

**Consolidated Earnings Report for the  
Second Quarter of the Fiscal Year Ending  
March 31, 2012 (Unaudited)**

**October 31, 2011  
Kuraray Co., Ltd.**

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## Consolidated Earnings Report for the Interim Period of the Fiscal Year Ending March 31, 2012

Name of listed company: Kuraray Co., Ltd.  
Stock code: 3405  
Stock exchange listing: Tokyo, first section  
URL: <http://www.kuraray.co.jp/en>

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(Millions of yen rounded down unless otherwise stated)

Preparation of supplementary documentation for the quarterly earnings report: Yes

Holding of quarterly earnings results briefing: Yes (For securities analysts and institutional investors)

### 1. Consolidated Financial Results for the Interim Period of the Fiscal Year Ending March 31, 2012 (April 1, 2011 to September 30, 2011)

#### (1) Consolidated Operating Results (Cumulative)

(Percentages displayed for net sales, operating income, ordinary income and net income are comparisons with the corresponding period of the previous fiscal year.)

(Millions of yen)

	Net Sales		Operating Income		Ordinary Income		Net Income	
		(Change)		(Change)		(Change)		(Change)
Fiscal 2011 Interim	185,635	2.7%	29,364	15.3%	28,981	15.9%	17,214	23.7%
Fiscal 2010 Interim	180,775	15.1%	25,461	160.9%	24,995	165.7%	13,913	166.5%

Note: Comprehensive income: For the fiscal 2011 interim period: ¥20,907 million (— %)  
For the fiscal 2010 interim period: ¥1,812 million (— %)

	Net Income per Share (Yen)	Fully Diluted Net Income per Share (Yen)
Fiscal 2011 Interim	49.43	49.35
Fiscal 2010 Interim	39.96	39.90

## (2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Total Net Assets	Shareholders' Equity Ratio (%)
As of September 30, 2011	534,123	364,720	67.2
As of March 31, 2011	507,328	346,825	67.6

(Reference)

Shareholders' equity: As of September 30, 2011: ¥358,891 million  
As of March 31, 2011: ¥343,105 million

Note: Shareholders' equity here represents total net assets less share subscription rights and minority interests.

## 2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Jun. 30	Sept. 30	Dec. 31	Mar. 31	Annual
Fiscal 2010	—	13.00	—	14.00	27.00
Fiscal 2011	—	16.00			
Fiscal 2011 (Forecast)			—	17.00	33.00

Note: Revisions to cash dividend forecast during this period: No

## 3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2012 (April 1, 2011 to March 31, 2012)

(Percentages displayed for net sales, operating income, ordinary income and net income are comparisons with the corresponding period of the previous fiscal year)

(Millions of yen)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share	
	Amount	%	Amount	%	Amount	%	Amount	%	Yen	Yen
Full Fiscal Year	390,000	7.4%	60,000	13.0%	58,500	14.6%	34,000	18.3%	97.62	Yen

Note: Revisions to forecasts of consolidated financial results during this period: Yes

## 4. Other

### (1) Changes in Important Subsidiaries during the Period (Changes in Special Subsidiaries Involving Changes in the Scope of Consolidation)

No

### (2) Adoption of Special Accounting Practices in the Preparation of Quarterly Consolidated Financial Statements

No

### (3) Changes in Accounting Principles, Procedures and Presentation Methods in Connection with the Preparation of Quarterly Consolidated Financial Statements

1. Changes following revision of accounting standards: Yes

2. Changes besides 1. above: None

3. Changes of accounting estimates: None

4. Restatement: None

(Note: Please see “Changes in Accounting Policies, Accounting Estimates and Restatement” on page 5 about the details.)

**(4) Number of Shares Issued and Outstanding (Common Shares)**

1. Number of shares issued and outstanding (including treasury stock) as of the period-end:

As of September 30, 2011	382,863,603 shares
As of March 31, 2011	382,863,603 shares
2. Number of treasury stock as of the period-end:

As of September 30, 2011	34,557,776 shares
As of March 31, 2011	34,611,169 shares
3. Average number of shares for the period (cumulative):

As of September 30, 2011	348,284,800 shares
As of September 30, 2010	348,135,295 shares

*Indication of quarterly review procedure implementation status*

This quarterly earnings report is exempt from the quarterly review procedure based upon the Financial Instruments and Exchange Act. Furthermore, it was undergoing the review procedure process at the time of this release.

