
Classification of shares allocated for the stock acquisition rights	Common stock
Number of shares	89,500
Pay-in amount upon exercise of the stock acquisition rights	1 yen per share
Exercise period of the stock acquisition rights	From May 19, 2011 to May 18, 2026 Note: If the final day of the exercise period falls on a Company holiday, the last normal business day before that date shall become the final day
Conditions to exercise stock acquisition rights	Note 1
Matters concerning the transfer of stock acquisition rights	Acquiring stock acquisition rights by transfer is conditional upon approval by a resolution at a meeting of the Board of Directors
Matters concerning proxy payment	—
Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization	Note 2

Fiscal 2009
(From April 1, 2009 to March 31, 2010)

Notes: 1. The exercise of stock acquisition rights is subject to the following conditions:

- (1) If the holder of stock acquisition rights loses their position as director, if they are a director, or executive officer, if they are an executive officer, they may exercise their stock acquisition rights providing it is in a 10 day period that begins on the next day of the day they lost their position (hereinafter the "Rights Exercise Start Date").
- (2) If the holder of stock acquisition rights, regardless of the above (1), does not qualify for a Rights Exercise Start Date before May 10, 2025, they may exercise their stock acquisition rights providing it is in a period that begins on the next business day after May 10, 2025, and ends on the expiry day of the abovementioned exercise period of the stock acquisition rights.
- (3) If, by resolution at the General Meeting of Shareholders, or the meeting of the Board of Directors, the Company decides to acquire the stock acquisition rights without compensation, Note 1-1 the holder of stock acquisition rights may exercise their stock acquisition rights providing it is in the period prescribed separately at a meeting of the Board of Directors and before the date of the acquisition without compensation.
- (4) If a holder of stock acquisition rights dies, the person who inherits the stock acquisition rights may exercise their stock acquisition rights in accordance with the conditions stated in the "Stock Acquisition Rights Allotment Agreement" described in (5) below.
- (5) Any other conditions pertaining to the exercise of rights shall be determined by the "Stock Acquisition Rights Allotment Agreement" concluded between the Company and the holder of stock acquisition rights.

1-1. In the event a resolution is approved at the General Meeting of Shareholders for a merger agreement whereby the Company becomes a non-surviving company, an absorption-type company split agreement whereby the Company splits into multiple companies, or plan for an incorporation-type company split; or a share transfer agreement whereby the Company becomes a wholly owned subsidiary of another company, or for a share exchange plan (if a resolution at the General Meeting of Shareholders is not required, when a resolution is approved at a meeting of the Company's Board of Directors), the Company may acquire, without compensation, all stock acquisition rights remaining on a day specified separately at a meeting of the Company's Board of Directors.

2. Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization

If the Company is involved in a merger (limited to when the Company becomes the non-surviving company from the merger), an absorption-type company split, a plan for an incorporation-type company split, a share exchange, or a share transfer (hereinafter "Act of Corporate Reorganization"), the holders of the stock acquisition rights outstanding at the date that the Act of Corporate Reorganization becomes effective shall be granted stock acquisition rights of a stock company of one of the types listed in Article 236, Paragraph 1. (viii). (a) to 1. (viii). (e) of the Companies Act (hereinafter the "Reorganized Company") based on the following conditions.

Fiscal 2010
(From April 1, 2010 to March 31, 2011)

Notes: 1. The exercise of stock acquisition rights is subject to the following conditions:

