

**Consolidated Earnings Report for the
First Quarter of the Fiscal Year Ending
March 31, 2013 (Unaudited)**

**July 31, 2012
Kuraray Co., Ltd.**

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Consolidated Earnings Report for the First Quarter of the Fiscal Year Ending March 31, 2013

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

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(Millions of yen rounded down unless otherwise stated)

1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2013 (April 1, 2012 to June 30, 2012)

(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 2012 1Q	88,523	(1.6%)	11,698	(26.0%)	10,590	(31.9%)	5,822	(37.7%)
Fiscal 2011 1Q	89,921	2.5%	15,815	26.2%	15,554	29.8%	9,341	63.9%

	Net Income per Share (¥)	Fully Diluted Net Income per Share (¥)
Fiscal 2012 1Q	16.71	16.69
Fiscal 2011 1Q	26.82	26.78

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Shareholders' Equity Ratio
As of June 30, 2012	555,242	373,079	66.0
As of March 31, 2012	523,247	366,314	68.8

(Reference)

Shareholders' equity: As of June 30, 2012 ¥366,622 million
As of March 31, 2012 ¥360,018 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Jun. 30	Sept. 30	Dec. 31	Mar. 31	Annual
Fiscal 2011	—	16.00	—	17.00	33.00
Fiscal 2012	—				
Fiscal 2012 (Forecast)		18.00	—	18.00	36.00

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

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2013 (April 1, 2012 to March 31, 2013)

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

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share	
Interim	190,000	2.4%	25,000	(14.9%)	24,000	(17.2%)	14,000	(18.7%)	40.17	Yen
Full Fiscal Year	400,000	8.4%	60,000	9.6%	58,500	8.5%	35,000	11.2%	100.47	Yen

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

4. Notes

(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 and, Accounting Estimates and Restatement” 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 June 30, 2012 382,863,603 shares

As of March 31, 2012 382,863,603 shares

2. Number of treasury stock as of the period-end:

As of June 30, 2012 34,318,003 shares

As of March 31, 2012 34,506,810 shares

3. Average number of shares for the period (Cumulative):

As of June 30, 2012 348,434,484 shares

As of June 30, 2011 348,267,754 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 has been undergoing the review procedure process at the time of release.

Cautionary Statement with Respect to Forecasts of Consolidated Business Results

(Cautionary note regarding forward-looking statements)

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.

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1. Qualitative Information and Financial Statements

(1) Qualitative Information and Overview of Consolidated Business Results

During the first quarter of fiscal 2012 (April 1, 2012 to June 30, 2012), global demand remained weak overall due to the slowdown of the European economy, reflecting the financial crisis as well as the softening of growth in China and other emerging economies. On the domestic front, difficult circumstances continued as the yen continued to appreciate rapidly.

Confronting these circumstances, the Kuraray Group is taking various measures to achieve sustained growth based on its “GS-III” medium-term management plan launched in the current fiscal year. The Group is accelerating product and application development through technological innovation and is focusing on expanding business in markets and sectors of high growth potential.

Net sales for the first quarter fell ¥1,397 million, or 1.6%, compared with the corresponding period of the previous fiscal year to ¥88,523 million, operating income fell ¥4,116 million, or 26.0%, to ¥11,698 million, ordinary income fell ¥4,964 million, or 31.9%, to ¥10,590 million and net income fell ¥3,518 million, or 37.7%, to ¥5,822 million.

Results by Business Segment

Resins

Affected by the global economic slowdown, and in particular the slowdown of the European economy, sales in this segment fell 4.5% year on year to ¥37,097 million, and operating income fell 15.4% to ¥11,913 million.

(1) The poval resin and polyvinyl butyral (PVB) film market saw demand fall due to the global economic slowdown. Sales of optical-use poval film remained weak due to continued adjustments in inventories related to LCD panels.

As a part of its growth strategy, the Kuraray Group took the following steps:

- (i) Acquired MonoSol, LLC, a leading U.S. manufacturer of poval films for industrial use, such as packaging films for unit dose detergent products and agrochemicals; and
 - (ii) Resolved to build a new production site (capacity of 40,000 ton/year, to be completed in September 2014) in Texas, U.S., to accommodate the growing global demand.
- (2) Sales of *EVVAL* ethylene vinyl alcohol copolymer (EVOH resin) for food packaging were affected by the global economic slowdown.

However, the demand for gas tanks remained stable.

Chemicals

Sales in this segment remained stable overall, although certain products were affected by the deteriorating market conditions and the appreciating yen. As a result, sales in this segment increased 4.7% year on year to ¥19,900 million, but operating income decreased 54.5% to ¥1,154 million.

