kuraray

Annual Report 2014/12

For the fiscal period ended December 31, 2014

Advancing to a New Growth Stage

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

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

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.

CONTENTS

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.

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

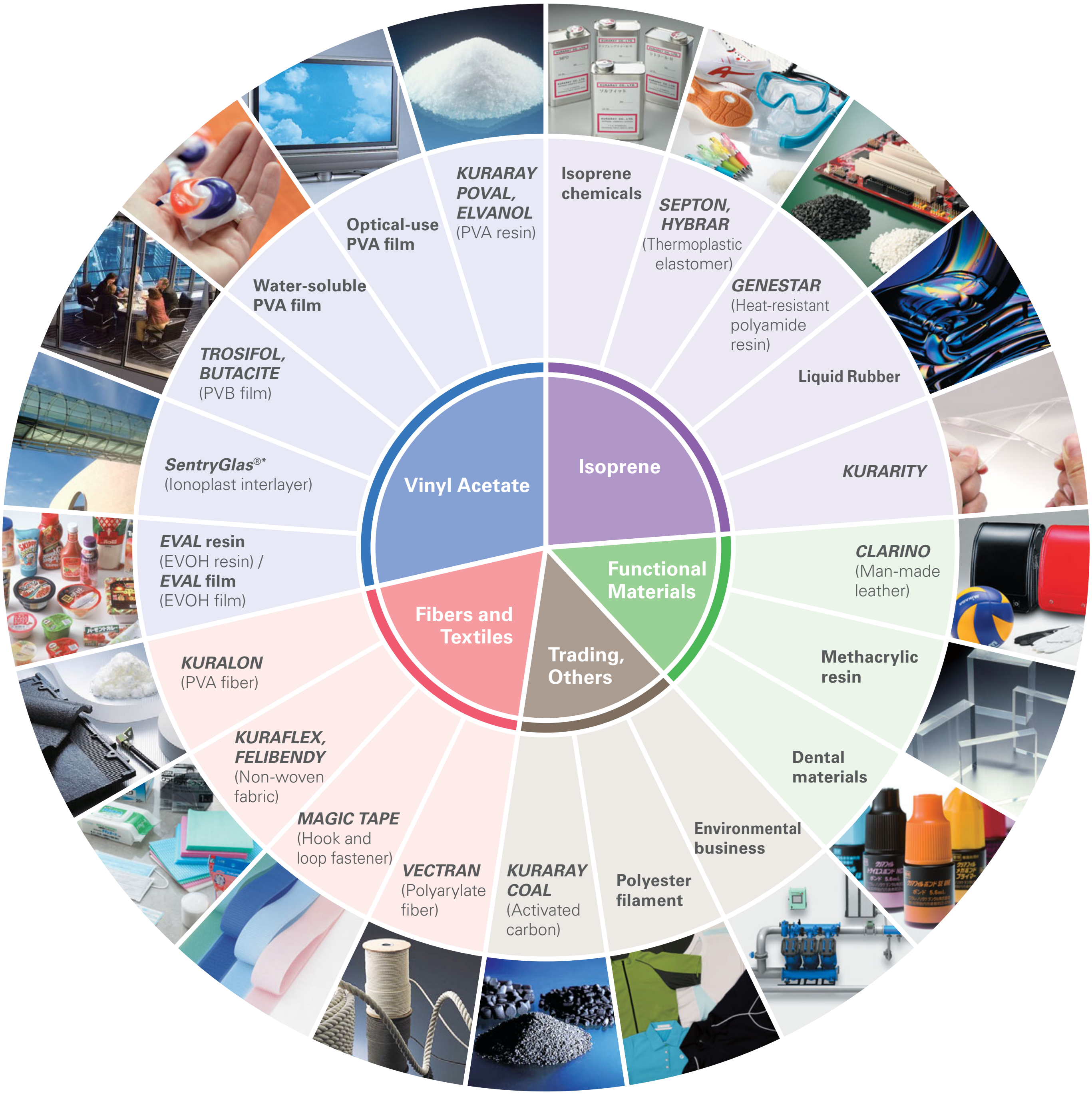
FORWARD-LOOKING STATEMENTS

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

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

Our Business Portfolio

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

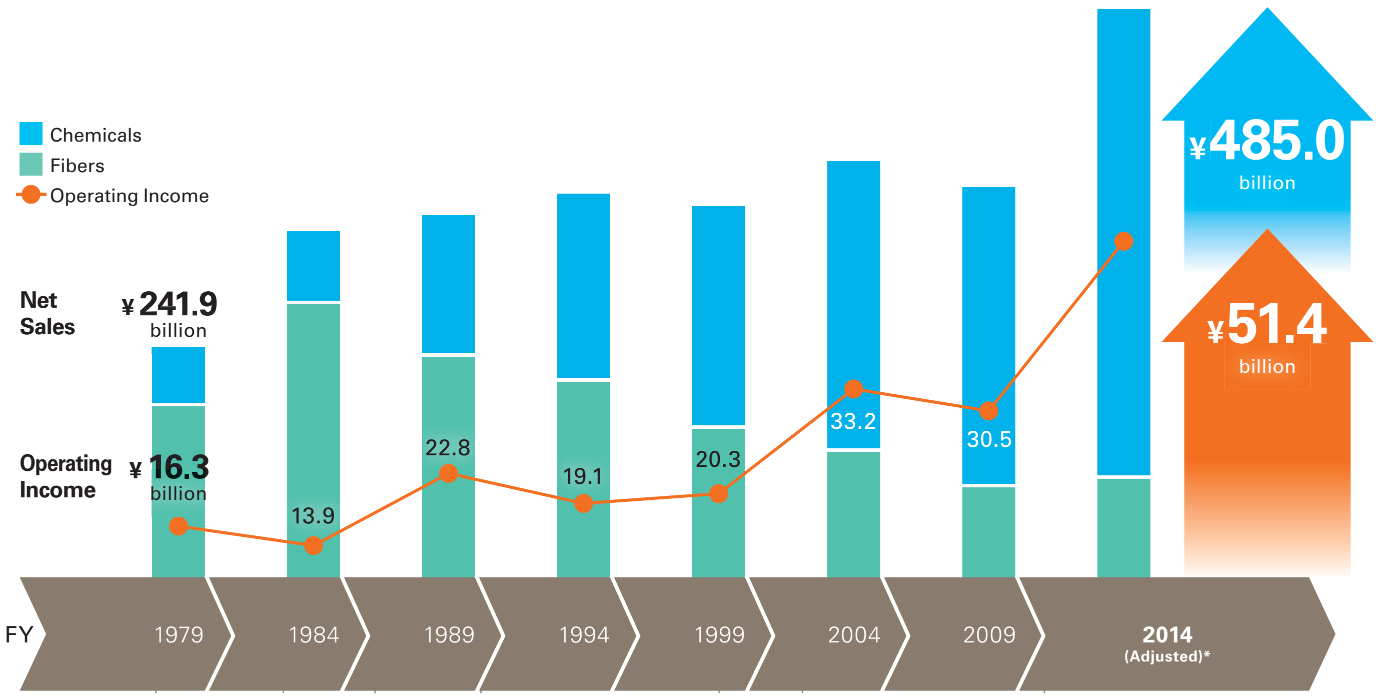


* *SentryGlas* ® is a trademark of E. I. du Pont de Nemours and Company or its affiliates for its brand of interlayers. It is used under exclusive license by Kuraray.

Our Progress

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

Trends in Net Sales and Operating Income



History of Commercialization of Kuraray's Proprietary Technologies

1978
Started production of **dental materials**

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

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

1990
Commercialized ***VECTRAN / SEPTON***

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

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

2011
Commercialized ***KURARITY***

Prior to 1978

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

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Our Market Share

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

Global

PVA resin
40%
(Excluding China)
No. 1 market share

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

EVAL
65%
No. 1 market share

CLARINO
25%
No. 1 market share

GENESTAR
100%
Only One of its kind

SEPTON
20%
No. 2 market share

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

Domestic

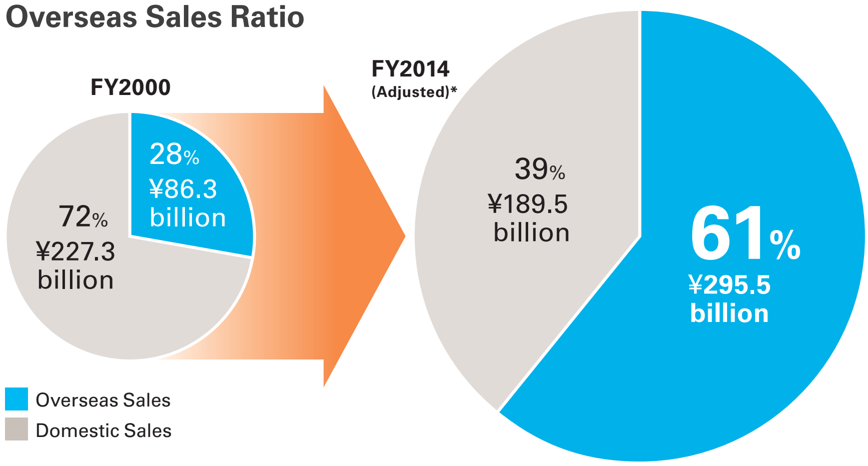
Dental materials
35%
No. 1 market share

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

Our Global Presence

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

Overseas Sales Ratio



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

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Kuraray's Global Network

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

Main Production Facilities, Sales Facilities and Laboratory Facilities outside Japan

(As of December 2014)

Consolidated Financial Highlights

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen						Millions of U.S. dollars (Note 3)	Millions of Euro (Note 4)
	FY2014 (Apr. - Dec. 2014) (Note 1)	FY2014 (Adjusted) (Jan. - Dec. 2014) (Note 2)	FY2013	FY2012	FY2011	FY2010	FY2014	FY2014
Net sales	¥411,408	¥484,969	¥413,485	¥369,431	¥368,975	¥363,191	$3,400	€2,798
Cost of sales	294,261	343,168	286,179	249,485	246,538	243,564	2,431	2,001
Selling, general and administrative expenses	76,848	66,687	77,760	70,748	67,703	66,531	635	522
Operating income	40,298	51,382	49,545	49,197	54,733	53,095	333	274
Net income	21,296	27,454	29,390	28,798	31,469	28,742	176	144
Capital expenditures	¥ 39,463	¥ 47,191	¥ 59,740	¥ 45,519	¥ 39,006	¥ 20,558	$ 326	€ 268
Depreciation and amortization	35,696	42,006	34,972	30,952	30,737	33,536	295	242
Gross cash flow	56,992	69,460	64,362	59,750	62,206	62,278	471	387
Total research and development expenses	14,174	18,066	17,103	16,431	16,175	15,772	117	96
Total assets	¥691,538	—	¥634,252	¥587,254	¥523,247	¥507,328	$5,715	€4,704
Total current assets	269,200	—	302,402	257,212	269,083	310,594	2,224	1,831
Total tangible fixed assets	262,388	—	222,219	181,274	152,877	145,238	2,168	1,784
Total current liabilities	109,936	—	89,145	111,449	81,684	86,214	908	747
Total noncurrent liabilities	99,775	—	92,647	74,279	75,248	74,288	824	678
Total net assets	481,826	—	452,459	401,307	366,314	346,825	3,982	3,277
Segment information (Note 6)								
Vinyl Acetate								
Net sales	¥219,041	¥237,615	¥179,261	¥155,163			$1,810	€1,490
Operating income	35,724	46,183	46,658	48,877			295	243
Isoprene								
Net sales	44,674	55,712	53,027	44,817			369	303
Operating income	4,874	6,405	5,471	3,870			40	33
Functional Materials								
Net sales	44,037	53,809	48,552	45,144			363	299
Operating income	1,523	1,952	1,500	1,929			12	10
Fibers and Textiles								
Net sales	35,385	47,651	46,932	46,216			292	240
Operating income	2,250	2,871	2,633	1,772			18	15
Trading								
Net sales	91,127	11,926	108,991	108,760			753	619
Operating income	2,791	3,879	3,582	3,358			23	18
Other Business								
Net sales	51,591	68,708	67,334	64,442			426	350
Operating income	1,993	2,600	2,493	4,001			16	13

Amounts per share:	Yen						U.S. dollars (Note 3)	Euro (Note 4)
Net income:								
Basic net income per share	¥ 60.77	¥ 78.41	¥ 83.93	¥ 82.62	¥ 90.35	¥ 82.55	$ 0.50	€0.41
Diluted net income per share	60.65	78.25	83.75	82.52	90.21	82.40	0.50	0.41
Cash dividends applicable to period	27.0	—	36.0	36.0	33.00	27.00	0.22	0.18
Shareholders' equity	1,354.21	—	1,272.68	1,132.07	1,033.48	985.22	11.19	9.21
Financial ratios:								
Cost of sales ratio (%)	71.5	70.7	69.2	67.5	66.8	67.1		
Equity ratio (%)	68.7	68.7	70.3	67.2	68.8	67.6		
Return on equity (ROE) (%)	4.6	6.0	7.0	7.6	9.0	8.5		
Return on assets (ROA) (%) (Note 7)	6.0	7.8	8.1	8.8	10.6	10.5		
Payout ratio (%)	44.4	—	42.9	43.6	36.5	32.7		
Number of employees	8,316	—	7,550	7,332	6,776	6,544		

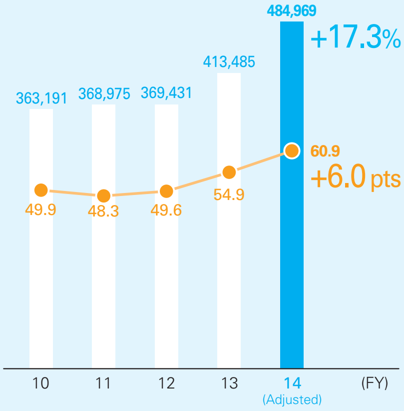
Notes:
1. The Company changed its fiscal year-end from March 31 to December 31. Accordingly, the consolidated reporting period for fiscal 2014, as a transitional period, is the nine-month period from April 1, 2014 to December 31, 2014 for the Company and subsidiaries that had a fiscal year-end of March 31. For subsidiaries with a fiscal year-end of December 31, the consolidated reporting period is the twelve-month period from January 1, 2014 to December 31, 2014 as usual.
2. The figures for fiscal 2014 (adjusted) reflect the 12 months from January to December for the Company and its consolidated domestic and overseas subsidiaries. These figures are unaudited and for comparison purposes only.
3. The United States dollar amounts represent the translation of Japanese yen at the rate of ¥121 = $1.
4. Euro amounts represent the translation of Japanese yen at the rate of ¥147 = €1.
5. Certain reclassifications of previously reported amounts have been made to conform with current classifications.
6. From fiscal 2013 (the year ended March 31, 2014), business segments have been reclassified from "Resins," "Chemicals," "Fibers and Textiles," "Trading" and "Others" to the six segments "Vinyl Acetate," "Isoprene," "Functional Materials," "Fibers and Textiles," "Trading" and "Others." Figures for FY2012 have been restated for comparison.
7. Return on assets = Operating income / Average total assets x 100 (%)

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

Net Sales & Overseas Sales Ratio

(Millions of yen, %)

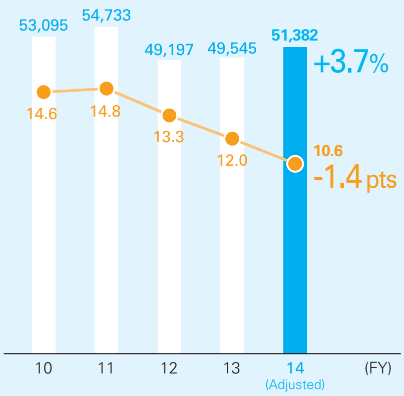
Net Sales
Overseas Sales Ratio



Operating Income & Operating Income Margin

(Millions of yen, %)

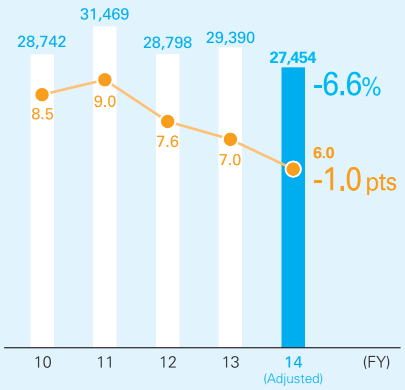
Operating Income
Operating Income Margin



Net Income & ROE

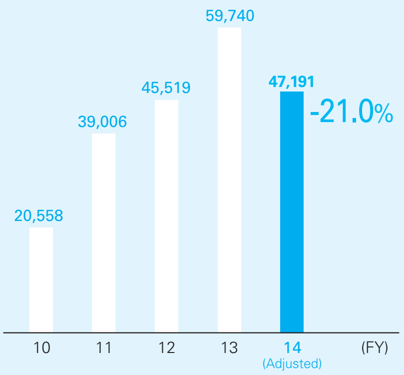
(Millions of yen, %)

Net Income
ROE



Capital Expenditures

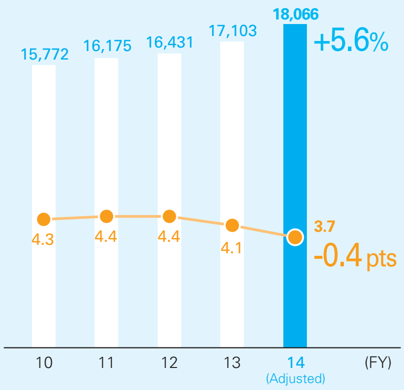
(Millions of yen)



R&D Expenses & R&D Expenses Ratio

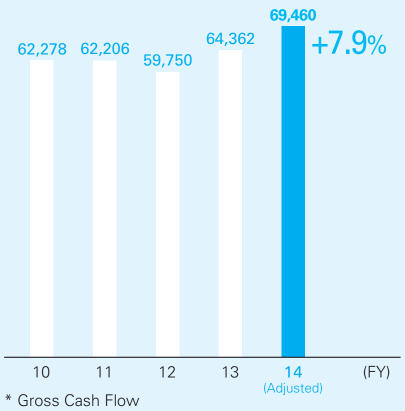
(Millions of yen, %)

R&D Expenses
R&D Expenses Ratio



Gross Cash Flow*

(Millions of yen)

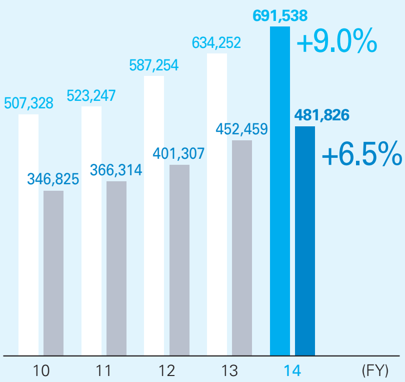


* Gross Cash Flow
= Net income + Depreciation and amortization

Total Assets & Total Net Assets

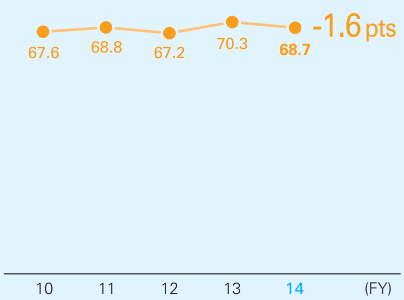
(Millions of yen)

Total Assets
Total Net Assets



Equity Ratio

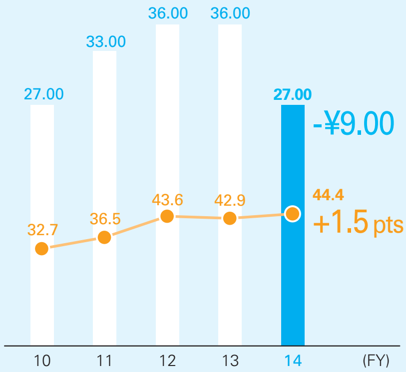
(%)



Cash Dividends per Share & Payout Ratio

(Yen, %)

Cash Dividends per Share
Payout Ratio



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

To Our Shareholders and Investors

I would like to begin by thanking all our shareholders and investors.