- (1) Directors and executive officers who were granted subscription rights to shares can exercise subscription rights within ten days subsequent to the date (starting date of exercise period) when they lost any of their positions as directors and executive officers. (hereinafter the "Rights Exercise Start Date").
- (2) If the holder of stock acquisition rights, regardless of the above (1), does not qualify for a Rights Exercise Start Date before April 19, 2026, they may exercise their stock acquisition rights providing it is in a period that begins on the next business day after April 19, 2026, and ends on the expiry day of the abovementioned exercise period of the stock acquisition rights.
- (3) If, by resolution at the General Meeting of Shareholders, or the meeting of the Board of Directors, the Company decides to acquire the stock acquisition rights without compensation, Note 1-1 the holder of stock acquisition rights may exercise their stock acquisition rights providing it is in the period prescribed separately at a meeting of the Board of Directors and before the date of the acquisition without compensation.
- (4) If a holder of stock acquisition rights dies, the person who inherits the stock acquisition rights may exercise their stock acquisition rights in accordance with the conditions stated in the "Stock Acquisition Rights Allotment Agreement" described in (5) below.
- (5) Any other conditions pertaining to the exercise of rights shall be determined by the "Stock Acquisition Rights Allotment Agreement" concluded between the Company and those who allotted subscription rights to shares.

1-1. In the event a resolution is approved at the General Meeting of Shareholders for a merger agreement whereby the Company becomes a non-surviving company, an absorption-type company split agreement whereby the Company splits into multiple companies, or plan for an incorporation-type company split; or a share transfer agreement whereby the Company becomes a wholly owned subsidiary of another company, or for a share exchange plan (if a resolution at the General Meeting of Shareholders is not required, when a resolution is approved at a meeting of the Company's Board of Directors), the Company may acquire, without compensation, all stock acquisition rights remaining on a day specified separately at a meeting of the Company's Board of Directors.

2. Matters concerning the granting of stock acquisition rights in accordance with acts of corporate reorganization

If the Company is involved in a merger (limited to when the Company becomes the non-surviving company from the merger), an absorption-type company split, a plan for an incorporation-type company split, a share exchange, or a share transfer (hereinafter "Act of Corporate Reorganization"), the holders of the stock acquisition rights outstanding at the date that the Act of Corporate Reorganization becomes effective shall be granted stock acquisition rights of a stock company of one of the types listed in Article 236, Paragraph 1. (viii). (a) to 1. (viii). (e) of the Companies Act (hereinafter the "Reorganized Company") based on the following conditions.

Fiscal 2009

(From April 1, 2009 to March 31, 2010)

When this case arises, the outstanding stock acquisition rights are extinguished and the Reorganized Company grants those holders stock acquisition rights of the Reorganized Company, the granting of stock acquisition rights of the Reorganized Company in accordance with the following conditions is limited to only the cases of absorption-type merger agreement, incorporation-type company merger agreements, absorption-type company split agreements, incorporation-type company split plan, share transfer agreements, and share transfer plans.

(1) Number of stock acquisition rights granted by the Reorganized Company

The number of granted stock acquisition rights will be the same as the number of stock acquisition rights held by the respective holders of outstanding stock acquisition rights.

(2) Classification of stock of the Reorganized Company allocated for stock acquisition rights

Shares of common stock of the Reorganized Company

(3) Number of shares of the Reorganized Company allocated for stock acquisition rights

To be decided by taking into account the conditions, etc. of the Act of Corporate Reorganization.

(4) Value of assets contributed upon the exercise of stock acquisition rights

The post-reorganization pay-in amount per one share of the Reorganized Company's stock granted upon exercise of stock acquisition rights shall be 1 yen, and the value of assets contributed shall be obtained by multiplying this by the number of shares of the Reorganized Company's stock allocated for the stock acquisition rights as determined by (3) above.

(5) Exercise period of stock acquisition rights

The exercise period of stock acquisition rights shall begin on the later day either the commencement day of the period that stock acquisition rights is exercisable or the Act of Corporate Reorganization takes effects, and end on the expiry date of the above mentioned exercise period of the stock acquisition rights.

(6) Amount of capital increase when there is an issue of shares upon the exercise of stock acquisition rights

Shall be half the amount of the increase limit for capital and so on, contributed in accordance with Article 17 Paragraph 1 of the Corporate Accounting Rules and when digits that are fractions of 1 yen occur as a result of the calculation, these digits are discarded.