- (1) The sales volume of methacrylic resin were favorable, with a rebound in demand for use as molding materials for LGP panels. However, the overall performance was weak due to the deteriorating market conditions.
- (2) The sales volume of *SEPTON* thermoplastic elastomer increased mainly in North America due to favorable demand. Sales of fine chemicals expanded in Japan and Asian economies, with strong demand for high value-added products.
- (3) Sales of *GENESTAR* heat-resistant polyamide resin progressed favorably for connector applications, LED reflector applications for LCDs, and applications for automobiles.
- (4) Performance remained stable in the medical segment, with the demand solid both inside and outside Japan for dental supplies. On April 1, 2012, the three companies Kuraray Medical Inc., Noritake Dental Supply Co., Ltd. and Kuraray Noritake Dental Holdings Inc. merged and became Kuraray Noritake Dental Inc.

Fibers and Textiles

Certain products were affected by deteriorating business sentiment. Sales in this segment decreased 8.4% year on year to ¥12,860 million, and operating income decreased 14.8% to ¥494 million.

- (1) Sales were generally stable for *KURALON* for use in primary cell separators and automotive brake hoses. However, demand for this product for use as an asbestos substitute in fiber reinforced cement (FRC) was affected by the stagnant European market.
- (2) Sales of *CLARINO* man-made leather grew steadily for school bag applications, but stagnated for footwear applications. Work is under way to focus more resources on innovative green processing as part of Kuraray's restructuring efforts.
- (3) Sales of *KURAFLEX* nonwoven fabrics were stable, especially for industrial use. Sales of *MAGIC TAPE* woven hook and loop fastener grew favorably, reflecting demand associated with the reconstruction in the aftermath of the March 2011 earthquake.

Trading

Although sales in such fiber-related businesses as polyester grew steadily, export sales of LCD-related components stagnated. As a result, segment sales were down 7.6% year on year to ¥26,813 million, and operating income fell 10.3% to ¥754 million.

Others

Sales of activated carbon for use in capacitors (electric storage devices) grew steadily, but those of this material for use in water purification systems remained weak. Other items were also affected by the deteriorating business sentiment. As a result, sales in this segment increased 0.2% year on year to ¥14,850 million, and operating income fell 36.1% to ¥1,011 million. Also, in the aqua-related business, Kuraray started the activity for full-scale sales of the ballast water management system *MICROFADE*.

(2) Qualitative Information on Consolidated Operating Results Forecast

Kuraray has revised its performance forecasts for the first half of the fiscal year ending March 31, 2013 (April 1, 2012 – September 30, 2012), as shown in the following table in light of the slowdown of global economy particularly in Europe due to the financial crisis. Nevertheless, the Company decided to not revise its cumulative consolidated forecast as the demand of the products is expected to increase.

Revised forecast for the interim period of the fiscal year ending March 31, 2013 (April 1, 2012– September 30, 2012)

(Millions of yen, unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share (Yen)
	For six-month period ending September 30, 2012				
Previous forecast (Announced on April 26, 2012)	190,000	27,500	26,500	16,000	45.93
Revised forecast	190,000	25,000	24,000	14,000	40.17

<Reference> Consolidated result forecast for the interim period of the fiscal year ending March 31, 2013 (Breakdown of segment sales and income)

(Billions of yen)

	Net Sales	Operating Income
Resin	815	250
Chemicals	410	30
Fibers and Textiles	290	5
Trading	570	15
Others	320	30
Adjustment	(505)	(80)
Total	1,900	250

2. Items Regarding Summary (and Notes) Information

Changes in Accounting Policies, Accounting Estimates and Restatement

(Changes in Accounting Estimates and Minor Changes to Accounting Policies)

From the first quarter of this fiscal year, Kuraray and the consolidated subsidiaries in Japan are complying with the revised Corporation Tax Act. They have adopted the method of calculating depreciation expenses set out in the revised Corporation Tax Act with regard to tangible fixed assets acquired on and after April 1, 2012.