I am Masaaki Ito, and I assumed the position of Representative Director and President on January 1, 2015.

As a result of a change in Kuraray's fiscal year-end, the current fiscal year started in January 2015. This year is also the start of GS-STEP, our new medium-term management plan. I will be giving my all for the growth of the Kuraray Group, and I ask for the continuing support of our shareholders and investors.

In fiscal 2014, the nine-month period from April 1, 2014 to December 31, 2014, the feared slowdown in the Japanese economy following the increase in the consumption tax rate became apparent. Globally, while favorable conditions continued in the U.S. economy, recovery stalled in Europe. In addition, the growth of China's economy slowed, and conditions were patchy in other emerging countries. The drop in the price of crude oil at the end of the period had little effect on Kuraray's results for fiscal 2014.

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

Due to the change in Kuraray's fiscal year-end, consolidated results for fiscal 2014 cover the nine-month period from April 1, 2014 to December 31, 2014 for Kuraray and subsidiaries that had a fiscal year-end of March 31, and the twelve-month period from January 1, 2014 to December 31, 2014 for subsidiaries with a fiscal year-end of December 31. Comparisons with the previous fiscal year use figures that have been adjusted to the same period as fiscal 2014.

The Kuraray Group's consolidated net sales for fiscal 2014 increased ¥71,483 million, or 21.0%, compared with the previous fiscal year to ¥411,408 million. Operating income increased ¥2,048 million, or 5.4%, to ¥40,298 million, ordinary income increased ¥1,721 million, or 4.5%, to ¥40,084 million, and net income decreased ¥1,829 million, or 7.9%, to ¥21,296 million.

In fiscal 2015, there are concerns about a downturn in personal consumption in Japan due to rising import prices as a result of the depreciation trend of the yen. Overseas, despite expectations for continuing favorable conditions in the U.S. economy, forecasts call for a delay in recovery from the downturn in Europe, slowing growth in China and continuing patchy conditions in other emerging countries. In addition, the drop in the price of crude oil from the end of fiscal 2014 could have an impact on the global economy, in addition to increasing geopolitical risk and other effects, making the outlook for the global economy unclear, but over the short term it is expected to exert a positive effect on Kuraray's results.

Kuraray started its new medium-term management plan GS-STEP (fiscal 2015 to fiscal 2017) in fiscal 2015. Under GS-STEP, Kuraray will achieve high profit and steadily build a business foundation for further growth. Measures include raising Kuraray's competitive advantages by creating a more solid foundation for its core business, creating new businesses using highly distinctive, original Kuraray technologies, establishing improved production processes and other new processes to further its lead in product quality and cost, and expanding into new business domains by making more effective use of external resources.

The distribution of profits to shareholders is one of Kuraray's top management issues. During GS-III, the previous medium-term management plan, Kuraray targeted a dividend payout ratio of 35% or more relative to consolidated net income, with a basic policy of shareholder returns by means of increases in dividends through continuous improvement in business results.

Pursuant to this dividend policy, Kuraray set a year-end dividend of ¥9 per share for fiscal 2014, as per its original forecast. The total of this year-end dividend and the interim dividend is ¥27 per share, resulting in a dividend payout ratio of 44.4%.

During GS-STEP, the medium-term management plan for fiscal 2015 through fiscal 2017, Kuraray has set a ratio of total return of 35% or more relative to consolidated net income and annual dividends per share of ¥36 or higher, with a basic policy of increasing distribution of profits through continuous improvement in business results. Based on this policy, Kuraray plans annual dividends of ¥36 per share (payout ratio of 35.1%) for fiscal 2015, consisting of an interim dividend of ¥18 per share and a year-end dividend of ¥18 per share, assuming consolidated net income of ¥36.0 billion.

Aside from this distribution of profits, during fiscal 2015 Kuraray will retire a minimum of 20 million shares of the 32 million shares of treasury stock it held as of December 31, 2014.

The Kuraray Group requests your continued understanding and support.

Masaaki Ito

Representative Director and President

At the start of the new Medium-Term Management Plan GS-STEP

Question 1

How do you feel now that you have become the new president of Kuraray?

In October 2014, I was told I would be taking over from Fumio Ito as president. Until the end of the year, it seemed a bit unreal, to be honest. However, as I prayed for a safe year for the Company during my New Year's Day visit to a shrine, I was sobered by feelings of deep responsibility. At the same time, I was instilled with a strong determination to do whatever I can for the further expansion of the Kuraray Group. I believe my duty is to take the baton I have received from our former president and pass it on in a better form to whoever follows me. I intend to work wholeheartedly for the Kuraray Group's further growth.

As for the economic outlook, there are concerns about a downturn in personal consumption in Japan due to rising import prices as a result of the depreciation trend of the yen. Overseas, despite expectations for continuing favorable conditions in the U.S. economy, forecasts call for a delay in recovery from the downturn in Europe, slowing growth in China and continuing patchy conditions in emerging countries. In addition, the drop in the price of crude oil from the end of fiscal 2014 could have an impact on the global economy, in addition to increasing geopolitical risk and other effects, clouding the outlook for the global economy, but over the short term it is expected to exert a positive effect on Kuraray's results.

At Kuraray, *CLARINO* man-made leather at last became profitable in fiscal 2014 and, with the exception of new businesses, we now have no unprofitable businesses. There are uncertainties about the global economic outlook, but Kuraray's operating environment is not bad, making this a good time to take over the position of president.

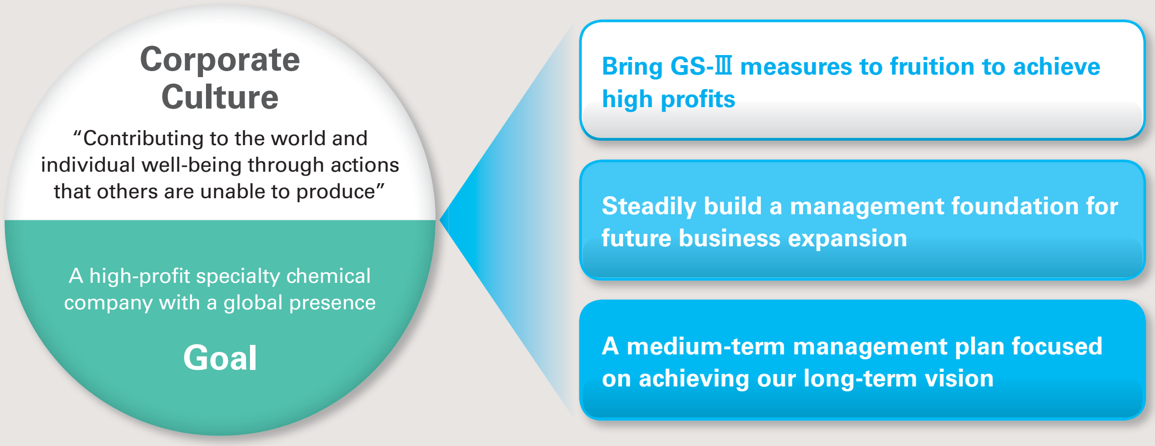
Question 2

In what direction does the Kuraray Group intend to proceed under GS-STEP?

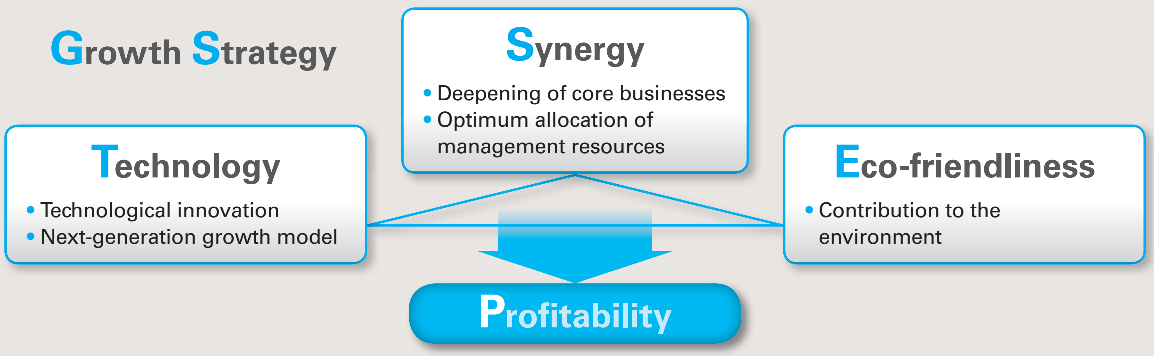
GS-STEP is a plan that was formulated based on a strong ambition to become “a high-profit specialty chemical company with a global presence.”

The measures of GS-III, our previous medium-term management plan, included establishing a four-point global framework for our vinyl acetate business through initiatives such as acquiring the glass laminating solutions/vinyls business (the “GLS business”) of E. I. du Pont de Nemours and Company (“DuPont”) and increasing production capacity at overseas bases; starting feasibility studies for construction of new overseas plants for the global expansion of the isoprene business; integrating Noritake Dental Supply Co., Limited into our dental materials business; and creating new businesses. I believe we will able to achieve high profitability if we ensure that we bring these measures to fruition. Steadily building a management foundation for future business expansion will also be essential. By steadily executing these policies, we will be able to achieve our goal of becoming “a high-profit specialty chemical company with a global presence.”

Basic Policies of GS-STEP



Main Management Strategies of GS-STEP



Deepening of core businesses	• Vinyl acetate: Produce results from effects of M&A and other investment • Isoprene: Lay the groundwork for further growth
Technological innovation	• Establish new products / applications / processes • Create new businesses
Next-generation growth model	• Secure new business domains through alliances / M&A • Establish an innovative business model
Optimum allocation of management resources	• Allocate management resources optimally around the world • Proactively use overseas personnel
Contribution to the environment	• Expand range of products that contribute to the global environment • Provide products using processes that reduce environmental load

Achieve High Profits

Kuraray aims to achieve high profit by maintaining its unique corporate culture of "contributing to the world and individual well-being through actions that others are unable to produce," bringing the various measures implemented during its previous medium-term management plan GS-III to fruition and steadily building a management foundation for further business expansion. We plan to achieve the following objectives under GS-STEP.

Achieve High Profits

Enhance competitiveness

- Increase high-value-added products
- Develop new brands and optimize brand mix
- Improve product quality and drastically reduce costs
- Supply chain management

	FY2014 (Adjusted) (January 2014 to December 2014)	Change	FY2017 Target
Increase the operating profit margin	10.6%	+3.2%	13.8%
Increase net income per share	¥78	+¥85	¥163

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

Question 3

GS-STEP contains five main management strategies. Please explain them in detail.

For **deepening of core businesses,** we will increase our competitive advantages by producing results from the effects of investments including business acquisitions and production capacity expansion for a more solid foundation in businesses where Kuraray products are number one in market share or the only ones of their kind. In addition, we will lay the groundwork for further growth.

For **technological innovation,** we will create new business by using highly distinctive, original Kuraray technologies and accelerating their rollout to new domains and technologies. In addition, we will establish new and improved processes to achieve overwhelming superiority in product quality and cost.

For our **next-generation growth model,** we will work to expand into new business domains by making more effective use of external resources, including M&A and alliances. In addition, for corporate activities including research and development, technical services, manufacturing and sales, and indirect operations, we will take on the challenge of establishing an innovative business model that is unconstrained by convention.

For **optimum allocation of management resources,** we will raise the quality of global management through the optimal allocation and proactive use of management resources such as the expanded bases and human resources resulting from the integration of the GLS business and other initiatives.

For **contribution to the environment,** we will expand provision of products that contribute to the global environment and use production processes that reduce environmental load.

Question 4

What are the numerical targets of GS-STEP?

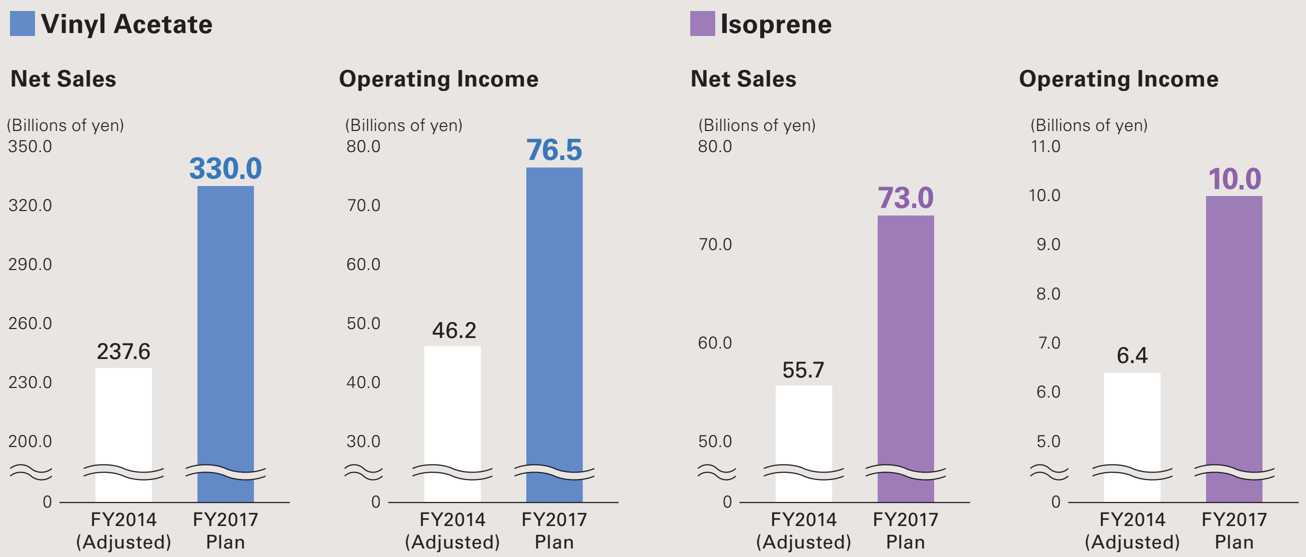
The targets for fiscal 2017, which is the final year of GS-STEP, are net sales of ¥650.0 billion, operating income of ¥90.0 billion, an operating income margin of 13.8% and net income per share of ¥163. We have adopted a target for operating income margin because it is a suitable metric for representing a specialty chemical company like Kuraray as well as for managing operations in each of our businesses. In addition, we have set a target for net income per share because it is an important metric for our shareholders. We aim to increase our results for these metrics by achieving high profit.

Question 5

What are the details of the business strategies for each of Kuraray's business segments?

Vinyl Acetate

In the **Vinyl Acetate segment,** we must focus on steadily generating synergy with the GLS business we acquired from DuPont in June 2014. We also made preparations for expansion of the vinyl acetate business aside from the GLS business with proactive capital expenditures during GS-III, the previous medium-term management plan. For example, we expanded overseas production capacity for both PVA resin and *EVAL* gas barrier resin. We are particularly looking forward to the imminent start of operations of our new PVA plant in North America. We also expanded production capacity for PVB film in Europe. For PVA film, we expanded production capacity of optical-use PVA film at the Saijo Plant in Japan and water-soluble PVA film at MonoSol, LLC, which we acquired in 2012. By obtaining results from these measures during GS-STEP, in addition to generating synergy from the integration of the GLS business, we will establish a firmer position as the world's number-one supplier.



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

Isoprene

The **Isoprene segment** has a high proportion of products that are the only ones of their kind. We intend to expand the scale of business globally while working to raise profitability by shifting more fully to high-value-added products. Specific measures will include expanding the market for *GENESTAR* by developing new grades and increasing the adoption of new liquid farnesene rubber. Also, as a major theme, we will give serious consideration to the idea of overseas plants for fine chemicals and *GENESTAR* for the next stage of growth.

Functional Materials

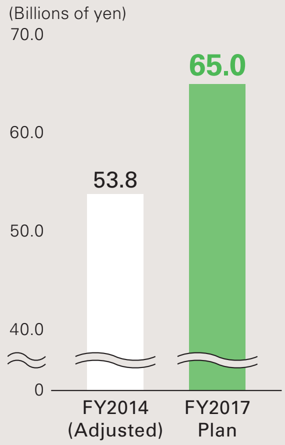
As competition intensifies in the **Functional Materials segment,** we will work to establish a business foundation that is less affected by market conditions by thoroughly reducing costs, expanding sales of highly functional products, and developing new fields and new applications using original materials and technologies. Specifically, we will develop new fields and applications for methacrylic resin using original technologies and materials such as *KURARITY*. In dental materials, we will maximize the effects of the integration of Noritake Dental Supply Co., Ltd. to promote substitutes for metals by enhancing the lineup of organic and inorganic materials. For *CLARINO,* we will establish a business foundation for *TIRRENINA* man-made leather, which is produced using an environmentally friendly solvent-free manufacturing process.

Fibers and Textiles

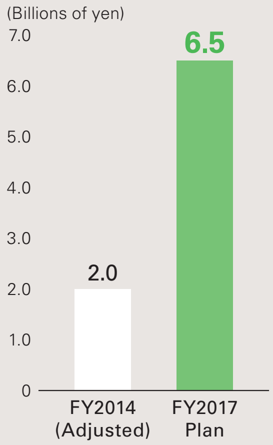
In the **Fibers and Textiles segment,** we intend to improve profitability by pioneering new applications that utilize Kuraray's strengths and by reducing costs through the development of innovative production processes. Specifically, in anticipation of restrictions on the use of asbestos in emerging countries in the near future, we plan to implement a compact and innovative new production process to be able to manufacture and sell *KURALON* as an asbestos substitute in those countries.