*Cautionary Statement with Respect to Forecasts of Consolidated Business Results*

The results forecasts presented in this document are based upon currently available information and assumptions deemed rational. A variety of factors could cause actual results to differ materially from forecasts. Please refer to “Qualitative Information on Consolidated Operating Results Forecast” on page 4 of the Attachment for the assumptions used.

*Access to Documents and Other Materials Relating to the Quarterly Results Briefing to Be Held on October 31, 2011*

Related documents and materials, including the video of the briefing, will be posted on the Company’s website immediately after the briefing is closed.

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## 1. Qualitative Information and Financial Statements

### (1) Qualitative Information on Consolidated Business Results

During the interim period of fiscal 2011 (April 1, 2011 to September 30, 2011), uncertainties in the Kuraray Group's operating environment increased, reflecting financial crises in Europe and the economic slowdown in the United States. In addition, economies in emerging countries, which had continued to show healthy growth, plateaued during the period. On the domestic front, circumstances permitted no optimism as the already deflationary economy further deteriorated and the yen continued to appreciate.

Confronting these circumstances, the Kuraray Group's Kashima Plant promptly resumed operations that had been suspended due to the Great East Japan Earthquake, while implementing price revisions to compensate for climbing raw material and fuel prices. Furthermore, in line with the GS-Twins medium-term action plan, the Group continued to steadily implement measures aimed at expanding businesses and achieving future growth.

As a result, net sales for the interim period rose ¥4,859 million, or 2.7%, compared with the corresponding period of the previous fiscal year to ¥185,635 million, operating income grew ¥3,903 million, or 15.3%, to ¥29,364 million, ordinary income increased ¥3,985 million, or 15.9%, to ¥28,981 million and net income surged ¥3,301 million, or 23.7%, to ¥17,214 million.

### Results by Business Segment

#### **Resins**

Demand for resins, except those for LCD-related applications, was steady in Europe, the United States and Asia. As a result, sales in this segment grew 3.6% year on year to ¥77,540 million, and operating income rose 2.7% to ¥25,910 million.

- (1) The expansion of poval resin sales slowed in Europe, while sales of value-added products grew in the markets of emerging and other countries. Sales of optical-use poval films remained flat year on year, reflecting the stagnant performance of the LCD TV sector in the second quarter. To better prepare for the anticipated demand expansion in this business over the medium term, Kuraray decided to build a new production line at its Saijo Plant, which will add an annual capacity of 3.2 million square meters. This new line is scheduled to begin production in June 2013. Sales of polyvinyl butyral (PVB) film were stable.
- (2) Sales of *EVVAL* ethylene vinyl alcohol copolymer (EVOH resin) for automobiles and food packaging remained favorable in Europe, the United States and emerging countries.

## Chemicals

Despite the suspension of production in some product categories due to the earthquake, sales in this segment remained generally stable. In addition, during the period under review, the Company focused on revising prices to reflect raw and fuel price hikes. As a result, sales in this segment rose 3.8% year on year to ¥38,931 million, while operating income soared 50.8% to ¥5,156 million.

- (1) Sales of methacrylic resin for use as sheets and molding materials increased. Improvements in market conditions supported this positive result.
- (2) In isoprene chemicals, sales of *SEPTON* thermoplastic elastomer and liquid isoprene rubber (*LIR*) were steady. Although the performance of certain products in this segment was still affected by the aftermath of the earthquake, the performance of fine chemicals remained steady throughout the period under review.
- (3) The performance of *GENESTAR* heat-resistant polyamide resin was impacted by rising raw material and fuel prices in the second quarter. Also impacted by the stagnant performance of *GENESTAR* for LED reflector applications, *GENESTAR* sales declined year on year. On the earnings front, however, Kuraray secured profitability by pioneering new *GENESTAR* applications, among other initiatives.
- (4) Kuraray Medical Inc. saw revenue increase due to the inclusion of the dental materials business of Noritake Dental Supply Co., Limited, which was merged into the Company in April 2011.

## Fibers and Textiles

Although sales of *KURALON* were brisk, demand for certain other products remained stagnant. As a result, sales in this segment decreased 3.3% year on year to ¥29,560 million; however, operating income grew 631.0% to ¥616 million.