(7) Limitation on acquiring stock acquisition rights by transfer

Acquiring stock acquisition rights by transfer is conditional upon approval by resolution at a meeting of the Board of Directors of the Reorganized Company.

(8) Matters concerning acquisition of stock acquisition rights

Determined by the above Note 1-1.

(9) Other conditions for the exercise of stock acquisition rights

Determined by the above Note 1.

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

When this case arises, the outstanding stock acquisition rights are extinguished and the Reorganized Company grants those holders stock acquisition rights of the Reorganized Company, the granting of stock acquisition rights of the Reorganized Company in accordance with the following conditions is limited to only the cases of absorption-type merger agreement, incorporation-type company merger agreements, absorption-type company split agreements, incorporation-type company split plan, share transfer agreements, and share transfer plans.

(1) Number of stock acquisition rights granted by the Reorganized Company

The number of granted stock acquisition rights will be the same as the number of stock acquisition rights held by the respective holders of outstanding stock acquisition rights.

(2) Classification of stock of the Reorganized Company allocated for stock acquisition rights

Shares of common stock of the Reorganized Company

(3) Number of shares of the Reorganized Company allocated for stock acquisition rights

To be decided by taking into account the conditions, etc. of the Act of Corporate Reorganization.

(4) Value of assets contributed upon the exercise of stock acquisition rights

The post-reorganization pay-in amount per one share of the Reorganized Company's stock granted upon exercise of stock acquisition rights shall be 1 yen, and the value of assets contributed shall be obtained by multiplying this by the number of shares of the Reorganized Company's stock allocated for the stock acquisition rights as determined by (3) above.

(5) Exercise period of stock acquisition rights

The exercise period of stock acquisition rights shall begin on the later day either the commencement day of the period that stock acquisition rights is exercisable or the Act of Corporate Reorganization takes effects, and end on the expiry date of the above mentioned exercise period of the stock acquisition rights.

(6) Amount of capital increase when there is an issue of shares upon the exercise of stock acquisition rights

Shall be half the amount of the increase limit for capital and so on, contributed in accordance with Article 17 Paragraph 1 of the Corporate Accounting Rules and when digits that are fractions of 1 yen occur as a result of the calculation, these digits are discarded.

(7) Limitation on acquiring stock acquisition rights by transfer

Acquiring stock acquisition rights by transfer is conditional upon approval by resolution at a meeting of the Board of Directors of the Reorganized Company.

(8) Matters concerning acquisition of stock acquisition rights

Determined by the above Note 1-1.

(9) Other conditions for the exercise of stock acquisition rights

Determined by the above Note 1.

Fiscal 2009
(From April 1, 2009 to March 31, 2010)

2. It was resolved at the 129th General Shareholders' Meeting held on June 24, 2010 that the Company be authorized to issue the following subscription rights to shares as stock options to Directors, employees, etc. of the Company and its subsidiaries, pursuant to Articles 236, 238 and 239 of the Companies Act, and to delegate the determination of the terms and conditions of the offer thereof to the Board of Directors of the Company.

Resolution date	Resolution at the General Shareholders' Meeting held on June 24, 2010
Categories and number of persons to whom the subscription rights to shares will be allotted	Directors, Executive Officers, Advisers, Full-time Counselors and employees (including employees on contract; hereinafter the same shall apply) of the Company as well as Directors, Executive Officers, and employees of the subsidiaries of the Company
Class of shares to be issued upon exercise of the subscription rights to shares	Common stock
Number of shares	Not exceeding 4,900,000 shares. Out of this, the upper limit of the total number of shares to be issued upon exercise of the subscription rights to shares allotted to Directors of the Company shall be 120,000 shares.
Amount to be subscribed upon the exercise of the subscription rights to shares	(Note 2)
Exercise period of the subscription rights to shares	From June 25, 2012 to June 24, 2020
Conditions to exercise stock acquisition rights	Any person exercising the subscription rights to shares shall be Director, Company Auditor, Executive Officer, Advisor, Full-time Counselor or employee of the Company or its subsidiaries at the time of such exercise; provided, however, that a person who held a position of Director, Company Auditor, Executive Officer or Associate Executive Officer of the Company or President of a subsidiary of the Company may exercise the subscription rights to shares even after retirement from such position.
Matters concerning the transfer of stock acquisition rights	Acquiring stock acquisition rights by transfer is conditional upon approval by a resolution at a meeting of the Board of Directors
Transfer of the subscription rights to shares	The subscription rights to shares shall not be offered for transfer, pledge, or disposed of in any other way.
Matters relating to subrogation payment	—
Matters relating to the issuance of the subscription rights to shares as a result of organizational restructuring action	—