Function Materials

Net Sales

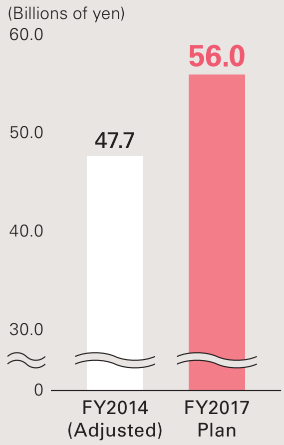


Operating Income

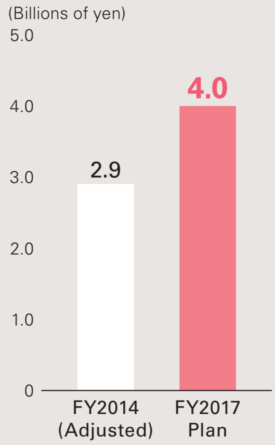


Fibers and Textiles

Net Sales



Operating Income

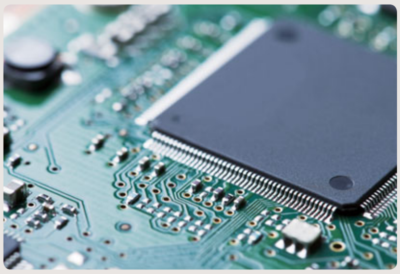


New Business

For **new businesses,** we will work to accelerate new business development through methods including strategic partnerships. Specifically, we aim to make *VECSTAR* liquid crystalline polymer film the de facto standard through business development in line with the market trend toward thinner mobile devices and the technological trend toward increased wireless speed. For *BIOCARBOTRON* anode material for lithium-ion batteries, we will accelerate development for electric vehicle applications. In the environmental business, we will promote expansion of the wastewater treatment business and sales of gel and equipment for processing food residue (raw garbage). In addition, we will deepen research and development by allocating resources to basic technologies.

VECSTAR

- Roll out business in line with market / technological trends
- Make liquid crystalline polymer film the de facto standard
- Increase production capacity by constructing new plant



BIOCARBOTRON
anode material for lithium-ion batteries

- Accelerate development for electric vehicle applications
- Promote market development using a 1,000 ton/year plant
- Add facilities to deal with increasing adoption

Environmental business

- Expand wastewater treatment business in industrial, water supply and medical fields by developing high-performance membrane modules
- Promote sales of gel and equipment for processing food residue (raw garbage)

Question 6

What are your thoughts on mergers and acquisitions?

For M&A, we should think like a batter and make sure we do not miss a good pitch. In other words, if we find a good potential acquisition and a good partner at a good time, we should act. GS-STEP does not include a numerical target for M&A. However, for the further growth of the Kuraray Group, we should take half-steps forward by expanding in new business domains while maintaining a firm footing in our core vinyl acetate and isoprene businesses.

Question 7

What are Kuraray's plans for capital expenditures during GS-STEP?

The plan calls for ¥200 billion in capital expenditures over three years. About 60%, or ¥120 billion, will be invested in new construction or expansion of facilities for future growth. Investment will center on core products such as PVA film, *EVAL* gas barrier resin, PVB film and *SEPTON* thermoplastic elastomer, but we also plan to invest in new businesses including *VECSTAR* liquid crystalline polymer film and *BIOCARBOTRON* anode material for lithium-ion batteries.

Question 8

What about returns to shareholders during GS-STEP?

Kuraray emphasizes both returns to shareholders and investments for future growth, and views them as important management issues. We want to repay our shareholders by appropriately distributing returns on profit and by raising corporate value through continuous growth.

During GS-STEP, I promise a total return ratio of 35% or more and annual dividends per share of ¥36 or higher, with a basic policy of increasing dividends through ongoing improvement in results.

Cash Flow

Over the three years of its new medium-term management plan, Kuraray expects to secure ¥220 billion in cash flow by achieving high profit. We have planned ¥200 billion in capital expenditures during the three-year period, with about 60% scheduled to be allocated to new construction and expansion. In addition, we view shareholder returns as a priority management issue, and have set a basic policy of steady, continuous dividends in line with the growth of our business performance.

Capital expenditures	• Decision basis: ¥200 billion planned over three years (incl. about 60% for new construction / expansion) • Payment basis: ¥170 billion scheduled over three years
Shareholder returns	• Total payout ratio: 35% or higher (FY2015-FY2017) • Dividends: ¥36 per share or higher • Retirement of treasury stock: 20 million shares

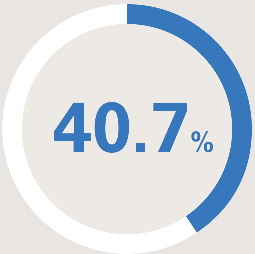
Question 9

In closing, what are your thoughts on the kind of company you want the Kuraray Group to become?

I will aim for growth in diverse businesses, while maintaining a firm footing in the vinyl acetate business. With the integration of the GLS business, vinyl acetate became the primary core business, but it is not the only one. I intend to develop the isoprene business as the second pillar of our operations. In the fibers and textiles business, the global spread of asbestos restrictions should present a major opportunity for *KURALON*. In addition to creating new businesses with new technologies and products, and expanding into new domains, we can achieve new growth with our existing products by taking advantage of market changes and incorporating technological improvements. I believe the possibilities are limitless.

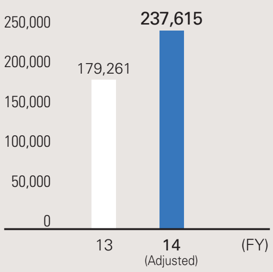
Vinyl Acetate

Share of Net Sales[1]

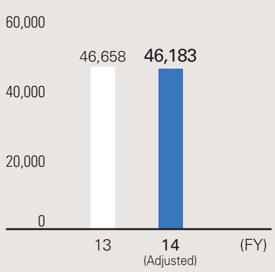


The Vinyl Acetate segment domestically produces PVA resin, optical-use PVA film and *EVAL* gas barrier resin. The segment also produces and sells water-soluble PVA film, *SentryGlas®* and *EVAL* in the United States, PVA resin, PVB resin and film, and *EVAL* in Europe and PVA resin in Asia.

Net Sales[2] (Millions of yen)



Operating Income[2] (Millions of yen)



Main Products

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

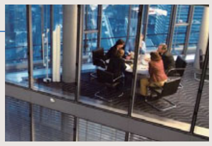
Paper / fiber processing agents, adhesives and others

Optical-use PVA film
Global Market Share: 80%

LCD televisions, mobile phone screens and others

Water-soluble PVA film

Water-soluble delivery system and others



***TROSIFOL*, *BUTACITE* (PVB film)**

Interlayers for laminated safety glass and photovoltaic module encapsulation

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

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

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

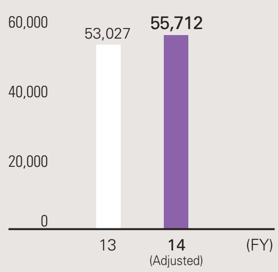
Food packaging, automobile tanks / vacuum insulation panels for refrigerators and others

Isoprene

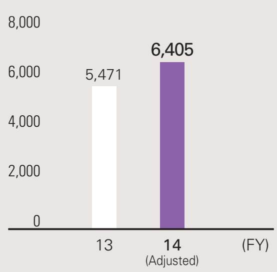
Share of Net Sales[1]

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

Net Sales[2] (Millions of yen)



Operating Income[2] (Millions of yen)



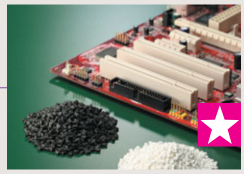
Main Products

Isoprene chemicals

Pharmaceutical and agrichemical intermediates, ingredients for fragrances, cosmetics

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

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



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

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

Liquid Rubber

Additive agent for automobile tires and others

KURARITY

Adhesives, molding materials and others

Trading, Others

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

Main Products

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

Water purification facilities, gas separators and capacitor materials

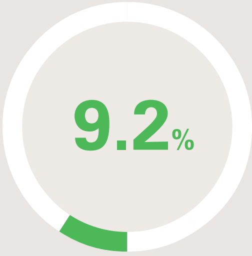
Notes: 1. Figures for share of net sales are for fiscal 2014 (adjusted) (see note 2).
2. Figures for fiscal 2013 are for the twelve-month period from April 2013 to March 2014. Figures for fiscal 2014 (adjusted) reflect the 12 months from January to December 2014 for the Company and its consolidated domestic and overseas subsidiaries. Adjusted figures are unaudited and for comparison purposes only.

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

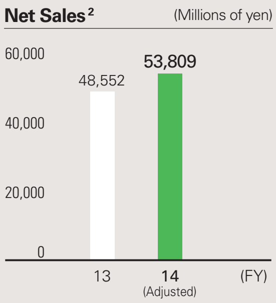
Only One Product is the only one of its kind in the world

Functional Materials

Share of Net Sales[1]



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



Main Products

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

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

Methacrylic resin

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

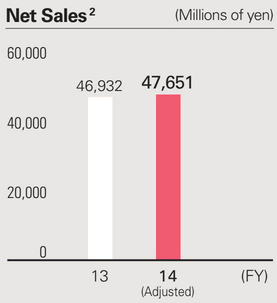
Dental materials

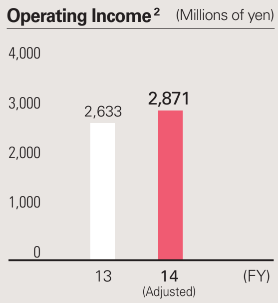
Materials for treating cavities to restore teeth to a near-natural state

Fibers and Textiles

Share of Net Sales[1]

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





Main Products

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

Reinforcing material for cement and concrete and others

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

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

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

Clothing, sporting goods, industrial materials and others

***VECTRAN* (Polyarylate fiber)**

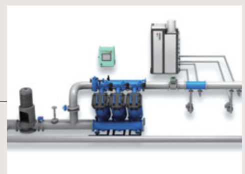
Rope, fishing nets and other industrial products

Polyester filament

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

Environmental business

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



Results for Fiscal 2014

(For year-on-year comparisons, results for fiscal 2014 and fiscal 2013 (adjusted) described here are for the nine months ended December 31, 2014 and 2013, respectively, for Kuraray Co., Ltd. and its consolidated subsidiaries in Japan and the twelve months ended December 31, 2014 and 2013, respectively, for its consolidated subsidiaries overseas.)

Vinyl Acetate

Sales volume of optical-use PVA film increased due to growth in the number of LCD panels sold and the trend toward larger panels. In addition, new production facilities came on line at the Saijo Plant in April. Demand for PVA resin was stagnant in Europe and Asia, and PVB film was affected by the ongoing slowdown in the construction materials market in Europe. On the other hand, sales of water-soluble PVA film grew favorably on the back of brisk demand. In response, Kuraray decided to build a new plant in the United States, with start-up scheduled for January 2016.

Sales of *EVAL* ethylene vinyl alcohol copolymer (EVOH resin) expanded favorably, particularly in the United States and Asia.

In the glass laminating solutions/vinyls business (the "GLS business"), the integration of both manufacturing and marketing was completed without problems, but the business was unprofitable due to factors including amortization expenses for goodwill and others.

As a result, segment sales grew by 36.3% year on year to ¥219,041 million, while segment income fell by 1.4% year on year to ¥35,724 million.

Isoprene

In isoprene chemicals, sales of fine chemicals were favorable and sales of *SEPTON* thermoplastic elastomer were firm. Demand for liquid rubber rebounded. Sales of *GENESTAR* heat-resistant polyamide resin for LED reflector, connector and automotive applications were favorable.

As a result, segment sales grew by 6.4% year on year to ¥44,674 million, and segment income increased by 23.7% year on year to ¥4,874 million.

Functional Materials

Methacrylic resin struggled in the first half of the fiscal year due to sluggish market conditions, but sales were steady in the second half as demand rebounded. In the medical business, sales of dental materials were favorable. *CLARINO* man-made leather became profitable, showing the effect of Kuraray's structural improvements such as the transfer of the conventional production process to China.

As a result, segment sales grew by 13.6% year on year to ¥44,037 million, and segment income increased by 42.3% year on year to ¥1,523 million.

Fibers and Textiles

Sales of *KURALON* were brisk for use in automotive brake hose applications and as an asbestos substitute in fiber reinforced cement (FRC).

As a result, segment sales grew by 2.1% year on year to ¥35,385 million, and segment income increased by 5.8% year on year to ¥2,250 million.

Trading, Others

Trading

Sales were favorable in fiber-related businesses, especially for polyester, and in resin and chemical-related businesses. In addition, Kuraray expanded its overseas network.

As a result, segment sales increased by 12.7% year on year to ¥91,127 million, and segment income increased by 11.9% to ¥2,791 million.

Other Business

Other businesses were firm overall. As a result, segment sales increased by 2.7% year on year to ¥51,591 million, and segment income increased by 15.1% to ¥1,993 million.

Performance Forecast for Fiscal 2015

Regarding the operating environment in fiscal 2015, there are concerns about a downturn in personal consumption due to rising import prices as a result of the depreciation trend of the yen. Overseas, despite expectations for continuing favorable conditions in the U.S. economy, forecasts call for a delay in recovery in Europe, slowing growth in China and patchy conditions in other emerging countries. In addition, the drop in the price of crude oil from the end of fiscal 2014 could have an impact on the global economy, in addition to increasing geopolitical risk and other effects, clouding the outlook for the global economy, but over the short term it is expected to exert a positive effect on Kuraray's results.

In fiscal 2015, Kuraray has started its new medium-term management plan GS-STEP (fiscal 2015 to fiscal 2017). Under GS-STEP, Kuraray will achieve high profit and steadily build a business foundation for further growth. Measures include raising Kuraray's competitive advantages by creating a more solid foundation for its core business, creating new businesses using highly distinctive, original technologies, establishing improved production processes and new processes to further its lead in product quality and cost, and expanding into new business domains by making more effective use of external resources.

Based on these circumstances, the forecast of operating results for fiscal 2015 is as shown below.

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

	Fiscal 2014 (January 1, 2014 to December 31, 2014) (Adjusted)	Fiscal 2015 (January 1, 2015 to December 31, 2015) (Forecast)	Change
Net Sales	**485.0**	540.0	+11.3%
Operating Income	**51.4**	63.0	+22.6%
Ordinary Income	**51.0**	62.0	+21.7%
Net Income	**27.5**	36.0	+31.1%

Note: Figures for fiscal 2014 (adjusted) present results of Kuraray and its consolidated subsidiaries that had a fiscal year-end of March 31 adjusted for the twelve-month period from January 1, 2014 to December 31, 2014. Adjusted figures are unaudited and for comparison purposes only.

For fiscal 2015, we assume average exchange rates of ¥120 to the U.S. dollar and ¥130 to the euro, as well as a domestic naphtha price of ¥52,000 per kiloliter.

(Reference) Forecast of Results by Segment for Fiscal 2015

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

	Net Sales		Operating Income	
	Fiscal 2014 (January 1, 2014 to December 31, 2014) (Adjusted)	Fiscal 2015 (January 1, 2015 to December 31, 2015) (Forecast)	Fiscal 2014 (January 1, 2014 to December 31, 2014) (Adjusted)	Fiscal 2015 (January 1, 2015 to December 31, 2015) (Forecast)
Vinyl Acetate	**237.6**	287.0	**46.2**	55.0
Isoprene	**55.7**	60.5	**6.4**	8.5
Functional Materials	**53.8**	57.0	**2.0**	4.0
Fibers and Textiles	**47.7**	48.0	**2.9**	3.5
Trading	**119.2**	120.0	**3.8**	4.0
Others	**68.7**	75.0	**2.6**	3.0
Corporate and eliminations	**(97.8)**	(107.5)	**(12.5)**	(15.0)
Total	**485.0**	540.0	**51.4**	63.0

Note: Figures for fiscal 2014 (adjusted) present results of Kuraray and its consolidated subsidiaries that had a fiscal year-end of March 31 adjusted for the twelve-month period from January 1, 2014 to December 31, 2014. Adjusted figures are unaudited and for comparison purposes only.