- (1) Sales were healthy for *KURALON* for use in primary cell separators and automotive brake hoses. Demand for this product for use as an asbestos substitute in fiber reinforced cement (FRC) also increased in European construction market.
- (2) Sales of *CLARINO* man-made leather were healthy for school bag applications. The use of new processed products expanded steadily for footwear and interior applications, which has effectively reduced the Company's deficit in *CLARINO* operations. Kuraray is continuing radical business restructuring in these operations.
- (3) Sales of *KURAFLEX* nonwoven fabrics for use in wet wipes were stable despite stagnant demand for these products' use in commercial counter cloth and industrial masks.

## Trading

Although certain operations in this segment were affected by the earthquake, sales of differentiated materials in such fiber-related businesses as polyester grew steadily. As a result, segment sales were down 1.8% year on year to ¥56,795 million, while operating income surged 16.3% to ¥1,752 million.

## Others

Sales of activated carbon for use in water purification systems and capacitors (electric storage devices) were brisk, and other items also saw stable demand growth. As a result, sales in this segment climbed 22.7% year on year to ¥33,713 million, and operating income jumped 23.9% to ¥2,984 million.

## (2) Qualitative Information on Consolidated Operating Results Forecast

For the Kuraray Group, uncertainties continue to prevail in the operating environment, including with regard to the developing situations in the European and U.S. economies, for the second half of fiscal 2011, the year ending March 31, 2012. Such circumstances, especially the ongoing appreciation of the yen, are expected to place downward pressure on the Group's net sales. Accordingly, Kuraray has revised its performance forecasts for fiscal 2011, as shown in the table below.

Revised forecasts for the fiscal year ending March 31, 2012 (April 1, 2011–March 31, 2012)

(Millions of yen, unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (Yen)
Previous forecast (A) (Announced on April 27, 2011)	400,000	60,000	58,500	34,000	97.63
Revised forecast (B)	390,000	60,000	58,500	34,000	97.62
Change (B – A)	(10,000)	—	—	—	
Change (%)	(2.5)	—	—	—	
(Reference) Fiscal 2010 Results	363,191	53,095	51,062	28,742	82.55

Assumptions for the third quarter and later are as follows:

- ¥77=US\$1
- ¥105=1 euro
- Domestic naphtha price: ¥50,000 per kiloliter

## **2. Items regarding Summary (and Other) Information**

### **Changes in Accounting Policies, Accounting Estimates and Restatement**

(Changes in Accounting Policies)

From the first quarter of the fiscal year ending March 31, 2012, Kuraray is applying the “Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2, June 30, 2010) and the “Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4, June 30, 2010).

In calculating quarterly net income per share on a diluted basis, the method used to reflect the effects of stock options, the rights to which will vest to the holders of said options after a certain period of time, has been changed to one under which an amount contingent upon said holders’ services to be provided to the Company will comprise part of the assessed fair value of stock options and shall be included in the amount to be paid in at the time of the exercise of the rights.

### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	March 31, 2011	September 30, 2011
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and deposits	34,221	35,192
Notes and accounts receivable—trade	76,135	79,462
Short-term investment securities	127,128	131,074
Merchandise and finished goods	40,534	47,025
Work in process	8,122	8,815
Raw materials and supplies	12,732	13,608
Deferred tax assets	6,046	5,875
Other	6,475	7,806
Allowance for doubtful accounts	(802)	(868)
Total current assets	310,594	327,990
<b>Noncurrent Assets</b>		
Tangible fixed assets		
Buildings and structures, net	33,701	34,391
Machinery, equipment and vehicles, net	79,216	76,739
Land	17,976	19,791
Construction in progress	11,867	20,920
Other, net	2,477	2,421
Total tangible fixed assets	145,238	154,264
Intangible fixed assets		
Goodwill	12,725	14,121
Other	2,842	2,797
Total intangible fixed assets	15,568	16,918
Investments and other assets		
Investment securities	19,577	18,959
Long-term loans receivable	1,189	579
Deferred tax assets	4,725	4,508
Prepaid pension costs	6,243	6,035
Other	4,378	5,012
Allowance for doubtful accounts	(186)	(146)
Total investments and other assets	35,926	34,949
Total noncurrent assets	196,733	206,132
Total assets	507,328	534,123

(Millions of yen)