Fiscal 2010
(From April 1, 2010 to March 31, 2011)

(Transactions under Common Control)

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

1. Name and description of the business, legal form of the business combination, name of the company after combination and outline of transactions including their purposes

(1) Name and description of the business and outline of transactions including their purposes

The Company succeeded the entire assets, liabilities, rights and obligations (including those related to the artificial bone graft business) except for those related to dental materials of Kuraray Medical, its wholly-owned consolidated subsidiary, with the aim to enhance Kuraray Medical's flexibility and competitiveness as an operating company specializing in the dental materials business

(2) Name of the company after the combination
Kuraray Co., Ltd.

(3) Legal form of business combination

The business combination was conducted in the form of an absorption-type company split, with the Company being the succeeding company.

2. Summary of accounting method implemented

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

(Business Combination through Acquisition)

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

Under the basic agreement, Kuraray and NORITAKE established a joint holding company on April 13, 2011, with Kuraray Medical and Noritake Dental becoming wholly-owned subsidiaries of the holding company. Under the holding company, the two subsidiaries are expected to enhance the partnership in the dental materials business. The three companies – the holding company, Kuraray Medical and Noritake Dental are planned to integrate on April 1, 2012.

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

(1) Name and description of business of acquired company

Name of acquired company	Noritake Dental Supply Co., Limited
Description of business of acquired company	Development, production and sales of ceramics for crowns, dental plaster and CAD/CAM devices

Fiscal 2009

(From April 1, 2009 to March 31, 2010)

Notes: 1. Besides above, other matters of details shall be determined by the meeting of the Board of Directors which will be held after the General Shareholders' Meeting on June 24, 2010, to determine conditions of the offer of the subscription rights to shares, as well as by the "Agreement for Granting the Subscription Rights to Shares."

2. Amount to be subscribed upon the exercise of the subscription rights to shares
Amount to be subscribed upon the exercise of the subscription rights to shares (hereinafter referred to as the "Exercise Price") shall be whichever higher of (i) the average (any fraction less than one yen will be rounded up) of the closing prices of the common stock of the Company in the regular trading on the Tokyo Stock Exchange (including indication of any bid or offer, hereinafter referred to as the "Closing Price") for 30 consecutive trading days (excluding days on which there is no Closing Price) from the beginning of 45 trading days period preceding the date of allotment of subscription rights to shares, multiplied by 1.05 (any fraction less than one yen will be rounded up), or (ii) the Closing Price on the date of allotment of subscription rights to shares (if there is no Closing Price on such date, the Closing Price on the trading day closest to the date of allotment on which the Closing Price is quoted).

If the Company splits or consolidates its common stock after the date of allotment of subscription rights to shares, the Exercise Price shall be adjusted according to the following formula, and any fraction less than one yen resulting from this adjustment shall be rounded up.