Corporate Governance

Basic Philosophy on Corporate Governance

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

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

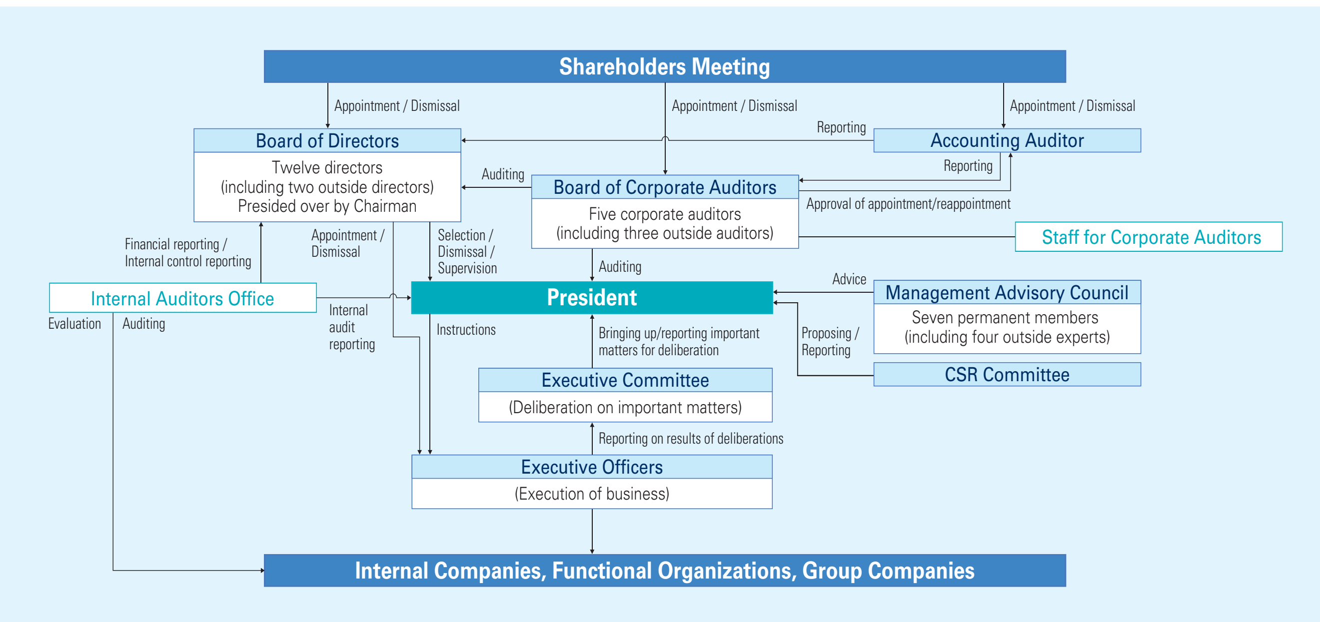
Corporate Governance Systems

1. Board of Directors and Executive Organization

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

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

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



2. Board of Corporate Auditors

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

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

3. Management Advisory Council

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

4. Status of Accounting Auditor

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

Internal Control

Basic Philosophy on Internal Control

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

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

Board of Directors, Corporate Auditors and Executive Officers

(As of March 27, 2015)

Board of Directors

Representative Director and Chairman

Fumio Ito

April	1971	Entered Kuraray Co., Ltd.
June	2003	Executive Officer
June	2004	Senior Executive Officer
June	2006	Managing Director
April	2008	Representative Director and President
January	2015	Representative Director and Chairman (Current position)

Representative Director and President

Masaaki Ito

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

Representative Director and Primary Executive Officer

Setsuo Yamashita

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

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

Director and Primary Executive Officer

Nobuo Fujii

Officer Responsible for Environmental Business Development and Promotion Division, and Administrative Unit

April	1975	Entered Kuraray Co., Ltd.
June	2010	Executive Officer
April	2012	Officer Responsible for General Affairs and HR Division, Purchasing and Logistics Division, Global Business Management Division and Overseas Affiliated Companies, and General Manager of Purchasing and Logistics Division
June	2012	Senior Executive Officer
April	2013	Officer Responsible for Environmental Business Development and Promotion Division (Current position)
June	2013	Director and Senior Executive Officer
January	2015	Officer Responsible for Administrative Unit (Current position)
March	2015	Director and Primary Executive Officer (Current position)

Director and Senior Executive Officer

Kazuhiro Tenkumo

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

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

Director and Senior Executive Officer

Kunio Yukiyoshi

Officer Responsible for Technology Division and Plants in Japan

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

Director and Senior Executive Officer

Sadaaki Matsuyama

President of Functional Materials Company

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

Director and Senior Executive Officer

Kazuhiko Kugawa

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

April	1976	Entered Kuraray Co., Ltd.
June	2012	Executive Officer
April	2013	Vice President of Vinyl Acetate Company
June	2013	Senior Executive Officer
June	2014	Director and Senior Executive Officer (Current position)
January	2015	President of Vinyl Acetate Resin Company (Current position)

Director and Senior Executive Officer

Yukiatsu Komiya

President of Isoprene Company

April	1984	Entered Kuraray Co., Ltd.
July	2011	General Manager, Kashima Plant
June	2012	Executive Officer
April	2013	General Manager of Isoprene Chemicals Division, Isoprene Company
April	2014	President of Isoprene Company (Current position)
June	2014	Senior Executive Officer (Current position)
March	2015	Director (Current position)

Director and Senior Executive Officer

Hiroaya Hayase

President of Vinyl Acetate Film Company

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

Director

Takafusa Shioya[1]

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

Director

Tomokazu Hamaguchi[1]

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

Corporate Auditors

Standing Corporate Auditors

Yoichi Ninagawa

Keiji Murakami

Corporate Auditors

Mie Fujimoto[2]

Yoshimitsu Okamoto[2]

Mikio Nakura[2]

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

Executive Officers

Matthias Gutweiler
KEG President, General Manager of PVB Division

Masanori Onodera
General Manager of Okayama Plant

Kazuhiro Nakayama
General Manager of Technology Division

Kenichi Abe
General Manager of New Business Development Division

Yoshimasa Sano
General Manager of Methacrylate Division, Functional Materials Company

George Avdey
KAI President

Hitoshi Toyoura
General Manager of Consumer Goods and Materials Division, Fibers and Textiles Company, President of Kuraray Fastening Co., Ltd.

Yukinori Yamane
General Manager of Purchasing and Logistics Division

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

Tsugunori Kashimura
General Manager of Research and Development Division

Takashi Nakajima
Vice President of Fibers and Textiles Company

Hirohide Hayashi
General Manager of Kurashiki Plant, General Manager of Technology Development Center

Business Environment

In the fiscal year ended December 31, 2014 (the nine-month period from April 1, 2014 to December 31, 2014), the feared slowdown in the Japanese economy following the increase in the consumption tax rate became apparent. Overseas, while favorable conditions continued in the U.S. economy, recovery stalled in Europe. In addition, a slowdown in growth in China's economy also became clear, and conditions were patchy in other emerging countries. The drop in the price of crude oil at the end of the period had little effect on the Company's results for the fiscal year ended December 31, 2014.

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

Sales

Due to a change in the fiscal year-end, consolidated results for the fiscal year ended December 31, 2014 cover the nine-month period from April 1, 2014 to December 31, 2014 for the Company and subsidiaries that had a fiscal year-end of March 31, and the twelve-month period from January 1, 2014 to December 31, 2014 for subsidiaries with a fiscal year-end of December 31. Comparisons with the previous fiscal year use figures that have been adjusted to the same period as the fiscal year ended December 31, 2014.

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

	Fiscal 2014 (April-December)	Fiscal 2013 (Adjusted) (April-December)	Change (Adjusted)
Net Sales	411.4	339.9	+21.0%
Operating Income	40.3	38.3	+5.4%
Ordinary Income	40.1	38.4	+4.5%
Net Income	21.3	23.1	-7.9%

Note: Figures for Fiscal 2013 (Adjusted) are unaudited.

The Kuraray Group's consolidated net sales for fiscal 2014 (the nine-month period from April 1, 2014 to December 31, 2014) increased ¥71,483 million ($591 million), or 21.0%, compared with the previous fiscal year to ¥411,408 million ($3,400 million). Operating income increased ¥2,048 million ($17 million), or 5.4%, to ¥40,298 million ($333 million); ordinary income increased ¥1,721 million ($14 million), or 4.5%, to ¥40,084 million ($331 million); and net income decreased ¥1,829 million ($15 million), or 7.9%, to ¥21,296 million ($176 million).

Results by Business Segment

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

	Net Sales		Operating Income	
	Fiscal 2014 (April-December)	Fiscal 2013 (Adjusted) (April-December)	Fiscal 2014 (April-December)	Fiscal 2013 (Adjusted) (April-December)
Vinyl Acetate	219.0	160.7	35.7	36.2
Isoprene	44.7	42.0	4.9	3.9
Functional Materials	44.0	38.8	1.5	1.1
Fibers and Textiles	35.4	34.7	2.3	2.1
Trading	91.1	80.9	2.8	2.5
Other Business	51.6	50.2	2.0	1.7
Elimination & Corporate	(74.4)	(67.3)	(8.9)	(9.3)
Total	411.4	339.9	40.3	38.3

Note: Figures for Fiscal 2013 (Adjusted) are unaudited.

Vinyl Acetate

Sales in this segment grew 36.3% year on year to ¥219,041 million ($1,810 million), while operating income fell 1.4% year on year to ¥35,724 million ($295 million). Please note that the results of the glass laminating solutions/vinyls business (the "GLS business") of E. I. du Pont de Nemours and Company ("DuPont"), which the Company acquired on June 1, 2014, are included in this segment for the seven-month period from June to December 2014.

1) Sales volume of optical-use PVA film increased due to growth in the number of LCD panels sold and the trend toward larger panels. New production facilities came on line at the Saijo Plant in April. Demand for PVA film was stagnant in Europe and Asia. PVB film was affected by the ongoing slowdown in the construction materials market in Europe. Sales of water-soluble PVA film grew favorably on the back of brisk demand. In response, the Company decided to build a new plant in the United States, with start-up scheduled for January 2016.

2) Sales of *EVAL* ethylene vinyl alcohol copolymer (EVOH resin) expanded favorably, particularly in the United States and Asia.
3) In the GLS business, the integration of both manufacturing and marketing was completed without problems, but the business was unprofitable due to factors including an increase in amortization expenses for goodwill.

Isoprene

Sales in this segment grew 6.4% year on year to ¥44,674 million ($369 million), and operating income grew 23.7% year on year to ¥4,874 million ($40 million).

1) In isoprene chemicals, sales of fine chemicals were favorable and sales of *SEPTON* thermoplastic elastomer were firm. Demand for liquid rubber rebounded.
2) Sales of *GENESTAR* heat-resistant polyamide resin for LED reflector, connector and automotive applications were favorable.

Functional Materials

Sales in this segment grew 13.6% year on year to ¥44,037 million ($364 million), and segment income increased 42.3% year on year to ¥1,523 million ($13 million).

1) Methacrylic resin struggled in the first half due to sluggish market conditions, but sales bottomed out in the second half with a rebound in demand from some sectors.
2) In the medical business, sales of dental materials were favorable.
3) *CLARINO* man-made leather became profitable, showing the effect of the Company's structural improvements such as the transfer of the conventional production process to China.

Fibers and Textiles

Sales of *KURALON* were brisk for use in automotive brake hose applications and as an asbestos substitute in fiber reinforced cement (FRC). As a result, sales in this segment grew 2.1% year on year to ¥35,385 million ($292 million), and segment income increased 5.8% year on year to ¥2,250 million ($19 million).

Trading

Sales were favorable in fiber-related businesses, especially for polyester, and in resin and chemical-related businesses. In addition, the Company expanded its overseas network. As a result, segment sales increased 12.7% year on year to ¥91,127 million ($753 million), and segment income increased 11.9% to ¥2,791 million ($23 million).

Other Business

Other businesses were firm overall. As a result, segment sales increased 2.7% year on year to ¥51,591 million ($426 million), and segment income increased 15.1% to ¥1,993 million ($16 million).

Financial Position

As of December 31, 2014, cash and deposits stood at ¥33,939 million ($280 million), a decrease of ¥15,807 million ($131 million) compared to March 31, 2014. Notes and accounts receivable – trade increased ¥13,869 million ($115 million) to ¥104,988 million ($868 million). Short-term investment securities decreased ¥55,797 million ($461 million) to ¥2,504 million ($21 million). Inventories (merchandise and finished goods, work-in-process, and raw materials and supplies) increased ¥18,462 million ($153 million) to ¥107,096 million ($885 million), and inventory turnover (the number of months' sales in inventory) was 2.7 months. Current assets decreased ¥33,202 million ($274 million) or 11.0% to ¥269,200 million ($2,225 million). Working capital (current assets less current liabilities) decreased ¥53,993 million ($446 million) to ¥159,264 million ($1,316 million).

The current ratio (current assets divided by current liabilities) at December 31, 2014 decreased to 244.9% from 339.2% at March 31, 2014. Tangible fixed assets increased ¥40,169 million ($332 million) to ¥262,388 million ($2,168 million). This included factors such as an increase in buildings and structures (net) of ¥8,022 million ($66 million) to ¥52,729 million ($436 million) and an increase in machinery, equipment and vehicles (net) of ¥28,377 million ($235 million) to ¥120,298 million ($994 million). Intangible fixed assets increased ¥31,642 million ($262 million) to ¥88,840 million ($734 million). Investments and other assets increased by ¥18,677 million ($154 million) to ¥71,108 million ($588 million) due mainly to an increase in investment securities of ¥15,057 ($124 million) to ¥54,342 ($449 million). Total assets increased ¥57,286 million ($473 million) to ¥691,538 million ($5,715 million), and return on assets (operating income divided by average total assets for the period) decreased 2.0 points from the previous fiscal year to 6.1%.

Current liabilities increased ¥20,791 million ($172 million) to ¥109,936 million ($909 million), due primarily to an increase in notes and accounts payable – trade of ¥7,634 million ($63 million) to ¥43,027 million ($356 million) and the issue of commercial papers totaling ¥10,000 million ($83 million).

Noncurrent liabilities increased ¥7,128 million ($59 million) to ¥99,775 million ($825 million).

Net assets increased ¥29,367 million ($243 million) to ¥481,826 million ($3,982 million). Subtracting minority interests and subscription rights to shares totaling ¥7,064 million ($58 million), shareholders' equity was ¥474,762 million ($3,924 million) mainly due to an increase in retained earnings and positive foreign currency translation adjustment. The equity ratio at December 31, 2014 was 68.7%, down 1.6% from March 31, 2014.

Cash Flows from Operating Activities

Net cash provided by operating activities totaled ¥40,840 million ($338 million). Cash provided included ¥31,533 million ($261 million) from income before income taxes and minority interests and ¥35,696 million ($295 million) from depreciation and amortization. Cash used included ¥12,631 million ($104 million) due to increases in notes and accounts receivable – trade and inventories, and ¥18,939 million ($157 million) in income taxes paid. Net cash provided by operating activities in fiscal 2014 (the nine months from April 1, 2014 to December 31, 2014) decreased ¥20,334 million ($168 million) compared with the previous fiscal year (April 1, 2013 to March 31, 2014).

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥105,690 million ($873 million). A net decrease in operating assets (time deposits and short-term investment securities) provided cash of ¥6,354 million ($53 million), while uses of cash included ¥43,380 million ($359 million) for purchase of tangible fixed assets and intangible fixed assets and ¥68,419 million ($565 million) for payments for acquisition of business.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥3,650 million ($30 million). Uses of cash included cash dividends paid of ¥12,613 million ($104 million) while cash provided included net decreases in loans and issuance of commercial papers totaling ¥9,082 million ($75 million).

In addition to the above factors, as a result of the effect of exchange rate changes on cash and cash equivalents, the increase in cash and cash equivalents from newly consolidated subsidiaries and the decrease in cash and cash equivalents from exclusion of subsidiaries from consolidation, cash and cash equivalents at the end of the fiscal year decreased ¥65,254 million ($539 million) from the end of the previous fiscal year to ¥35,388 million ($292 million).

Capital Expenditure

Capital investment by the Kuraray Group (Kuraray and consolidated subsidiaries) amounted to ¥39,463 million ($326 million) in fiscal 2014, mainly for expansion of production capacity for *PVA* resin. By segment, capital investment amounted to ¥27,343 million ($226 million) in the Vinyl Acetate segment, ¥2,681 million ($22 million) in the Isoprene segment, ¥2,802 million ($23 million) in the Functional Materials segment, ¥2,668 million ($22 million) in the Fibers and Textiles segment, ¥53 million ($0.4 million) in the Trading segment, and ¥1,744 million ($14 million) in the Others segment. General (non-segment) capital investment amounted to ¥2,168 million ($18 million).

Outlook for the Fiscal Year Ending December 31, 2015

Regarding the operating environment in the fiscal year ending December 31, 2015, there are concerns about a downturn in personal consumption due to rising import prices as a result of the depreciation trend of the yen. Overseas, despite expectations for continuing favorable conditions in the United States economy, a delay in recovery from the economic downturn in Europe, slowing growth in China's economy and continuing patchy conditions in other emerging countries are forecast. In addition, the drop in the price of crude oil from the end of fiscal 2014 could have an impact on the global economy, in addition to increasing geopolitical risk and other effects, making the outlook for the global economy unclear, but over the short term it is expected to exert a positive effect on Kuraray's results.

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

Taking these circumstances into account, our forecasts for the period ending December 31, 2015 are net sales of ¥540.0 billion, operating income of ¥63.0 billion, ordinary income of ¥62.0 billion and net income of ¥36.0 billion. We assume average exchange rates of ¥120 to the U.S. dollar and ¥130 to the euro, as well as a domestic naphtha price of ¥52 thousand per kiloliter.

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

i) Risks associated with the changes in business environment

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

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

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

ii) Risks associated with accidents and disasters

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

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

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

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

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

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

iv) Risks associated with changes in exchange rates

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

v) Other risks

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

Consolidated Balance Sheet

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	December 31, 2014	March 31, 2014	December 31, 2014
ASSETS			
I Current assets:			
1 Cash and deposits	¥ 33,939	¥ 49,746	$ 280,487
2 Notes and accounts receivable–trade[*6]	104,988	91,119	867,669
3 Short-term investment securities	2,504	58,301	20,694
4 Merchandise and finished goods	74,201	60,984	613,231
5 Work-in-process	13,788	11,992	113,950
6 Raw materials and supplies	19,107	15,658	157,909
7 Deferred tax assets	4,694	5,889	38,793
8 Other	16,546	9,175	136,743
9 Allowance for doubtful accounts	(571)	(465)	(4,719)
Total current assets	269,200	302,402	2,224,793
II Noncurrent assets:			
1 Tangible fixed assets:			
(1) Buildings and structures, net[*2 and 5]	52,729	44,707	435,776
(2) Machinery, equipment and vehicles, net[*2]	120,298	91,921	994,198
(3) Land[*2 and 5]	21,999	21,481	181,809
(4) Construction in progress	62,590	59,139	517,272
(5) Other, net[*2]	4,770	4,970	39,421
Total tangible fixed assets[*1]	262,388	222,219	2,168,495
2 Intangible fixed assets:			
(1) Goodwill	31,217	26,598	257,991
(2) Customer-related assets	34,745	20,065	287,148
(3) Other	22,877	10,534	189,066
Total intangible fixed assets	88,840	57,198	734,214
3 Investments and other assets:			
(1) Investment securities[*3 and 5]	54,342	39,285	449,107
(2) Long-term loans receivable	302	297	2,495
(3) Net defined benefit assets	816	2,031	6,743
(4) Deferred tax assets	8,701	6,260	71,909
(5) Other	6,993	4,604	57,793
(6) Allowance for doubtful accounts	(48)	(47)	(396)
Total investments and other assets	71,108	52,431	587,669
Total noncurrent assets	422,338	331,849	3,490,396
TOTAL ASSETS	¥691,538	¥634,252	$5,715,190