	March 31, 2011	September 30, 2011
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Notes and accounts payable—trade	30,308	34,059
Short-term loans payable	12,738	13,217
Current portion of bonds	10,000	10,000
Income taxes payable	10,369	10,059
Provision for bonuses	6,670	6,579
Provision for loss on disaster	300	69
Other provision	1	6
Other	15,825	19,610
Total current liabilities	86,214	93,603
<b>Noncurrent liabilities</b>		
Long-term loans payable	43,035	42,573
Deferred tax liabilities	4,918	4,984
Provision for retirement benefits	14,641	15,135
Provision for directors' retirement benefits	167	177
Provision for environmental measures	1,122	1,117
Asset retirement obligations	2,222	2,262
Other	8,179	9,547
Total noncurrent liabilities	74,288	75,799
Total liabilities	160,502	169,402
<b>NET ASSETS</b>		
Shareholders' equity		
Capital stock	88,955	88,955
Capital surplus	87,147	87,147
Retained earnings	225,743	238,068
Treasury stock	(40,856)	(40,793)
Total shareholders' equity	360,989	373,377
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,280	2,316
Deferred gains or losses on hedges	(14)	(28)
Foreign currency translation adjustment	(19,916)	(16,542)
Pension liability adjustment	(233)	(230)
Total accumulated other comprehensive income	(17,884)	(14,486)
Subscription rights to shares	560	903
Minority interests	3,159	4,925
Total net assets	346,825	364,720
Total liabilities and net assets	507,328	534,123

**(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income**  
**Quarterly Consolidated Statements of Income**

(Millions of yen)

	Six-month period ended Sept. 30, 2010 (April 1, 2010 – Sept. 30, 2010)	Six-month period ended Sept. 30, 2011 (April 1, 2011 – Sept. 30, 2011)
Net sales	180,775	185,635
Cost of sales	121,933	122,874
Gross profit	58,842	62,760
Selling, general and administrative expenses		
Selling expenses	9,376	9,189
General and administrative expenses	24,004	24,206
Total selling, general and administrative expenses	33,381	33,396
Operating income	25,461	29,364
Non-operating income		
Interest income	208	199
Dividends income	918	929
Equity in earnings of affiliates	12	8
Other, net	550	503
Total non-operating income	1,690	1,640
Non-operating expenses		
Interest expenses	587	532
Other expenses	1,568	1,491
Total non-operating expenses	2,155	2,024
Ordinary income	24,995	28,981
Extraordinary income		
Gain on change in equity	—	845
Total extraordinary income	—	845
Extraordinary loss		
Loss on disaster	—	929
Provision for loss on disaster	—	60
Loss on valuation of investment securities	627	539
Loss on disposal of tangible fixed assets	219	235
Impairment loss	—	128
Impact of the application of the Accounting Standard for Asset Retirement Obligations	1,548	—
Business structure improvement losses	183	—
Total extraordinary loss	2,579	1,893
Income before income taxes and minority interests	22,416	27,933
Income taxes—current	8,843	9,978
Income taxes—deferred	(416)	444
Total income taxes	8,427	10,423
Income before minority interests	13,989	17,509
Minority interests	75	295
Net income	13,913	17,214

## Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six-month period ended Sept. 30, 2010 (April 1, 2010 – Sept. 30, 2010)	Six-month period ended Sept. 30, 2011 (April 1, 2011 – Sept. 30, 2011)
Income before minority interests	13,989	17,509
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,857)	35
Deferred gains or losses on hedges	53	(14)
Foreign currency translation adjustment	(10,372)	3,374
Pension liability adjustment	—	2
Shares of other comprehensive income of associates accounted for using equity method	(0)	0
Total other comprehensive income	(12,176)	3,397
Comprehensive income	1,812	20,907
Comprehensive income attributable to:		
Owners of the parent	1,736	20,612
Minority interests	75	294