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment}}{\text{Ratio of split or consolidation}} \times 1$$

In addition, in case the Company issues new shares or disposes of its treasury common stock at a price lower than the then current market value after the date of allotment of the subscription rights to shares (excluding the case where such lower price is resulted from the exercise of the subscription rights to shares), the Exercise Price shall be adjusted according to the following formula, where any resultant fraction less than one yen shall be rounded up.

$$\text{Exercise Price after adjustment} = \frac{\text{Exercise Price before adjustment} \times \left(\frac{\text{Number of issued and outstanding shares} + \frac{\text{Number of New shares} + \text{Amount paid Per share}}{\text{Share price before Issue of new shares}}}{\text{Number of issued and outstanding shares} + \text{Number of new shares}} \right)}{\text{Number of issued and outstanding shares} + \text{Number of new shares}}$$

In the above formula, "Number of issued and outstanding shares" means the total number of issued shares of common stock of the Company excluding the number of treasury common stock held by the Company. In the event of disposition of treasury common stock, "Number of new shares" shall be read as "Number of shares of treasury stock disposed of." Besides the above, in case the Company carries out a merger, share exchange or share transfer or the like that makes it necessary to adjust the Exercise Price after the date of allotment, the Exercise Price may be adjusted within a reasonable range.

Fiscal 2010

(From April 1, 2010 to March 31, 2011)

(2) Date of business combination

April 13, 2011

(3) Legal form of business combination

Establishment of an intermediate holding company through a joint share transfer

(4) Name of the company after the combination

Kuraray Noritake Dental Holdings Co., Ltd. (hereinafter "Holdings")

(5) Percentage of voting rights acquired

The percentage of parent companies' voting rights in the Holdings is as follows.

Kuraray	66.7%
NORITAKE	33.3%

(6) Major reasons for the decision on acquiring the company

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

2. Acquisition costs of the acquired company and their breakdown

Acquisition value	¥2,250 million (US\$27,108 thousand)
Expenses directly required for acquisition	—
Total	¥2,250 million (US\$27,108 thousand)

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

(1) Transfer ratios by share class

0.83375 Holdings common stock was allotted per each (1.0) Kuraray Medical common stock, and 0.208125 Holdings common stock was allotted per each (1.0) Noritake Dental common stock.

(2) Calculation method for share transfer ratios

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

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

The number of shares exchanged	333 shares
Estimated value	¥2,250 million (US\$27,108 thousand)

4. Amount of goodwill recognized, generating factors and method and period for amortization of the goodwill

(1) Amount of goodwill ¥1,483 million (US\$17,878 thousand)

(2) Generation of factors of goodwill

The total net asset value of the acquired company as at the business combination was lower than the cost of acquisition, therefore the difference was recognized as goodwill.

(3) Method and period for amortization of goodwill

The goodwill will be amortized over 15 years using a straight-line method.

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

(1) Assets (¥ million)

Current assets	784 (US\$9,451 thousand)
Fixed assets	271 (US\$3,267 thousand)
Total assets	1,055 (US\$12,718 thousand)

(2) Liabilities (¥ million)

Current liabilities	276 (US\$3,326 thousand)
Long-term liabilities	13 (US\$162 thousand)
Total Liabilities	289 (US\$3,488 thousand)

23 Supplementary Schedule

Supplementary schedule of bonds payable

Issuer	Name of bond	Issuance date	Balance as of March 31, 2010 (Millions of yen)	Balance as of March 31, 2011 (Millions of yen)	Interest rate	Type	Date of maturity
Kuraray, Co., Ltd.	3rd unsecured bonds	January 31, 2005	10,000	10,000 (10,000)	0.99%	—	December 20, 2011
	Total	—	10,000	10,000 (10,000)	—	—	—

Issuer	Name of bond	Issuance date	Balance as of March 31, 2009 (Thousands of U.S. dollars)	Balance as of March 31, 2010 (Thousands of U.S. dollars)	Interest rate	Type	Date of maturity
Kuraray, Co., Ltd.	3rd unsecured bonds	January 31, 2005	120,481	120,481 (120,481)	0.99%	—	December 20, 2011
	Total	—	120,481	120,481 (120,481)	—	—	—

Notes: 1. The amount presented in parentheses in "Balances as of March 31, 2011" is the amount scheduled to be paid within one year.
2. Repayment of bond principals is scheduled as follows.