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

	Millions of yen		Thousands of U.S. dollars
	December 31, 2014	March 31, 2014	December 31, 2014
LIABILITIES			
I Current liabilities:			
1 Notes and accounts payable–trade[*6]	¥ 43,027	¥ 35,393	$ 355,595
2 Short-term loans payable[*5]	12,087	13,143	99,892
3 Commercial papers	10,000	—	82,644
4 Accrued expenses	7,957	8,073	65,760
5 Income taxes payable	2,575	7,272	21,280
6 Provision for bonuses	4,957	6,931	40,966
7 Other provisions	19	51	157
8 Other[*6]	29,311	18,280	242,239
Total current liabilities	109,936	89,145	908,561
II Noncurrent liabilities:			
1 Bonds payable	10,000	10,000	82,644
2 Long-term loans payable[*5]	42,326	42,187	349,801
3 Deferred tax liabilities	20,526	18,343	169,636
4 Provision for directors' retirement benefits	175	161	1,446
5 Provision for environmental measures	852	886	7,041
6 Net defined benefit liabilities	10,053	5,448	83,082
7 Asset retirement obligations	3,500	2,656	28,925
8 Other	12,341	12,962	101,991
Total noncurrent liabilities	99,775	92,647	824,586
TOTAL LIABILITIES	209,712	181,793	1,733,157
NET ASSETS			
I Shareholders' equity:			
1 Capital stock	88,955	88,955	735,165
2 Capital surplus	87,181	87,147	720,504
3 Retained earnings	285,561	279,616	2,360,008
4 Treasury stock	(38,110)	(38,425)	(314,958)
Total shareholders' equity	423,588	417,293	3,500,727
II Accumulated other comprehensive income:			
1 Valuation difference on available-for-sale securities	9,276	6,944	76,661
2 Deferred gains or losses on hedges	65	(4)	537
3 Foreign currency translation adjustment	46,899	27,025	387,595
4 Remeasurements of defined benefit plans	(5,069)	(5,424)	(41,892)
Total accumulated other comprehensive income	51,172	28,541	422,909
III Subscription rights to shares	977	1,005	8,074
IV Minority interests	6,087	5,618	50,305
TOTAL NET ASSETS	481,826	452,459	3,982,033
TOTAL LIABILITIES AND NET ASSETS	¥691,538	¥634,252	$5,715,190

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

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Kuraray Co., Ltd. and its Consolidated Subsidiaries

Consolidated Statement of Income

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014 (April 1, 2014 to December 31, 2014)	Fiscal 2013 (April 1, 2013 to March 31, 2014)	Fiscal 2014 (April 1, 2014 to December 31, 2014)
I Net sales	¥411,408	¥413,485	$3,400,066
II Cost of sales[*2]	294,261	286,179	2,431,909
Gross profit	117,147	127,306	968,157
III Selling, general and administrative expenses:			
1 Selling expenses	20,573	19,666	170,024
2 General and administrative expenses[*2]	56,275	58,094	465,082
Total selling, general and administrative expenses[*1]	76,848	77,760	635,107
Operating income	40,298	49,545	333,041
IV Non-operating income:			
1 Interest income	220	583	1,818
2 Dividends income	1,711	2,437	14,140
3 Equity in earnings of affiliates	1	1	8
4 Other	996	1,215	8,231
Total non-operating income	2,930	4,236	24,214
V Non-operating expenses:			
1 Interest expenses	251	936	2,074
2 Personnel expenses for seconded employees	592	684	4,892
3 Other	2,300	2,816	19,008
Total non-operating expenses	3,143	4,438	25,975
Ordinary income	40,084	49,343	331,272
VI Extraordinary income:			
1 Gain on liquidation of subsidiaries[*3]	695	—	5,743
Total extraordinary income	695	—	5,743
VII Extraordinary loss:			
1 Loss on transfer of business[*4]	5,698	—	47,090
2 Expenses incurred upon acquisition[*5]	2,125	2,174	17,561
3 Retirement benefit expenses[*6]	622	—	5,140
4 Loss on disposal of tangible fixed assets[*7]	345	621	2,851
5 Impairment loss[*8]	277	118	2,289
6 Loss on valuation of investment securities[*9]	177	—	1,462
7 Expenses for suspension of operation[*10]	—	829	—
Total extraordinary loss	9,247	3,744	76,421
Income before income taxes and minority interests	31,533	45,598	260,603
Income taxes — current	10,704	16,292	88,462
Income taxes — deferred	(1,073)	(519)	(8,867)
Total income taxes	9,631	15,772	79,595
Income before minority interests	21,902	29,826	181,008
Minority interests	605	435	5,000
Net income	¥ 21,296	¥ 29,390	$ 176,000

Consolidated Statement of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014 (April 1, 2014 to December 31, 2014)	Fiscal 2013 (April 1, 2013 to March 31, 2014)	Fiscal 2014 (April 1, 2014 to December 31, 2014)
I Income before minority interests	¥21,902	¥29,826	$181,008
II Other comprehensive income:			
1 Valuation difference on available-for-sale securities	2,332	868	19,272
2 Deferred gains or losses on hedges	69	13	570
3 Foreign currency translation adjustment	19,874	36,902	164,247
4 Remeasurements of defined benefit plans	355	21	2,933
Total other comprehensive income[*1]	22,631	37,806	187,033
III Comprehensive income	44,533	67,632	368,041
Comprehensive income attributable to			
1 Owners of the parent	43,928	67,196	363,041
2 Minority interests	605	436	5,000

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

Consolidated Statement of Changes in Net Assets

Kuraray Co., Ltd. and its Consolidated Subsidiaries

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

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2014	¥6,944	¥ (4)	¥27,025	¥(5,424)	¥28,541	¥1,005	¥5,618	¥452,459
Cumulative effects of changes in accounting policies					—			(2,712)
Restated balance	6,944	(4)	27,025	(5,424)	28,541	1,005	5,618	449,746
Changes of items during the period								
Cash dividends					—			(12,613)
Net income					—			21,296
Change of scope of consolidation					—			(24)
Purchase of treasury stock					—			(7)
Disposal of treasury stock					—			356
Net changes of items other than shareholders' equity	2,332	69	19,874	355	22,631	(27)	469	23,072
Total changes of items during the period	2,332	69	19,874	355	22,631	(27)	469	32,080
Balance at December 31, 2014	¥9,276	¥65	¥46,899	¥(5,069)	¥51,172	¥ 977	¥6,087	¥481,826

Fiscal 2014 (April 1, 2014 to December 31, 2014)	Thousands of U.S. dollars Shareholders' equity Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2014	$735,165	$720,223	$2,310,876	$(317,561)	$3,448,702
Cumulative effects of changes in accounting policies			(22,413)		(22,413)
Restated balance	735,165	720,223	2,288,454	(317,561)	3,426,280
Changes of items during the period					
Cash dividends			(104,239)		(104,239)
Net income			176,000		176,000
Change of scope of consolidation			(198)		(198)
Purchase of treasury stock				(57)	(57)
Disposal of treasury stock		272		2,669	2,942
Net changes of items other than shareholders' equity					—
Total changes of items during the period	—	272	71,553	2,603	74,438
Balance at December 31, 2014	$735,165	$720,504	$2,360,008	$(314,958)	$3,500,727

	Thousands of U.S. dollars Accumulated other comprehensive income Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Minority interests	Total net assets
Balance at April 1, 2014	$57,388	$ (33)	$223,347	$(44,826)	$235,876	$8,305	$46,429	$3,739,330
Cumulative effects of changes in accounting policies								(22,413)
Restated balance	57,388	(33)	223,347	(44,826)	235,876	8,305	46,429	3,716,909
Changes of items during the period								
Cash dividends					—			(104,239)
Net income					—			176,000
Change of scope of consolidation					—			(198)
Purchase of treasury stock					—			(57)
Disposal of treasury stock					—			2,942
Net changes of items other than shareholders' equity	19,272	570	164,247	2,933	187,033	(223)	3,876	190,677
Total changes of items during the period	19,272	570	164,247	2,933	187,033	(223)	3,876	265,123
Balance at December 31, 2014	$76,661	$537	$387,595	$(41,892)	$422,909	$8,074	$50,305	$3,982,033

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

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

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

Consolidated Statement of Cash Flows

Kuraray Co., Ltd. and its Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014 (April 1, 2014 to December 31, 2014)	Fiscal 2013 (April 1, 2013 to March 31, 2014)	Fiscal 2014 (April 1, 2014 to December 31, 2014)
I Net cash provided by (used in) operating activities:			
1 Income before taxes and minority interests	¥ 31,533	¥ 45,598	$260,603
2 Depreciation and amortization	35,696	34,972	295,008
3 Increase (decrease) in allowance for doubtful accounts	90	(320)	743
4 Loss on transfer of business	5,698	—	47,090
5 Expenses incurred upon acquisition	2,125	2,174	17,561
6 Loss on disposal of tangible fixed assets	345	621	2,851
7 Impairment loss	277	118	2,289
8 Foreign exchange losses (gains)	(2,721)	(2,063)	(22,487)
9 Interest and dividends income	(1,932)	(3,020)	(15,966)
10 Interest expenses	251	936	2,074
11 Decrease (increase) in notes and accounts receivable–trade	(11,166)	(2,473)	(92,280)
12 Decrease (increase) in inventories	(1,465)	1,835	(12,107)
13 Increase (decrease) in notes and accounts payable–trade	6,500	(3,894)	53,719
14 Loss on valuation of investment securities	177	—	1,462
15 Increase (decrease) in provision for bonuses	(2,137)	115	(17,661)
16 Increase (decrease) in net defined benefit liabilities	987	1,070	8,157
17 Decrease (increase) in net defined benefit assets	(69)	300	(570)
18 Contribution to employee's retirement benefits trust	—	(7,000)	—
19 Other, net	(6,265)	7,294	(51,776)
Sub-total	57,926	76,265	478,727
20 Interest and dividends income received	1,941	3,121	16,041
21 Interest expenses paid	(343)	(937)	(2,834)
22 Income taxes (paid) refund	(18,939)	(17,273)	(156,520)
23 Other	255	—	2,107
Net cash provided by (used in) operating activities	40,840	61,175	337,520
II Net cash provided by (used in) investment activities:			
1 Net decrease (increase) in time deposits	1,354	22,559	11,190
2 Net decrease (increase) in short-term investment securities	5,000	18,000	41,322
3 Purchase of investment securities	(1,850)	(5,158)	(15,289)
4 Proceeds from sales and redemption of investment securities	257	50,442	2,123
5 Purchase of tangible fixed assets and intangible fixed assets	(43,380)	(58,414)	(358,512)
6 Payments for disposal of tangible fixed assets and intangible fixed assets	(670)	(1,303)	(5,537)
7 Proceeds from sales of tangible fixed assets and intangible fixed assets	22	189	181
8 Payments for acquisition of business*2	(68,419)	(1,379)	(565,446)
9 Other, net	1,996	(2,643)	16,495
Net cash provided by (used in) investment activities	(105,690)	22,293	(873,471)
III Net cash provided by (used in) financing activities:			
1 Net increase (decrease) in short-term loans payable	4,950	120	40,909
2 Net increase (decrease) in commercial papers	10,000	—	82,644
3 Proceeds from long-term loans payable	233	20,129	1,925
4 Repayment of long-term loans payable	(6,100)	(24,008)	(50,413)
5 Purchase of treasury stock	(7)	(10)	(57)
6 Proceeds from sales of treasury stock	249	1,366	2,057
7 Cash dividends paid	(12,613)	(12,584)	(104,239)
8 Cash dividends paid to minority shareholders	(136)	(147)	(1,123)
9 Other, net	(224)	(291)	(1,851)
Net cash provided by (used in) financing activities	(3,650)	(15,427)	(30,165)
IV Effect of exchange rate changes on cash and cash equivalents	3,255	2,688	26,900
V Net increase (decrease) in cash and cash equivalents	(65,244)	70,730	(539,206)
VI Cash and cash equivalents, beginning of year	100,642	29,885	831,752
VII Increase in cash and cash equivalents from newly consolidated subsidiaries	9	26	74
VIII Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(19)	—	(157)
IX Cash and cash equivalents, end of year*1	¥ 35,388	¥100,642	$292,462

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

1 Significant Accounting Policies

1. Basis of presenting consolidated financial statements

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

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

The United States dollar amounts included herein are provided solely for the convenience of readers outside Japan and are stated, at the rate of ¥121=$1, the approximate exchange rate prevailing on December 31, 2014. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into United States dollars at this or any other rate.

2. Scope of consolidation

(1) Number of consolidated subsidiaries

	Fiscal 2014	Fiscal 2013
Number of consolidated subsidiaries	34	33

(Major consolidated subsidiaries)

KURARAY TRADING Co., LTD., KURARAY CHEMICAL CO., LTD., Kuraray Plastics Co., Ltd., KURARAY ENGINEERING CO., LTD., KURARAY LIVING CO., LTD., Kuraray Techno Co., Ltd., KURARAYKURAFLEX CO., LTD., TECHNO SOFT CO., LTD., Kuraray Travel Service Corporation, KURARAY SAIJO CO., LTD., KURARAY TAMASHIMA COMPANY, LIMITED, Iruma Country Club Co., Ltd., KURASHIKI KOKUSAI HOTEL LTD., KURARAY FASTENING CO., LTD., OKAYAMA RINKOH CO., LTD., Kyosei Chemical Co., Ltd., Kuraray Noritake Dental Inc., KURARAY AQUA CO., LTD., Kuraray Holdings U.S.A., Inc., Kuraray America, Inc., Kuraray Europe GmbH, EVAL Europe N.V., Kuraray Hong Kong Co., Ltd., Kuraray Asia Pacific Pte. Ltd., Kuraray (Shanghai) Co., Ltd., MonoSol Holdings, Inc., Kuraray China Co., Ltd., Kuraray Korea Ltd. and 6 other consolidated subsidiaries.

During the fiscal year ended December 31, 2014 (fiscal 2014), the Company acquired the glass laminating solutions/vinyls business from E. I. du Pont de Nemours and Company ("DuPont"). Due to the acquisition, Kuraray Korea Ltd. was included in the scope of consolidation.

Similarly, due to the acquisition, Kuraray Deutschland GmbH (KDG) was included in the scope of consolidation in the interim period. However, approval of the acquisition by the European Commission was conditional on the transfer of a portion of the European polyvinyl butyral (PVB) sheet business (the "Business") to a third party, and the Company concluded an agreement to transfer all of the shares of KDG to GVC S.A., a subsidiary of GVC Holdings, Inc. Following the completion of a fair value measurement of assets and liabilities in connection with the business combination, and the integration of the assets and liabilities of the Business into KDG, KDG was excluded from the scope of consolidation.

(2) Names of major unconsolidated subsidiaries

(Major unconsolidated subsidiaries)

Kuraray Okayama Spinning CO., LTD.

Kuraray South America Ltda.

(Reasons for excluding from the scope of consolidation)

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

3. Scope of application of equity method affiliates and subsidiaries

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

	Fiscal 2014	Fiscal 2013
Number of unconsolidated subsidiaries accounted for using the equity method	1	1

(Name of unconsolidated subsidiaries)

Kuraray Okayama Spinning CO., LTD.

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

4. Fiscal year

(1) Change in consolidated closing date

The Company changed its consolidated closing date (the Company's fiscal year-end) from March 31 to December 31 through the resolution of the 133rd Annual General Meeting of Shareholders held on June 20, 2014 to enhance management transparency and raise the efficiency of global business operations through timely and appropriate disclosure of accounting information.

As a result of the change, fiscal 2014, which is a transitional period for the change in fiscal year, is the nine-month period from April 1, 2014 to December 31, 2014.

(2) Fiscal years of consolidated subsidiaries

The closing date of the consolidated subsidiaries, except for the consolidated subsidiary in the process of liquidation, is the same as the consolidated closing date.

Consolidated financial statements are prepared based on the nine-month accounting period from April 1, 2014 to December 31, 2014 for domestic consolidated subsidiaries that had a closing date of March 31, and the twelve-month accounting period from January 1, 2014 to December 31, 2014 for foreign consolidated subsidiaries, as they were previously.

5. Accounting policies

(1) Valuation standards and methods for significant assets

a) Investment securities

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

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

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

b) Derivative financial instruments

All derivatives are stated at fair value.

c) Inventories

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

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

(2) Depreciation method of significant depreciable assets

a) Tangible fixed assets (excluding lease assets)

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

The estimated useful lives of assets are primarily as follows:

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

b) Intangible assets (excluding lease assets)

Amortization is primarily computed using the straight line method.

The numbers of years for amortization are primarily as follows:

• Goodwill........... 15 or 20 years
• Customer-related assets…………9 or 20 years

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

c) Lease assets

Amortization is primarily computed using the straightline method.

(3) Accounting for significant allowance

a) Allowance for doubtful accounts

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

b) Provision for bonuses

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

c) Provision for directors' retirement benefits

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

d) Provision for environmental measures

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

(4) Accounting treatment of retirement benefit plan

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

In calculating benefit obligation, the benefit formula basis was used to attribute estimated retirement benefits to periods up to December 31, 2014.

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

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

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

(5) Significant hedge accounting

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

b) Hedging instruments and hedged items

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

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

d) Assessment method for hedge accounting
The Company identifies and confirms the material conditions and measures the effectiveness of forward foreign exchange contracts and currency swaps associated with planned transactions denominated in foreign currencies.

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

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

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

(8) Other accounting policies
Accounting for consumption tax
Consumption tax and local consumption tax on goods and services are not included in the revenue and expenses amounts.

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

From fiscal 2014, the Company applied "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012; hereinafter the "Accounting Standard for Retirement Benefits") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012; hereinafter the "Guidance on Retirement Benefits") with regard to the provisions set forth in Clause 35 of the Accounting Standard for Retirement Benefits and Clause 67 of the Guidance on Retirement Benefits and has revised its calculation method for retirement benefit obligation and service cost. As a result, the method of attributing expected benefit to periods has been changed from a straight-line basis to a benefit formula basis. In addition, the method for determining discount rates was changed from the use of the period approximate to the expected average remaining working lives of employees to the use of a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

At the application of the Accounting Standard for Retirement Benefits, the Company recognized the effect of this change to the calculation method for retirement benefit obligation and service cost as an adjustment to the opening balance of retained earnings in accordance with the transitional accounting treatment set forth in Clause 37 of the Accounting Standard for Retirement Benefits.

As a result, net defined benefit liabilities increased by ¥2,366 million and net defined benefit assets and retained earnings decreased by ¥1,826 million and ¥2,712 million, respectively, at the beginning of fiscal 2014. The effect on operating income, ordinary income, income before income taxes and minority interests and per share information for the current fiscal year was immaterial.

3 Accounting Standards Issued but Not Yet Applied

(Accounting Standards Not Yet Applied)

Accounting Standards for Business Combinations

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

(1) Outline

The main revisions are as follows.

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

(2) Expected Application Date

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

(3) Effect of Applying the Accounting Standard

The Company is currently assessing the effect of applying the accounting standards in preparing the financial statements for the fiscal year ending December 31, 2015.

4 Changes in Presentation

(Consolidated Balance Sheet)
From fiscal 2014, "Customer-related assets," which was included in "Other" under "Intangible fixed assets" in the previous fiscal year, has been presented separately due to its increased materiality. The financial statements for the previous fiscal year have been restated to reflect this change in presentation method.

As a result, ¥30,600 million presented on the consolidated balance sheet for the previous fiscal year as "Other" under "Intangible fixed assets" was reclassified as ¥20,065 million in "Customer-related assets" and ¥10,534 million in "Other."

(Consolidated Statement of Income)
"Loss on disposal of tangible fixed assets," which was presented separately under "Non-operating expenses" in the previous fiscal year, is included in "Other" because its amount was less than 10/100 of total non-operating expenses. The financial statements for the previous fiscal year have been restated to reflect this change in presentation method.