### (3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Six-month period ended Sept. 30, 2010 (April 1, 2010 – Sept. 30, 2010)	Six-month period ended Sept. 30, 2011 (April 1, 2011 – Sept. 30, 2011)
<b>Cash Flows from Operating Activities</b>		
Income before income taxes and minority interests	22,416	27,933
Depreciation and amortization	16,295	14,732
Impairment loss	—	128
Loss on disposal of tangible fixed assets	219	235
Impact of the application of the Accounting Standard for Asset Retirement Obligations	1,548	—
Increase in provision for loss on disaster	—	60
Loss on valuation of investment securities	627	539
Gain on change in equity	—	(845)
Increase in notes and accounts receivable—trade	(5,554)	(2,098)
Increase in inventories	(1,647)	(6,981)
Increase in notes and accounts payable—trade	2,915	2,927
Other, net	203	469
Subtotal	37,026	37,099
Income taxes paid	(6,007)	(10,082)
Other	547	646
<b>Net Cash Provided by Operating Activities</b>	31,566	27,664
<b>Cash Flows from Investing Activities</b>		
Net decrease in time deposits	834	3,208
Net decrease in short-term investment securities	16,996	4,988
Purchase of tangible fixed assets and intangible assets	(9,012)	(15,827)
Other, net	(502)	(1,292)
<b>Net Cash Provided by (Used in) Investing Activities</b>	8,315	(8,921)
<b>Cash Flows from Financing Activities</b>		
Net increase (decrease) in short-term loans payable	1,565	(166)
Decrease in commercial paper	(6,000)	—
Repayment of long-term loans payable	(4,444)	(607)
Cash dividends paid	(2,784)	(4,875)
Other, net	(175)	(170)
<b>Net Cash Used in Financing Activities</b>	(11,839)	(5,819)
<b>Effect of Exchange Rate Changes on Cash and Cash Equivalents</b>		
	(966)	248
<b>Net Increase in Cash and Cash Equivalents</b>	27,076	13,171
<b>Cash and Cash Equivalents, Beginning of the Period</b>	16,412	29,423
<b>Increase in cash and cash equivalents from newly consolidated subsidiary</b>	—	4
<b>Increase in cash and cash equivalents from merger</b>	—	0
<b>Cash and Cash Equivalents, End of the Period</b>	43,488	42,600

#### (4) Notes regarding Going Concern Assumptions

None

#### (5) Segment and Other Information

[Segment Information]

I. Interim Period of Fiscal 2010 (April 1, 2010 to September 30, 2010)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment					Other Business <sup>1</sup>	Total	Adjustment <sup>2</sup>	Consolidated Statements of Income <sup>3</sup>
	Resins	Chemicals	Fibers and Textiles	Trading	Total				
Net Sales									
Outside customers	58,940	23,216	21,064	56,168	159,389	21,386	180,775	—	180,775
Inter-segment sales and transfers	15,875	14,278	9,516	1,688	41,358	6,082	47,440	(47,440)	—
Total	74,815	37,495	30,580	57,856	200,747	27,468	228,216	(47,440)	180,775
Segment Income	25,239	3,418	84	1,506	30,249	2,408	32,657	(7,196)	25,461

Notes:

1. The “Other Business” category incorporates operations not included in reporting segments, including activated carbon, environmental business and engineering.
2. Adjustment is as follows: Included within the segment income adjustment of ¥7,196 million is the elimination of intersegment transactions of ¥128 million and corporate expenses of ¥7,324 million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses not usually attributed to reporting segments.
3. Segment income is adjusted with operating income under consolidated statements of income.

II. Interim Period of Fiscal 2011 (April 1, 2011 to September 30, 2011)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment					Other Business <sup>1</sup>	Total	Adjustment <sup>2</sup>	Consolidated Statements of Income <sup>3</sup>
	Resins	Chemicals	Fibers and Textiles	Trading	Total				
Net Sales									
Outside customers	62,185	24,435	21,225	54,870	162,717	22,917	185,635	—	185,635
Inter-segment sales and transfers	15,354	14,495	8,335	1,924	40,109	10,795	50,905	(50,905)	—
Total	77,540	38,931	29,560	56,795	202,827	33,713	236,540	(50,905)	185,635
Segment Income	25,910	5,156	616	1,752	33,435	2,984	36,419	(7,055)	29,364

Notes:

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

2. Adjustment is as follows: Included within the segment income adjustment of ¥7,055 million is the elimination of intersegment transactions of ¥298 million and corporate expenses of ¥6,756 million. Corporate expenses mainly comprise headquarters' general and administrative expenses and the submitting company's basic research expenses not usually attributed to reporting segments.
3. Segment income is adjusted with operating income under consolidated statements of income.

#### **(6) Material Changes in Shareholders' Equity**

None

#### **(7) Additional Information**

From the first quarter of the fiscal year ending March 31, 2012, Kuraray has been applying the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No. 24, December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24, December 4, 2009).