	Millions of yen	Thousands of U.S. dollars
Maturity within 1 year	10,000	120,481
Maturity after 1 year but within 2 years	—	—
Maturity after 2 years but within 3 years	—	—
Maturity after 3 years but within 4 years	—	—
Maturity after 4 years but within 5 years	—	—

Supplementary schedule of loans payable

Category	Balance as of March 31, 2010 (Millions of yen)	Balance as of March 31, 2011 (Millions of yen)	Average interest rate (%)	Due date
Short-term loans	7,513	9,424 (US\$113,547 thousand)	0.5	—
Commercial papers	6,000	—	—	—
Current portion of long-term loans due within one year	4,645	3,314 (US\$39,933 thousand)	1.7	—
Current portion of long-term lease due within one year (Note 2)	361	315 (US\$3,796 thousand)	—	—
Long-term loans (Excluding current portion) (Note 3)	46,502	43,035 (US\$518,494 thousand)	2.0	From June 2012 to July 2019
Lease liabilities (Excluding current portion) (Note 2, 3)	448	425 (US\$5,131 thousand)	—	From April 2012 to March 2020
Total	65,471	56,515 (US\$680,903 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 five years after the consolidated balance sheet date are as follows:

	Due after 1 year but within 2 years (Millions of yen)	Due after 2 years but within 3 years (Millions of Yen)	Due after 3 years but within 4 years (Millions of yen)	Due after 4 years but within 5 years (Millions of yen)
Long-term loans	1,235	23,900	5,900	—
Lease liabilities	200	116	72	28

	Due after 1 year but within 2 years (Thousands of U.S. dollars)	Due after 2 years but within 3 years (Thousands of U.S. dollars)	Due after 3 years but within 4 years (Thousands of U.S. dollars)	Due after 4 years but within 5 years (Thousands of U.S. dollars)
Long-term loans	14,880	287,951	71,084	—
Lease liabilities	2,418	1,400	876	343

Supplementary schedule of asset retirement obligations

The schedule of asset retirement obligations is omitted since the amount of asset retirement obligations is not more than one-hundredth of total liabilities and net assets as of March 31, 2011.

Other

Quarterly information in fiscal 2010

	First quarter From April 1 to June 30, 2010	Second quarter From July 1 to September 30, 2010	Third quarter From October 1 to December 31, 2010	Fourth quarter From January 1 to March 31, 2011
Net sales (Millions of yen)	87,715	93,060	89,651	92,763
Income (loss) before income taxes (Millions of yen)	9,708	12,708	13,499	9,979
Net income (loss) (Millions of yen)	5,699	8,213	8,489	6,339
Net income (loss) per share (Yen)	16.37	23.59	24.38	18.20

	First quarter From April 1 to June 30, 2010	Second quarter From July 1 to September 30, 2010	Third quarter From October 1 to December 31, 2010	Fourth quarter From January 1 to March 31, 2011
Net sales (Thousands of U.S. dollars)	1,056,807	1,121,213	1,080,144	1,117,631
Income (loss) before income taxes (Thousands of U.S. dollars)	116,970	153,110	162,649	120,229
Net income (loss) (Thousands of U.S. dollars)	68,667	98,960	102,286	76,380
Net income (loss) per share (U.S. dollars)	0.19	0.28	0.29	0.21

Report of Independent Auditors



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

We have audited the accompanying consolidated balance sheet of Kuraray Co., Ltd. ("the Company") and its subsidiaries as of March 31, 2011, and the related consolidated statements of income, comprehensive income, changes in net assets, cash flows and supplementary schedules for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. 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 plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its subsidiaries as of March 31, 2011, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

As described in Notes "2. Significant Changes in Accounting Policies Concerning the Preparation of Consolidated Financial Statements" to Consolidated Financial Statements, effective from the fiscal year ended March 31, 2011, the Company and its domestic subsidiaries have applied "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008).

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 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.