As a result, ¥564 million presented on the consolidated statement of income for the previous fiscal year as "Loss on disposal of tangible fixed assets" under "Non-operating expenses" was reclassified in "Other."

(Consolidated Statement of Cash Flows)
From fiscal 2014, "Foreign exchange losses (gains)" and "Increase (decrease) in provision for bonuses," which were included in "Other, net" on the consolidated statement of cash flows in the previous fiscal year, have been presented separately due to their increased materiality. The financial statements for the previous fiscal year have been restated to reflect this change in presentation method.

As a result, ¥5,345 million presented on the consolidated statement of cash flows for the previous fiscal year as "Other, net" was reclassified as negative ¥2,063 million in "Foreign exchange losses (gains)," ¥115 million in "Increase (decrease) in provision for bonuses" and ¥7,294 million in "Other, net."

5 Notes to Consolidated Balance Sheet

*1. Accumulated depreciation of tangible fixed assets

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Accumulated depreciation of tangible fixed assets	¥631,450	¥597,120	$5,218,595

*2. Accumulated amount of reduced-value entry as a result of receiving government subsidies, and so on that are subtracted from the acquisition price of tangible fixed assets

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Buildings and structures	¥2,095	¥2,095	$17,314
Machinery, equipment and vehicles	1,000	975	8,264
(Deduction for this fiscal year)	(10)	(1)	(82)
Land	1,257	1,257	10,388
Other	36	36	297

*3. Investments in unconsolidated subsidiaries and affiliates

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Investment securities (equity)	¥16,158	¥5,005	$133,537

*4. Commitments and contingencies

The Company is contingently liable for guarantees for bank loans of unconsolidated subsidiaries, affiliates and others.

The company names and the guarantees of their liabilities are as follows:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Social welfare corporation Ishii Kinen Aizenen			
(Joint and several guarantee)	¥1,315	¥1,413	$10,867
Kureha Battery Materials Japan Co., Ltd.	279	279	2,305
Total	¥1,594	¥1,693	$13,173

*5. Assets pledged as collateral and secured liabilities

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Investment securities*	¥ 46	¥ 46	$ 380
Buildings	729	750	6,024
Land	1,001	1,001	8,272
Total	¥1,776	¥1,798	$14,677

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Collateral for short-term loans	¥180	¥180	$1,487
Collateral for long-term loans	53	78	438
Total	¥233	¥258	$1,925

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

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

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Notes and accounts receivable–trade	¥6,097	¥ —	$50,388
Notes and accounts payable–trade	3,762	—	31,090
Other (current liabilities)	702	—	5,801

6 Notes to Consolidated Statement of Income

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Freight and storage	¥14,373	¥14,160	$118,785
Research and development	13,315	16,405	110,041
Salaries and legal welfare expense	14,169	14,530	117,099
Provision for bonuses	4,093	4,040	33,826
Retirement benefit expenses	1,329	1,181	10,983
Provision for directors' retirement benefits	19	45	157

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

Millions of yen		Thousands of U.S. dollars
Fiscal 2014	Fiscal 2013	Fiscal 2014
¥14,174	¥17,103	$117,140

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

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

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

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

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

*8. Impairment loss

The significant component of impairment loss is as follows:

Fiscal 2014

Location	Assets	Usage	Type	Impairment loss: Millions of yen	Impairment loss: Thousands of U.S. dollars
U.S.A.	Idle assets (assets for which termination of research and development activities was decided upon)	Result of research and development activities related to industrial-use film	In-process research and development	¥211	$1,743

Fiscal 2013

Location	Assets	Usage	Type	Impairment loss: Millions of yen
Ehime Saijyo	Idle assets (demolition was decided upon due to obsolescence and completed in fiscal 2013)	Employee welfare facility and property leased to external tenants	Building	¥118

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

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

(Method for calculating the recoverable amount)
After separately examining the indications for impairment with respect to those businesses whose income from operations continues to be negative, for businesses whose recoverable amount falls short of the book value, the book value is to be reduced to the recoverable amount. The recoverable amount is measured based on the value in use and calculated by discounting future cash flows by 4%.

Idle assets are categorized into "assets held for sale," "assets that can be put to use in other businesses" and "assets to be discarded" and for items to be sold or discarded, the net book value of the assets is to be reduced to their recoverable amount. The recoverable amount of the assets is measured based on the net sale price and calculated by deducting the estimated disposal cost from the estimated sale price.

*9. Loss on valuation of stock
*10. Mainly the amount equivalent to fixed costs during the period of suspension of production

7 Notes to Consolidated Statement of Comprehensive Income

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Valuation difference on available-for-sale securities			
Amount recorded during the period	¥ 3,551	¥ 1,202	$ 29,347
Reclassification adjustments	58	(241)	479
Before tax effect adjustments	3,610	961	29,834
Tax effect	(1,277)	(92)	(10,553)
Valuation difference on available-for-sale securities	2,332	868	19,272
Deferred gains or losses on hedges			
Amount recorded during the period	128	9	1,057
Reclassification adjustments	(20)	11	(165)
Before tax effect adjustments	108	21	892
Tax effect	(38)	(8)	(314)
Deferred gains or losses on hedges	69	13	570
Foreign currency translation adjustment			
Amount recorded during the period	19,874	36,902	164,247
Reclassification adjustments	—	—	—
Before tax effect adjustments	19,874	36,902	164,247
Tax effect	—	—	—
Foreign currency translation adjustment	19,874	36,902	164,247
Remeasurements of defined benefit plans			
Amount recorded during the period	(567)	(32)	(4,685)
Reclassification adjustments	1,126	79	9,305
Before tax effect adjustments	559	46	4,619
Tax effect	(204)	(25)	(1,685)
Remeasurements of defined benefit plans	355	21	2,933
Total other comprehensive income	¥22,631	¥37,806	$187,033

8 Notes to Consolidated Statement of Changes in Net Assets

Fiscal 2014

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

	Number of shares as of March 31, 2014 (Thousands of shares)	Increase in the number of shares (Thousands of shares)	Decrease in the number of shares (Thousands of shares)	Number of shares as of December 31, 2014 (Thousands of shares)
Number of outstanding shares				
Common stock	382,863	—	—	382,863
Total	382,863	—	—	382,863
Number of treasury stocks				
Common stock (Notes 1, 2)	32,551	5	274	32,283
Total	32,551	5	274	32,283

Notes: 1. The increase in treasury stock (common stock) is attributable to the purchase of less-than-one unit shares (5 thousand shares).
2. The decrease in treasury stock (common stock) is attributable to a transfer of shares upon the exercise of subscription rights (274 thousand shares) and the acquisition of less-than-one unit shares by the shareholders (0 thousand shares).

2. Subscription rights to shares

The Company granted its directors, executive officers, employees, and directors and employees of its subsidiaries subscription rights to the Company shares as stock options. The balance of the subscription rights to shares as of December 31, 2014 is ¥977 million (US$8,074 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 20, 2014	Common stock	¥6,305 (US$52,107 thousand)	¥18.00 (US$0.14)	March 31, 2014	June 23, 2014
General shareholders' meeting held on October 29, 2014	Common stock	¥6,308 (US$52,132 thousand)	¥18.00 (US$0.14)	September 30, 2014	December 1, 2014

(2) Dividends whose effective date is after the end of Fiscal 2014 and record date is included in Fiscal 2015.

Resolution	Type of share	Amount of dividends (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on March 27, 2015	Common stock	¥3,155 (US$26,074 thousand)	Retained earnings	¥9.00 (US$0.07)	December 31, 2014	March 30, 2015

Fiscal 2013

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

	Number of shares as of March 31, 2013 (Thousands of shares)	Increase in the number of shares (Thousands of shares)	Decrease in the number of shares (Thousands of shares)	Number of shares as of March 31, 2014 (Thousands of shares)
Number of outstanding shares				
Common stock	382,863	—	—	382,863
Total	382,863	—	—	382,863
Number of treasury stocks				
Common stock (Notes 1, 2)	34,029	8	1,486	32,551
Total	34,029	8	1,486	32,551

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

2. Subscription rights to shares

The Company granted its directors, executive officers, employees, and directors and employees of its subsidiaries subscription rights to the Company shares as stock options. The balance of the subscription rights to shares as of March 31, 2014 is ¥1,005 million.

3. Dividends

(1) Amount of dividends paid

Resolution	Type of share	Amount of dividends (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 21, 2013	Common stock	¥6,279	¥18.00	March 31, 2013	June 24, 2013
Board of directors' meeting held on October 29, 2013	Common stock	¥6,305	¥18.00	September 30, 2013	December 2, 2013

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

Resolution	Type of share	Amount of dividends (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 20, 2014	Common stock	¥6,305	Retained earnings	¥18.00	March 31, 2014	June 23, 2014

9 Notes to Consolidated Statement of Cash Flows

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Cash on hand and in banks	¥33,939	¥ 49,746	$280,487
Time deposits with a deposit period of 3 months or more	(1,055)	(2,406)	(8,719)
Marketable securities with original maturities of 3 months or less	2,504	53,301	20,694
Cash and cash equivalents	¥35,388	¥100,642	$292,462

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

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

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

10 Leases

1. Finance lease transactions

(1) Lease transactions as a lessee

Finance leases without transfer of ownership

1) Details of lease assets

a) Tangible fixed assets

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

b) Intangible fixed assets

Software ("Other")

2) Depreciation method of lease assets

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

(2) Lease transactions as a lessor

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

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

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

December 31, 2014

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

	Thousands of U.S. dollars		
	Acquisition cost	Accumulated depreciation	Net book value
Buildings and structures	$1,619	$776	$834
Total	$1,619	$776	$834

March 31, 2014

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

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Due within one year	¥13	¥ 14	$107
Due after one year	83	93	685
Total	¥97	¥108	$801

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Lease revenue	¥13	¥14	$107
Depreciation expense	2	4	16

2. Operating leases

Lease transactions as a lessee:

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Due within one year	¥ 2,513	¥ 2,260	$ 20,768
Due after one year	12,515	11,435	103,429
Total	¥15,029	¥13,696	$124,206

11 Financial Instruments

1. Outline of financial instruments

(1) Policy for financial instruments

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

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

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

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

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

Loans, bonds and lease obligations related to finance lease transactions, used to raise funds for working capital and capital expenditures, have maturities of at the longest 12 years from the balance sheet date. The debts bearing floating interest rates are exposed to interest rate fluctuation risk, although a part of the exposure is hedged through use of derivatives (interest rate swaps).

Derivative transactions include forward foreign currency contracts and currency swaps for the purpose of hedging foreign currency exchange fluctuation risk resulting from receivables and payables denominated in foreign currencies and interest rate swaps for the purpose of hedging interest rate fluctuation risk resulting from variable interest expenses on debts. Please refer to "(5) Significant hedge accounting" under "1. Significant Accounting Policies" "5. Accounting policies" for a description of the Company's accounting policy relating to hedging activities.

(3) Risk management for financial instruments

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

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

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

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

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

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

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

c. *Liquidity Risk Management on Fund Raising*

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

(4) Supplementary explanation concerning fair values of financial instruments

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

2. Fair values of financial instruments

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

Fiscal 2014

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

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Unrealized gain (loss)
(1) Cash and deposits	$ 280,487	$ 280,487	$ —
(2) Notes and accounts receivable–trade	867,669		
Allowance for doubtful accounts	(4,719)		
	862,942	862,942	—
(3) Short-term investment securities and investment securities			
Available-for-sale securities	312,338	312,338	—
Total assets	1,455,776	1,455,776	—
(1) Notes and accounts payable–trade	355,595	355,595	—
(2) Long-term loans payable (*1)	350,685	365,363	14,677
Total liabilities	706,289	720,966	14,677
Derivative transactions (*2)	(11,504)	(11,504)	—

Fiscal 2013

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

(*1) Long-term loans payable include the current portion of long-term loans payable.
(*2) Receivables and payables incurred as a result of derivative transactions are presented on a net basis. Net payables are presented in parentheses.
Notes: 1. Calculation method of fair values of financial instruments and securities and derivative transactions
Assets:
(1) Cash and deposits and (2) Notes and accounts receivable–trade
These assets are recorded using book values because fair values approximate book values because of their short-term maturities.
(3) Short-term investment securities and investment securities
The fair values of these assets are determined using the quoted market price on applicable stock exchanges. Other instruments are determined using the quoted price obtained from financial institutions.
Liabilities:
(1) Notes and accounts payable–trade
These payables are recorded using book values because fair values approximate book values because of their short-term maturities.
(2) Long-term loans payable
The fair values of long-term loans payable are determined by discounting the aggregated values of the principal and interest using an assumed interest rate based on the interest rate that would be applied to a new loan of a similar nature.
Long-term loans payable bearing floating interest rates are hedged using interest rate swap contracts and the fair values of these loans payable are determined by discounting the aggregated values of the principal and interest accounted for together with the related interest rate swap contracts using a reasonably estimated interest rate based on the interest rate that would be applied to a new loan of a similar nature.
Derivative financial instruments:
Please see Note 13. "Derivative Financial Instruments."

2. Financial instruments whose fair values are not readily determinable

	Millions of yen		Thousands of U.S. dollars
	Carrying amount		Carrying amount
Category	Fiscal 2014	Fiscal 2013	Fiscal 2014
Unlisted equity securities	¥19,053	¥7,727	$157,462

These items are not included in "(3) Short-term investment securities and investment securities," because there is no market price, future cash flows cannot be estimated and it is very difficult to identify fair values.

3. Redemption schedule of monetary assets and securities with contractual maturities
Fiscal 2014

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

	Thousands of U.S. dollars			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and deposits	$ 280,487	$ —	$ —	$ —
Notes and accounts receivable–trade	867,669	—	—	—
Short-term investment securities and investment securities:				
o/w Securities with contractual maturities:				
(1) Bonds (Corporate)	—	49,586	—	—
(2) Bonds (Others)	—	—	—	—
(3) Others	—	58,272	—	—
Total	$1,148,157	$107,859	$ —	$ —

Fiscal 2013

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

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

12 Securities

1. Available-for-sale securities with market value

Fiscal 2014

	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	¥21,285	¥ 8,134	¥13,151	$175,909	$ 67,223	$108,685
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	6,163	6,000	163	50,933	49,586	1,347
Others	—	—	—	—	—	—
Others	7,158	7,051	107	59,157	58,272	884
Subtotal	34,608	21,185	13,422	286,016	175,082	110,925
Securities with book value not exceeding their acquisition cost						
Equity securities	680	693	(13)	5,619	5,727	(107)
Bonds						
Government and municipal	—	—	—	—	—	—
Corporate	—	—	—	—	—	—
Others	—	—	—	—	—	—
Others	2,504	2,504	—	20,694	20,694	—
Subtotal	3,184	3,197	(13)	26,314	26,421	(107)
Total	¥37,793	¥24,383	¥13,409	$312,338	$201,512	$110,818

Note: Unlisted equity securities amounting to ¥2,895 million (US$23,925 thousand) are excluded from the above table, because there is no market price and it is very difficult to identify fair values.

Fiscal 2013

	Millions of yen		
	Book value (estimated fair value)	Cost	Net
Securities with book value exceeding their acquisition cost			
Equity securities	¥17,931	¥ 8,136	¥9,794
Bonds			
Government and municipal	—	—	—
Corporate	6,118	6,000	118
Others	—	—	—
Others	4,117	4,051	66
Subtotal	28,167	18,187	9,979
Securities with book value not exceeding their acquisition cost			
Equity securities	400	454	(53)
Bonds			
Government and municipal	—	—	—
Corporate	5,000	5,000	—
Others	8,999	8,999	—
Others	47,292	47,302	(9)
Subtotal	61,692	61,756	(63)
Total	¥89,859	¥79,943	¥9,915

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

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

Fiscal 2014

	Millions of yen			Thousand of U.S. dollars		
Category	Proceeds from sales	Total gain	Total loss	Proceeds from sales	Total gain	Total loss
Others	¥25	¥14	¥ —	$206	$115	$ —
Total	¥25	¥14	¥ —	$206	$115	$ —

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

Fiscal 2013

	Millions of yen		
Category	Proceeds from sales	Total gain	Total loss
Others	¥50,408	¥241	¥ —
Total	¥50,408	¥241	¥ —

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

3. Impairment loss on securities

The Company recognized impairment loss on securities of ¥177 million (US$1,462 thousand) in fiscal 2014. The Company did not recognize impairment loss on securities in fiscal 2013.

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

13 Derivative Financial Instruments

1. Derivative transactions to which hedge accounting is not applied

(1) Currencies

Fiscal 2014

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

Category	Classification	Thousands of U.S. dollars			
		Nominal amount	Nominal amount due after one year	Market value	Unrealized gain (loss)
Transactions other than market transactions	Forward foreign exchange contracts:				
	Yen into U.S. dollar obligation.........	$415,462	$413	$ (9,537)	$ (9,537)
	Yen into Euro obligation	97,330	—	(2,842)	(2,842)
	U.S. dollar into Yen obligation........	297	—	0	0
	Euro into Yen obligation	4,413	—	33	33
	Total...	$517,512	$413	$(12,338)	$(12,338)

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

Fiscal 2013

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

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

2. Derivative transactions to which hedge accounting is applied

(1) Currencies

Fiscal 2014

Hedge accounting method	Classification	Major hedged items	Fiscal 2014 (As of December 31, 2014)					
			Millions of yen			Thousands of U.S. dollars		
			Nominal amount	Nominal amount over one year	Market value	Nominal amount	Nominal amount over one year	Market value
Allocation method	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Accounts receivable–trade and loans receivable	¥1,816	¥ —	Note	$15,008	$ —	Note
	Yen into Euro obligation	Accounts receivable–trade	10	—	Note	82	—	Note
	U.S. dollar into Yen obligation	Accounts payable–trade	37	—	Note	305	—	Note
Total			¥1,864	¥ —	Note	$15,404	$ —	Note

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

Hedge accounting method	Classification	Major hedging items	Fiscal 2014 (As of March 31, 2015)					
			Millions of yen			Thousands of U.S. dollars		
			Nominal amount	Nominal amount over one year	Market value	Nominal amount	Nominal amount over one year	Market value
Deferred hedge method	Forward foreign exchange contracts:							
	Yen into U.S. dollar obligation	Forecasted transactions in foreign currencies	¥ 2,826	¥ —	¥ (12)	$23,355	$ —	$ (99)
	Yen into Euro obligation	Forecasted transactions in foreign currencies	7,414	—	20	61,272	—	165
	U.S. dollar into Yen obligation	Forecasted transactions in foreign currencies	1,126	—	92	9,305	—	760
	Euro into Yen obligation	Forecasted transactions in foreign currencies	1	—	(0)	8	—	(0)
Total			¥11,369	¥ —	¥101	$93,958	$ —	$834

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

Fiscal 2013

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

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

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

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

(2) Interest rate

Fiscal 2014

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

Hedge accounting method	Classification	Major hedged items	Thousands of U.S. dollars Nominal amount	Nominal amount over one year	Market value
Special treatment for interest rate swaps	Interest rate swaps: Floating rate into fixed rate	Long-term loans payable	$214,876	$214,876	—

Note: 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 2013

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

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

14 Retirement Benefits

Fiscal 2014 (April 1, 2014 to December 31, 2014)

1. Summary of retirement benefit plan

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

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

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

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

2. Defined benefit plan

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

	Millions of yen	Thousands of U.S. dollars
Retirement benefit obligations at beginning of year	¥34,237	$282,950
Cumulative effect of change in accounting method	4,193	34,652
Balance at beginning of year reflecting change in accounting method	38,430	317,603
Service costs	1,245	10,289
Interest costs	384	3,173
Actuarial gain or loss	1,396	11,537
Benefits paid	(1,531)	(12,652)
Prior service costs incurred	312	2,578
Increase due to change from simplified to principle method	3,086	25,504
Other	527	4,355
Retirement benefit obligations at end of year	¥43,851	$362,404

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

	Millions of yen	Thousands of U.S. dollars
Plan assets at beginning of year	¥32,915	$272,024
Expected return on plan assets	584	4,826
Actuarial gain or loss	1,349	11,148
Contribution from entrepreneur	282	2,330
Benefits paid	(912)	(7,537)
Increase due to change from simplified to principle method	1,566	12,942
Other	201	1,661
Plan assets at end of year	¥35,987	$297,413

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

	Millions of yen	Thousands of U.S. dollars
Net defined benefit liabilities at beginning of year	¥2,094	$17,305
Retirement benefit expenses	192	1,586
Benefits paid	(66)	(545)
Contribution to plan assets	(55)	(454)
Increase due to addition to consolidation	669	5,528
Decrease due to exclusion from consolidation	(609)	(5,033)
Decrease due to change from simplified to principle method	(897)	(7,413)
Other	45	371
Net defined benefit liabilities at end of year	¥1,372	$11,338

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

	Millions of yen	Thousands of U.S. dollars
Installment type retirement benefit obligation	¥ 39,057	$ 322,785
Plan assets	(36,407)	(300,884)
Non installment type retirement benefit obligation	2,649	21,892
Net amount of net defined benefit obligation and net defined benefit asset recognized on the consolidated balance sheet	6,587	54,438
Net defined benefit obligation	10,053	83,082
Net defined benefit asset	(816)	(6,743)
Net amount of net defined benefit obligation and net defined benefit asset recognized on the consolidated balance sheet	¥ 9,237	$ 76,338

Note: Includes plan that uses the simplified method.

(5) The components of retirement benefit expenses

	Millions of yen	Thousands of U.S. dollars
Service costs	¥1,245	$10,289
Interest costs	384	3,173
Expected return on plan assets	(584)	(4,826)
Amortization of actuarial gains or losses	1,022	8,446
Amortization of prior service costs	104	859
Retirement benefit expenses calculated by simplified method	192	1,586
Retirement benefit expense pertaining to defined benefit plan	¥2,364	$19,537

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

	Millions of yen	Thousands of U.S. dollars
Prior service costs	¥(229)	$(1,892)
Actuarial gain or loss	788	6,512
Total	¥ 559	$ 4,619

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

	Millions of yen	Thousands of U.S. dollars
Unrecognized prior service costs	¥ 199	$ 1,644
Unrecognized actuarial gain or loss	(8,031)	(66,371)
Total	¥(7,832)	$64,727

(8) Plan assets

a. *The components of plan assets*

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

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

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

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

(9) Actuarial assumptions

Discount rate.......... Mainly 0.7% or 0.8%

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

3. Defined contribution plan

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

4. Multi-employer plan

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

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

	Millions of yen	Thousands of U.S. dollars
Plan assets	¥ 61,919	$ 511,727
Projected benefit obligation	88,264	729,454
Difference	¥(26,345)	$(217,727)

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

2.5%

(3) Supplementary explanation (As of March 31, 2014)

The main reasons behind the difference in amounts described above in (1) are as follows. The method of depreciation of prior service cost in the current fiscal year is to evenly split principals thereof over a period of 17 years, and is scheduled to be terminated in March 2029.

	Millions of yen	Thousands of U.S. dollars
Balance of prior service cost	¥17,593	$145,396
Deficient amount carried forward	8,752	72,330

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

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

1. Summary of retirement benefit plan

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

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

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

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

2. Defined benefit plan

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

	Millions of yen
Retirement benefit obligations at beginning of year	¥33,970
Service costs	1,421
Interest costs	574
Actuarial gain or loss	2
Benefits paid	(2,334)
Other	602
Retirement benefit obligations at end of year	¥34,237

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

	Millions of yen
Plan assets at beginning of year	¥25,800
Expected return on plan assets	636
Actuarial gain or loss	274
Contribution from entrepreneur	350
Benefits paid	(1,340)
Contribution to pension trust fund	7,000
Other	194
Plan assets at end of year	¥32,915

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

	Millions of yen
Net defined benefit liabilities at beginning of year	¥2,018
Retirement benefit expenses	195
Benefits paid	(109)
Contribution to plan assets	(60)
Other	51
Net defined benefit liabilities at end of year	¥2,094

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

	Millions of yen
Installment type retirement benefit obligation	¥ 33,551
Plan assets	(34,619)
	(1,067)
Non installment type retirement benefit obligation	4,485
Net amount of net defined benefit obligation and net defined benefit asset recognized on the consolidated balance sheet	3,417
Net defined benefit obligation	5,448
Net defined benefit asset	(2,031)
Net amount of net defined benefit obligation and net defined benefit asset recognized on the consolidated balance sheet	¥ 3,417

Note: Includes plan that uses the simplified method.

(5) The components of retirement benefit expenses

	Millions of yen
Service costs	¥1,421
Interest costs	574
Expected return on plan assets	(636)
Amortization of actuarial gains or losses	1,377
Amortization of prior service costs	(98)
Retirement benefit expenses calculated by simplified method	195
Retirement benefit expense pertaining to defined benefit plan	¥2,833

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

	Millions of yen
Prior service costs	¥ 5
Actuarial gain or loss	41
Total	¥46

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

	Millions of yen
Unrecognized prior service costs	¥ 428
Unrecognized actuarial gain or loss	(8,820)
Total	¥(8,391)

(8) Plan assets

a. *The components of plan assets*

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

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

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

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

(9) Actuarial assumptions

Discount rate .... Mainly 1.4%

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

3. Defined contribution plan

The contribution to the defined contribution plan of the Company and its consolidated subsidiaries is ¥723 million.

4. Multi-employer plan

The contribution to the multi-employer plan is ¥77 million, and is accounted for in the same manner as the contribution to the defined contribution plan of the Company and its consolidated subsidiaries.

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

	Millions of yen
Plan assets	¥ 60,783
Projected benefit obligation	87,743
Difference	¥(26,959)

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

2.5%

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

The main reasons behind the difference in amounts described above in (1) are as follows. The method of depreciation of prior service cost in the current fiscal year is to evenly split principals thereof over a period of 17 years, and is scheduled to be terminated in March 2029.

	Millions of yen
Balance of prior service cost	¥18,699
Deficient amount carried forward	8,260

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

15 Stock-Based Compensation Plans

1. Item and amount of expenses for stock options

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Cost of goods manufactured	¥ —	¥ —	$ —
Selling, general and administrative expenses	87	130	719
Non-operating expense	—	—	—

2. Details including size and changes of stock options

(1) Stock options plans

	Stock options June 2007	Stock options June 2008	Stock options June 2009
Number of eligible persons by position	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 11	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 16	Directors of the Company: 9 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 15
Total number and type of stocks granted	56,500 shares of common stock	78,500 shares of common stock	86,500 shares of common stock
Grant date	June 5, 2007	June 10, 2008	June 9, 2009
Prerequisite to be vested	No vesting conditions are set.	No vesting conditions are set.	No vesting conditions are set.
Required service period	There is no provision for a required service period.	There is no provision for a required service period.	There is no provision for a required service period.
Exercise period	From June 6, 2007 to June 5, 2022; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.	From June 11, 2008 to June 10, 2023; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.	From June 10, 2009 to June 9, 2024; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.

	Stock options June 2010	Stock options October 2010	Stock options May 2011
Number of eligible persons by position	Directors of the Company: 9 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 16	Directors: 25 Employees: 3,924 Directors or employees of the Company's subsidiaries: 2,010	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 14
Total number and type of stocks granted	83,500 shares of common stock	4,074,500 shares of common stock	89,500 shares of common stock
Grant date	June 9, 2010	October 1, 2010	May 19, 2011
Prerequisite to be vested	No vesting conditions are set.	Note	No vesting conditions are set.
Required service period	There is no provision for a required service period.	From October 1, 2010 to June 24, 2012	There is no provision for a required service period.
Exercise period	From June 10, 2010 to June 9, 2025; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.	From June 25, 2012 to June 24, 2020	From May 19, 2011 to May 18, 2026; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.

	Stock options May 2012	Stock options May 2013	Stock options May 2014
Number of eligible persons by position	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 13	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 17	Directors of the Company: 10 Executive officers of the Company (excluding those who concurrently serve as directors of the Company and those working overseas): 17
Total number and type of stocks granted	86,500 shares of common stock	88,000 shares of common stock	78,500 shares of common stock
Grant date	May 17, 2012	May 15, 2013	May 15, 2014
Prerequisite to be vested	No vesting conditions are set.	No vesting conditions are set.	No vesting conditions are set.
Required service period	There is no provision for a required service period.	There is no provision for a required service period.	There is no provision for a required service period.
Exercise period	From May 17, 2012 to May 16, 2027; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.	From May 15, 2013 to May 14, 2028; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.	From May 15, 2014 to May 14, 2029; provided that, if the final date of the exercise period is a holiday for the Company, the final date should be the business date immediately preceding the date.

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

(2) Size and changes of stock options

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

1) Number of stock options

	Stock options June 2007	Stock options June 2008	Stock options June 2009	Stock options June 2010	Stock options October 2010
Unvested stock options (shares)					
At the beginning of the fiscal year	—	—	—	—	—
Granted	—	—	—	—	—
Forfeited	—	—	—	—	—
Vested	—	—	—	—	—
At the end of the fiscal year	—	—	—	—	—
Vested stock options (shares)					
At the beginning of the fiscal year	7,000	12,000	23,000	25,000	2,982,500
Vested	—	—	—	—	—
Exercised	1,000	1,500	2,500	3,500	231,500
Forfeited	—	—	—	—	35,500
At the end of the fiscal year	6,000	10,500	20,500	21,500	2,715,500

	Stock options May 2011	Stock options May 2012	Stock options May 2013	Stock options May 2014
Unvested stock options (shares)				
At the beginning of the fiscal year	—	—	—	—
Granted	—	—	—	78,500
Forfeited	—	—	—	—
Vested	—	—	—	78,500
At the end of the fiscal year	—	—	—	—
Vested stock options (shares)				—
At the beginning of the fiscal year	44,500	46,500	64,500	—
Vested	—	—	—	78,500
Exercised	5,000	6,000	7,500	15,500
Forfeited	—	—	—	—
At the end of the fiscal year	39,500	40,500	57,000	63,000

2) Price information

	Yen				
	Stock options June 2007	Stock options June 2008	Stock options June 2009	Stock options June 2010	Stock options October 2010
Exercise prices	¥ 1	¥ 1	¥ 1	¥ 1	¥1,078
Weighted-average exercise date stock price	1,265	1,265	1,265	1,265	1,373
Fair value at the grant date	1,318	1,264	947	1,054	247

	Yen			
	Stock options May 2011	Stock options May 2012	Stock options May 2013	Stock options May 2014
Exercise prices	¥ 1	¥ 1	¥ 1	¥ 1
Weighted-average exercise date stock price	1,265	1,265	1,265	1,265
Fair value at the grant date	1,174	1,046	1,482	1,119

	U.S. dollars				
	Stock options June 2007	Stock options June 2008	Stock options June 2009	Stock options June 2010	Stock options October 2010
Exercise prices	$ 0.00	$ 0.00	$ 0.00	$ 0.00	$ 8.90
Weighted-average exercise date stock price	10.45	10.45	10.45	10.45	11.34
Fair value at the grant date	10.89	10.44	7.82	8.71	2.04

	U.S. dollars			
	Stock options May 2011	Stock options May 2012	Stock options May 2013	Stock options May 2014
Exercise prices	$ 0.00	$ 0.00	$ 0.00	$ 0.00
Weighted-average exercise date stock price	10.45	10.45	10.45	10.45
Fair value at the grant date	9.70	8.64	12.24	9.24

3. Method to estimate fair value of stock options

The fair value of the May 2014 stock options, which were granted in fiscal 2014, are estimated as follows.

1) Valuing method: Black-Scholes model

2) Major basic figures and estimating method

	May 2014 stock options
Stock price volatility (Note 1)	26.4%
Expected remaining life (Note 2)	2 years
Expected dividend (Note 3)	¥36.00/share (US$0.29)
Risk-free interest rate (Note 4)	0.09%

Notes: 1. Calculated weekly based on the weekly stock price information over a period from the week that contains May 7, 2012 to the week that contains May 5, 2014.
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 2014.
4. Government bond yield over a period corresponding to the expected remaining life.

4. Method to estimate number of vested stock options

Stock options May 2014

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

16 Income Taxes

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Deferred tax assets:			
Net defined benefit liabilities	¥ 9,001	¥ 8,020	$ 74,388
Impairment loss	1,128	1,261	9,322
Provision for bonuses	1,181	2,127	9,760
Write-down of investment securities	1,217	1,157	10,057
Write-down of inventories	301	237	2,487
Other	14,488	12,945	119,735
Subtotal deferred tax assets	27,319	25,750	225,776
Valuation allowance	(5,410)	(5,233)	(44,710)
Total deferred tax assets	21,909	20,517	181,066
Deferred tax liabilities:			
Net defined benefit assets	(288)	(1,813)	(2,380)
Reserve for reduction entry	(1,587)	(1,711)	(13,115)
Unrealized gain on revaluation of securities	(4,214)	(2,937)	(34,826)
Adjustment to book value of assets stated at fair value	(12,551)	(11,656)	(103,727)
Other	(10,396)	(8,593)	(85,917)
Total deferred tax liabilities	(29,038)	(26,712)	(239,983)
Net deferred tax assets (liabilities)	¥ (7,129)	¥ (6,194)	$ (58,917)

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Current assets:			
Deferred tax assets	¥ 4,694	¥ 5,889	$ 38,793
Noncurrent assets:			
Deferred tax assets	8,701	6,260	71,909
Noncurrent liabilities:			
Deferred tax liabilities	(20,526)	(18,343)	(169,636)

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

	Fiscal 2014	Fiscal 2013
Normal effective tax rate	35.3%	37.7%
Non-taxable income	(1.1)	(1.1)
Tax credit primarily for research and development expenses	(6.2)	(2.8)
Decrease in deferred tax assets at fiscal year-end due to change in tax rate	—	0.8
Other	2.6	(0.0)
Income tax rate per the consolidated statement of income	30.5%	34.6%

17 Business Combination through Acquisition

The Company reached an agreement to acquire the Vinyl Acetate related business, which consists of vinyl acetate monomer (VAM), poval (PVA) resin, polyvinyl butyral (PVB) resin and film, from DuPont on November 21, 2013 ("the Acquisition"), and completed the Acquisition on June 1, 2014.

1. Summary of the Acquisition

(1) Company name and description of acquired business

Name: E. I. du Pont de Nemours and Company

Description of acquired business: Manufacture and sale of vinyl acetate-related products (VAM, PVA, PVB, etc.)

(2) Purpose for the Acquisition

The Company executed the Acquisition as part of its expansion plan in the vinyl acetate-related business, which is one of its core businesses.

Ahead of its global competitors, the Company successfully industrialized PVA resin and it has a leading global presence in PVA resin, PVA film, PVB resin and film, EVOH (ethylene vinyl alcohol) resin, which is trademarked as *EVAL*, and PVA fiber (*KURALON*), which apply vinyl acetate as their raw materials. Through the Acquisition, the fusion of DuPont's technology, R&D, sales capabilities, and manufacturing and sales network with the Company's operations will be a key driver of the Company's sustainable growth.

(3) Closing date

June 1, 2014

(4) Legal form of business combination

Cash purchase of assets and shares

(5) Name of acquired company after business combination

Kuraray America, Inc. and others

(6) Reason for decision on the acquiring company

Mainly subsidiaries of the Company acquired assets and shares with cash

2. Period of results of the acquired business included in the Consolidated Financial Statements

June 1, 2014 to December 31, 2014

3. Acquisition cost of the acquired business and breakdown

Acquisition price.. US$637 million (¥64,847 million)

Acquisition cost... US$637 million (¥64,847 million)

Note: The yen amounts are conversions based on the exchange rate as of May 31, 2014. Payment was denominated in U.S. dollars, euros and other currencies according to the country in which businesses were transferred.

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

(1) Amount of goodwill

US$72 million (¥7,349 million)

Note: The yen amounts are conversions based on the exchange rate as of May 31, 2014.

(2) Reason for its recognition

Expected future excess earning power

(3) Amortization method and amortization period

The straight-line method over 20 years

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

	Millions of U.S. dollars	Millions of yen
Current assets	$122	¥12,432
Noncurrent assets	452	45,975
Total assets	$574	¥58,408
Current liabilities	$ 0	¥ 92
Noncurrent liabilities	8	817
Total liabilities	$ 8	¥ 910

Note: The yen amounts are conversions based on the exchange rate as of May 31, 2014.

Assets acquired by nonconsolidated companies are included in noncurrent assets because they are capital for financing or investment by consolidated companies.

6. The amounts and breakdown of allocated intangible fixed assets other than goodwill and weighted average amortization period by asset type

Customer-related assets	US$125 million (¥12,712 million)	Amortization period	15 years
Technology-related assets	US$58 million (¥5,940 million)	Amortization period	14 years

Note: The yen amounts are conversions based on the exchange rate as of May 31, 2014.

7. Approximate amount of impact on the consolidated statement of income for fiscal 2014 assuming that the business combination was completed at the beginning of the fiscal year

Not presented due to the difficulty of a reasonable calculation.