A handwritten signature in black ink that reads "PricewaterhouseCoopers Aarata". The signature is written in a cursive, flowing style.

July 29, 2011

Consolidated Companies

(As of July 1, 2011)

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

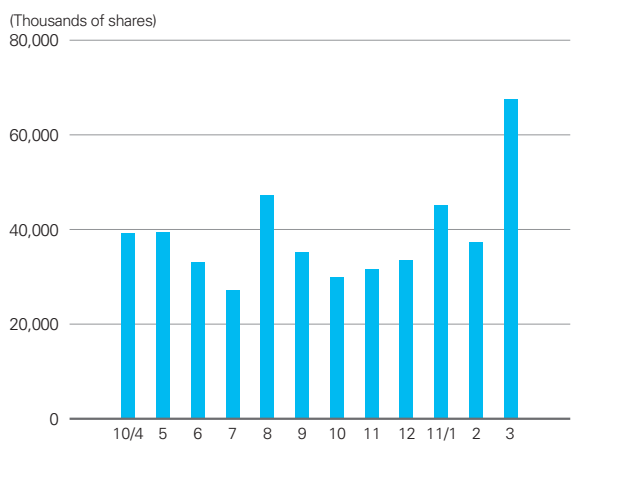
Investor Information

KURARAY CO., LTD.

Established:	June 24, 1926
Capital:	¥88,955 million
Shares Authorized:	1,000,000,000 shares
Issued:	382,863,603 shares
Number of Shareholders:	30,743
Head Offices:	Tokyo, Osaka

Share Price Movement

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



Shareholder Register Agent for Common Stock

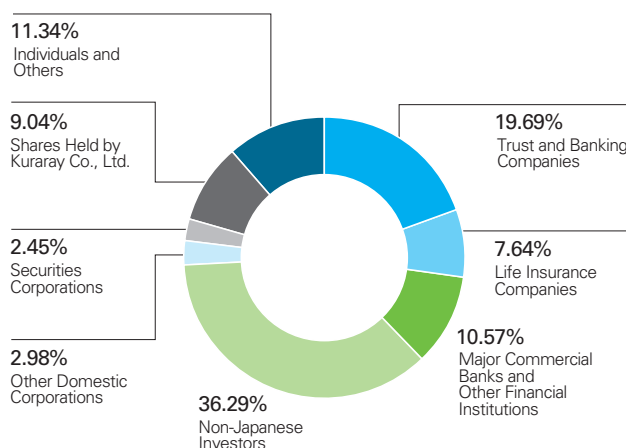
The Sumitomo Trust and Banking Co., Ltd.
Stock Transfer Agency Department
1-4-4, Marunouchi, Chiyoda-ku, Tokyo, Japan

Principal Shareholders

Name or Company Name	Number of Shares Held (thousands)	Percentage of Shares Held
Japan Trustee Services Bank, Ltd. -Trust Account-	23,602	6.16%
The Master Trust Bank of Japan, Ltd. -Trust Account-	20,571	5.37%
National Mutual Insurance Federation of Agricultural Cooperatives	13,695	3.57%
Nippon Life Insurance Company	13,061	3.41%
SSBT OD05 OMNIBUS ACCOUNT -TREATY CLIENTS-	6,927	1.80%
Meiji Yasuda Life Insurance Company	6,453	1.68%
STATE STREET BANK -WEST PENSION FUND CLIENTS- EXEMPT	5,792	1.51%
MELLON BANK TREATY CLIENTS OMNIBUS	5,397	1.40%
MELLON BANK, N.A. AS AGENT FOR ITS CLIENT MELLON OMNIBUS US PENSION	4,820	1.25%
The Nomura Trust and Banking Company, Limited	4,623	1.20%

Note: Although the Company owns 34,611,169 shares of treasury stock, it is excluded from the major shareholders listed above.

Breakdown of Issued Shares by Type of Shareholder



(As of March 31, 2011)

KURARAY CO., LTD.

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

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