Approval of the Acquisition by the European Commission was conditional on the transfer of a portion of the European polyvinyl butyral (PVB) sheet business (the "Business") to a third party. Accordingly, on October 17, 2014, Kuraray concluded an agreement to transfer all of the shares of Kuraray Deutschland GmbH and Kuraray Belgium N.V., which operate the Business, to GVC S.A., a subsidiary of GVC Holdings, Inc. Based on this agreement, the transfer of the Business was completed on January 31, 2015. Estimated losses generated by this transfer are recorded as "Loss on transfer of business" on the consolidated statement of income.

18 Asset Retirement Obligations

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

Overview of asset retirement obligations

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

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

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

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

Calculation method for the amount of asset retirement obligations

The Company

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

Consolidated subsidiaries

Consolidated subsidiaries determine the amounts of asset retirement obligations using discount rates ranging from 2.1% to 5.0% for the net cash flows, estimating the period of use to be 30 to 60 years after acquisition.

Increase or decrease of the total amount of asset retirement obligations during the fiscal years ended December 31, 2014 and March 31, 2014:

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Beginning balance	¥2,656	¥2,336	$21,950
Increase due to decisions to remove	138	70	1,140
Adjustments due to the elapse of time	53	48	438
Decrease due to payment for the obligations	(123)	(165)	(1,016)
Other increase (decrease)	775	367	6,404
Ending balance	¥3,500	¥2,656	$28,925

19 Segment Information

Segment information

1. Segment overview

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

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

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

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

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

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

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

Fiscal 2014 (April 1, 2014 to December 31, 2014)

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

	Thousands of U.S. dollars									
	Reporting Segments									
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Trading	Total	Other Business	Total	Adjustment	Consolidated Financial Statements
Net sales										
(1) Outside customers	$1,627,677	$221,314	$254,099	$225,090	$739,975	$3,068,173	$331,884	$3,400,066	$ —	$3,400,066
(2) Inter-segment sales and transfers	182,570	147,892	109,834	67,347	13,140	520,793	94,479	615,280	(615,280)	—
Total	1,810,256	369,206	363,942	292,438	753,115	3,588,975	426,371	4,015,347	(615,280)	3,400,066
Segment income (loss)	295,239	40,280	12,586	18,595	23,066	389,785	16,471	406,264	(73,223)	333,041
Segment assets	3,294,471	490,512	378,801	361,140	335,884	4,860,826	449,041	5,309,867	405,314	5,715,190
Other items										
Depreciation and amortization (other than goodwill)	173,132	29,876	21,016	20,801	297	244,768	12,107	256,876	7,900	289,578
Impairment loss	1,743	—	—	—	—	1,743	545	2,289	—	2,289
Amortization of goodwill	29,595	—	611	—	—	30,214	8	30,223	—	30,223
Balance of goodwill at end of current period	248,719	—	9,190	—	—	257,917	74	257,991	—	257,991
Investments in equity method affiliates	—	—	—	884	—	884	—	884	—	884
Increase in tangible fixed assets and intangible fixed assets	225,975	22,157	23,157	22,049	438	293,793	14,413	308,214	17,917	326,140

Notes: 1. The "Other Business" category incorporates operations not included in reporting segments, including activated carbon, environmental business and engineering business.

2. Adjustment is as follows: Included within segment income (loss) of ¥8,860 million (US$73,223 thousand) is the elimination of inter-segment transactions of ¥1,192 million (US$9,851 thousand) and corporate expenses of ¥10,052 million (US$83,074 thousand). Corporate expenses mainly comprise headquarters' general and administrative expenses and the Company's basic research expenses.

3. Segment income is adjusted with operating income under consolidated statement of income.

4. Adjustment is as follows: Included within segment assets of ¥49,043 million (US$405,314 thousand) is the elimination of inter-segment transactions of ¥31,640 million (US$261,487 thousand) and corporate assets of ¥80,684 million (US$666,809 thousand). Major corporate assets are surplus funds, long-term investment funds, assets related to basic research and corporate administrative divisions of the Company.

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

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

Notes: 1. The "Other Business" category incorporates operations not included in reporting segments, including activated carbon, environmental business and engineering business.
2. Adjustment is as follows: Included within segment income (loss) of ¥12,795 million is the elimination of inter-segment transactions of ¥1,025 million and corporate expenses of ¥13,820 million. Corporate expenses mainly comprise headquarters' general and administrative expenses and the Company's basic research expenses.
3. Segment income is adjusted with operating income under consolidated statement of income.
4. Adjustment is as follows: Included within segment asset of ¥123,383 million is the elimination of inter-segment transactions of ¥28,674 million and corporate assets of ¥152,057 million. Major corporate assets are surplus funds, long-term investment funds, assets related to basic research and corporate administrative divisions of the Company.

(Related Information)

Fiscal 2014 (April 1, 2014 to December 31, 2014)

1. Information about products and services

	Millions of yen					
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Other Business	Total
Net sales to outside customers	¥219,803	¥43,615	¥46,795	¥52,974	¥48,219	¥411,408

	Thousands of U.S. dollars					
	Vinyl Acetate	Isoprene	Functional Materials	Fibers and Textiles	Other Business	Total
Net sales to outside customers	$1,816,553	$360,454	$386,735	$437,801	$398,504	$3,400,066

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

2. Performance by geographical segment

(1) Net sales

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

Thousands of U.S. dollars						
Japan	United States	China	Europe	Asia	Other Area	Total
$1,139,776	$491,537	$350,851	$803,603	$473,768	$140,504	$3,400,066

Note: Net sales are classified by country or area based on customer location.
Change in presentation method
From the fiscal year ended December 31, 2014, net sales to outside customers in United States and China accounted for more than 10% of the Company's total sales. Geographical segments for the previous fiscal year have been restated to reflect this change.

(2) Tangible fixed assets

Millions of yen					Thousands of U.S. dollars				
Japan	United States	Germany	Other Overseas	Total	Japan	United States	Germany	Other Overseas	Total
¥132,570	¥90,442	¥27,839	¥11,535	¥262,388	$1,095,619	$747,454	$230,074	$95,330	$2,168,495

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

Fiscal 2013 (April 1, 2013 to March 31, 2014)
1. Information about products and services

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

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

2. Performance by geographical segment
(1) Net sales

Millions of yen						
Japan	United States	China	Europe	Asia	Other Area	Total
¥186,504	¥38,315	¥37,525	¥81,309	¥56,545	¥13,285	¥413,485

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

(2) Tangible fixed assets

Millions of yen				
Japan	United States	Germany	Other Overseas	Total
¥135,950	¥51,600	¥24,544	¥10,124	¥222,219

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

Information about impairment loss of fixed assets by reporting segment
Fiscal 2014: This information is omitted since similar information is disclosed in the segment information.
Fiscal 2013: This information is omitted since similar information is disclosed in the segment information.

Information about amortization of goodwill and unamortized balance of goodwill by reporting segment
Fiscal 2014: This information is omitted since similar information is disclosed in the segment information.
Fiscal 2013: This information is omitted since similar information is disclosed in the segment information.

Information about gain on negative goodwill
Fiscal 2014: No gain on negative goodwill to report.
Fiscal 2013: This information is omitted since similar information is disclosed in the segment information.

20 Related Party Disclosures

Fiscal 2014: Not applicable

Fiscal 2013: Not applicable

21 Per Share Information

	Yen		U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Net assets per share	¥1,354.21	¥1,272.68	$11.19
Basic net income per share	60.77	83.93	0.50
Diluted net income per share	60.65	83.75	0.50

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

	Millions of yen		Thousands of U.S. dollars
	Fiscal 2014	Fiscal 2013	Fiscal 2014
Basic net income per share			
Net income	¥ 21,296	¥ 29,390	$ 176,000
Net income unallocated to common stock	—	—	—
Net income allocated to common stock	21,296	29,390	176,000
Average number of common stock outstanding during the fiscal year (thousand shares)	350,424	350,162	2,896,066
Diluted net income per share			
Adjustment made on net income	—	—	—
Increase of common stocks (thousand shares)	734	775	6,066
(New subscription rights to shares (thousand shares))	(734)	(775)	(6,066)
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 Supplementary Schedule

Bond schedule

(Millions of yen)

Company name	Issue	Date of issue	Balance at beginning of period	Balance at end of period	Yield	Security	Date of redemption
Kuraray	No. 4 Unsecured bonds	December 9, 2011	¥10,000 (US$82,644 thousand)	¥10,000 (US$82,644 thousand)	1.24%	None	December 9, 2021
	Total	—	¥10,000 (US$82,644 thousand)	¥10,000 (US$82,644 thousand)	—	—	—

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

Supplementary schedule of loans payable

(Millions of yen)

Category	Balance as of April 1, 2014	Balance as of December 31, 2014	Average interest rate (%)	Due date
Short-term loans	¥ 7,030	¥11,980 (US$99,008 thousand)	0.4	—
Current portion of long-term loans due within one year	6,113	107 (US$884 thousand)	1.2	—
Current portion of long-term lease due within one year (Note 2)	378	375 (US$3,099 thousand)	—	—
Long-term loans (Excluding current portion) (Note 3)	42,187	42,326 (US$349,801 thousand)	1.2	From January 2016 to March 2024
Lease liabilities (Excluding current portion) (Notes 2, 3)	1,752	1,589 (US$13,132 thousand)	—	From January 2016 to November 2026
Other interest-bearing debts Commercial papers	—	10,000 (US$82,644 thousand)	0.1	—
Total	¥57,461	¥66,378 (US$548,578 thousand)	—	—

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

(Millions of yen)

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
Long-term loans	¥ 81	¥ 74	¥ 70	¥12,050
Lease liabilities	310	232	163	123

(Thousands of U.S. dollars)

Category	Due after 1 year but within 2 years	Due after 2 years but within 3 years	Due after 3 years but within 4 years	Due after 4 years but within 5 years
Long-term loans	$ 669	$ 611	$ 578	$99,586
Lease liabilities	2,561	1,917	1,347	1,016

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 December 31, 2014.

Other

Quarterly information in Fiscal 2014

(Millions of yen)

Accumulated	First quarter From April 1 to June 30, 2014	Second quarter From April 1 to September 30, 2014	Fiscal 2014
Net sales	¥105,197	¥222,613	¥411,408
Income (loss) before income taxes	10,759	24,214	31,533
Net income (loss)	7,285	17,035	21,296
Net income (loss) per share (Yen)	20.79	48.62	60.77

Quarterly	First quarter From April 1 to June 30, 2014	Second quarter From July 1 to September 30, 2014	Third quarter From October 1 to December 31, 2014
Net income (loss) per share (Yen)	¥20.79	¥27.82	¥12.16

(Thousands of U.S. dollars)

Accumulated	First quarter From April 1 to June 30, 2014	Second quarter From April 1 to September 30, 2014	Fiscal 2014
Net sales	$869,396	$1,839,776	$3,400,066
Income (loss) before income taxes	88,917	200,115	260,603
Net income (loss)	60,206	140,785	176,000
Net income (loss) per share (U.S. dollars)	0.17	0.40	0.50

Quarterly	First quarter From April 1 to June 30, 2014	Second quarter From July 1 to September 30, 2014	Third quarter From October 1 to December 31, 2014
Net income (loss) per share (U.S. dollars)	$0.17	$0.22	$0.10

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Kuraray Co., Ltd. ("the Company") and its consolidated subsidiaries, which comprise the consolidated balance sheet as at December 31, 2014, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as at December 31, 2014, and their financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience translation
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2014 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

PricewaterhouseCoopers Aarata

April 30, 2015

PricewaterhouseCoopers Aarata
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Main Group Companies

(As of December 31, 2014)

Company	Head office	Capital (¥ million)	Activities
JAPAN			
Kuraray Trading Co., Ltd.	Osaka	¥2,200	Import, export, manufacture, and sales of textile products, chemicals, etc.
Kuraray Chemical Co., Ltd.	Osaka	600	Manufacture and sales of activated carbon and related products
Kuraray Engineering Co., Ltd.	Osaka	150	Plant design and construction
Kuraray Noritake Dental Inc.	Tokyo	300	Manufacture and sales of dental materials and medical-related products
Kuraray Plastics Co. Ltd.	Osaka	180	Manufacture and sales of plastics
Kuraraylivіng Co., Ltd.	Osaka	101	Manufacture and sales of packaging materials
Kuraray Techno Co., Ltd.	Osaka	100	Production subcontracting, Temporary personnel service
Kuraray Kuraflex Co., Ltd.	Osaka	100	Manufacture and sales of non-woven fabric products
Kuraray Fastening Co., Ltd.	Osaka	100	Manufacture and sales of *MAGIC TAPE*
OVERSEAS			
Kuraray America, Inc.	Texas, U.S.A.	US$10.1 million	Import and sales of Kuraray products in the U.S., Manufacture and sales of *EVAL* resins and *SEPTON*
MonoSol, LLC	Indiana, U.S.A.	US$59.0 million	Manufacture and sales of PVA film
Kuraray South America Ltda.	Saõ Paulo, Brazil	R$25.27 million	Market development and sales promotion of Kuraray Group products in South America
Kuraray Europe GmbH	Frankfurt, Germany	€31.1 million	Import and sales of Kuraray products in Europe, Manufacture and sales of PVA and PVB resins and PVB film
EVAL Europe N.V.	Antwerp, Belgium	€29.7 million	Manufacture and sales of *EVAL* resins in Europe
Kuraray China Co., Ltd.	Shanghai, China	US$3.0 million	Business expansion, market entry planning and other supplemental activities
Kuraray (Shanghai) Co., Ltd.	Shanghai, China	US$5.0 million	Import and sales of Kuraray products in China
Kuraray Hong Kong Co., Ltd.	Hong Kong, China	HK$4.6 million	Processing and sales of Kuraray products in China and Southeast Asia
Kuraray Asia Pacific Pte. Ltd.	Singapore	SGD 42.5 million	Manufacture and sales of PVA resins
Kuraray India Private Limited	Delhi, India	Rupees 222 million	Import and sales of Kuraray products in India and market development
Kuraray (Thailand) Co., Ltd.	Bangkok, Thailand	THB8.0 million	Sales and market development of Kuraray products in Thailand

Note: Kuraray Co., Ltd. has 28 affiliated companies in Japan and 43 overseas.

Investor Information

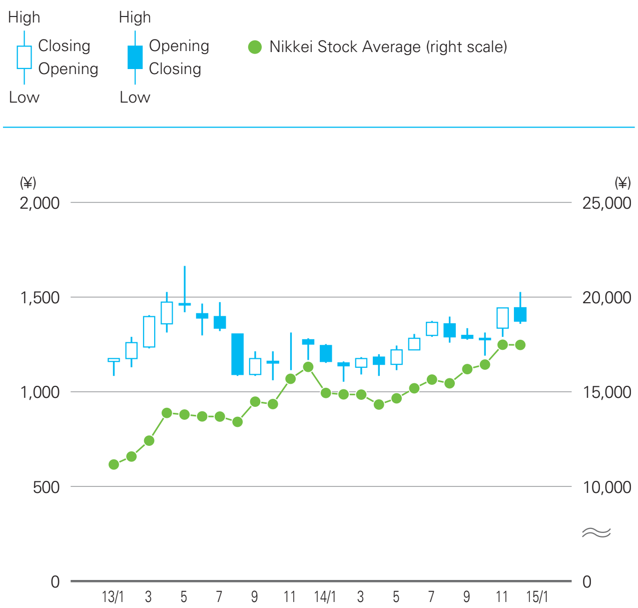
(As of December 31, 2014)

KURARAY CO., LTD.

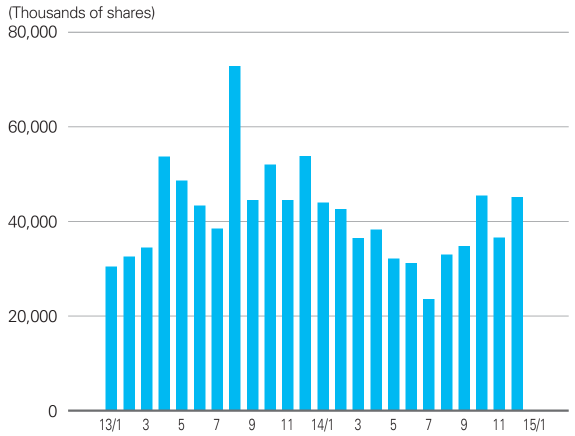
Established:	June 24, 1926
Capital:	¥88,955 million
Shares Authorized:	1,000,000,000 shares
Issued:	382,863,603 shares
Number of Shareholders:	43,898
Head Offices:	Tokyo, Osaka

Share Price Movement

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



Trading Volume



Shareholder Register Agent for Common Stock

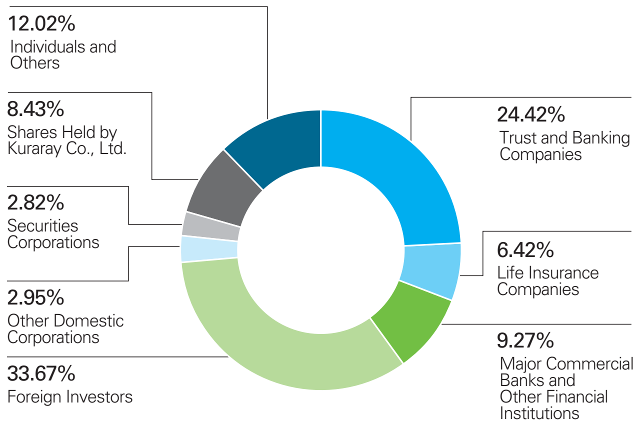
Sumitomo Mitsui Trust Bank, Limited
Stock Transfer Agency Business Planning Department
1-4-1, Marunouchi, Chiyoda-ku, Tokyo 100-8223, Japan

Principal Shareholders

Name or Company Name	Number of Shares Held (thousands)	Percentage of Shares Held
The Master Trust Bank of Japan, Ltd. -Trust Account-	23,734	6.20%
Japan Trustee Services Bank, Ltd. -Trust Account-	22,127	5.78%
National Mutual Insurance Federation of Agricultural Cooperatives	11,002	2.87%
Nippon Life Insurance Company	10,448	2.73%
TRUST & CUSTODY SERVICES BANK, LTD - Securities Inv. Investment Trust Account	7,258	1.90%
THE BANK OF NEW YORK MELLON SA/NV	6,104	1.59%
Meiji Yasuda Life Insurance Company	5,969	1.56%
NORTHERN TRUST CO (AVFC) RE - SSDOO	5,532	1.45%
BNP Paribas Securities (Japan) Limited	4,391	1.15%
TRUST & CUSTODY SERVICES BANK, LTD - Trust Collateral Account	4,354	1.14%

Note: Although the Company owns 32,283,465 shares of treasury stock, it is excluded from the major shareholders listed above.

Breakdown of Issued Shares by Type of Shareholder



KURARAY CO., LTD.

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