The effect of this change on operating income, ordinary income, and income before income taxes and minority interests in the quarterly consolidated statements under review is minor.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	March 31, 2012	June 30, 2012
ASSETS		
Current Assets		
Cash and cash equivalents	31,464	30,030
Notes and accounts receivable–trade	80,627	77,490
Short-term investment securities	71,995	65,979
Merchandise and finished goods	50,361	54,910
Work in process	9,528	9,588
Raw materials and supplies	14,542	14,388
Deferred tax assets	5,560	4,306
Others	5,783	6,977
Allowance for doubtful accounts	(781)	(707)
Total current assets	269,083	262,965
Fixed Assets		
Tangible fixed assets		
Buildings and structures (net)	34,536	35,879
Machinery and equipment (net)	71,578	75,260
Land	19,971	20,308
Construction in progress	23,060	28,148
Others (net)	3,730	3,850
Total tangible fixed assets	152,877	163,447
Intangible fixed assets		
Goodwill	11,538	39,954
Others	2,465	3,415
Total intangible fixed assets	14,004	43,369
Investments and other assets		
Investment securities	70,029	68,492
Long-term loans receivable	572	586
Deferred tax assets	4,688	4,640
Prepaid pension costs	5,822	5,700
Others	6,262	6,132
Allowance for doubtful accounts	(93)	(91)
Total investments and other assets	87,282	85,460
Total fixed assets	254,163	292,277
Total	523,247	555,242

	March 31, 2012	June 30, 2012
LIABILITIES		
Current Liabilities		
Notes and accounts payable–trade	32,945	28,530
Short-term loans payable	13,781	9,252
Commercial paper	—	33,000
Income taxes payable	9,075	2,276
Provision for bonuses	6,657	4,175
Provision for disaster losses	68	16
Other provision	59	29
Other	19,095	26,455
Total current liabilities	81,684	103,736
Long-term liabilities		
Corporate bonds payable	10,000	10,000
Long-term loans payable	41,981	42,159
Deferred tax liabilities	4,531	5,712
Provision for retirement benefits	5,617	6,221
Provision for retirement benefits for directors and auditors	194	147
Provision for environmental measures	1,106	1,106
Asset retirement obligations	2,224	2,280
Others	9,593	10,799
Total long-term liabilities	75,248	78,427
Total liabilities	156,933	182,163
NET ASSETS		
Shareholders' equity		
Capital	88,955	88,955
Capital surplus	87,147	87,147
Retained earnings	246,733	246,592
Treasury stock	(40,732)	(40,510)
Total shareholders' equity	382,103	382,185
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	2,763	2,510
Deferred gain or losses on hedges	(32)	(54)
Foreign currency translation adjustments	(24,419)	(17,599)
Pension liability adjustments	(396)	(419)
Total accumulated other comprehensive income	(22,084)	(15,562)
Stock subscription rights	1,151	1,261
Minority interests	5,143	5,195
Total net assets	366,314	373,079
Total liabilities and net assets	523,247	555,242

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

(Millions of yen)

	Fiscal 2011 1Q (April 1, 2011 – June 30, 2011)	Fiscal 2012 1Q (April 1, 2012 – June 30, 2012)
Net sales	89,921	88,523
Cost of sales	57,806	59,710
Gross profit	32,115	28,812
Selling, general and administrative expenses		
Selling expenses	4,414	4,376
General and administrative expenses	11,885	12,738
Total selling, general and administrative expenses	16,299	17,114
Operating income	15,815	11,698
Non-operating income		
Interest income	95	97
Dividend income	356	409
Equity in loss of affiliates	45	30
Other, net	203	271
Total non-operating income	701	809
Non-operating expenses		
Interest expenses	263	252
Foreign exchange losses	93	758
Other expenses	605	907
Total non-operating expenses	962	1,917
Ordinary income	15,554	10,590
Extraordinary income		
Gain on equity in consolidated subsidiaries due to market fluctuation	845	—
Total extraordinary income	845	—
Extraordinary expenses		
Acquisition-related cost	—	542
Loss on valuation of investment securities	498	351
Losses on disaster	910	—
Provision for disaster losses	60	—
Impairment loss	18	—
Total extraordinary expenses	1,487	894
Income before income taxes and minority interests	14,912	9,696
Current income taxes	3,806	2,335
Deferred income taxes	1,608	1,461
Total income taxes	5,415	3,797
Income before minority interests in net income of consolidated subsidiaries	9,496	5,898
Minority interests in net income of consolidated subsidiaries	155	76
Net income	9,341	5,822

Quarterly Consolidated Statements of Comprehensive Income

(Millions of yen)

	Fiscal 2011 1Q (April 1, 2011 – June 30, 2011)	Fiscal 2012 1Q (April 1, 2012 – June 30, 2012)
Income before minority interests in net income of consolidated subsidiaries	9,496	5,898
Other comprehensive income		
Valuation difference on available-for-sale securities	309	(253)
Deferred gain or losses on hedges	6	(22)
Foreign currency translation adjustments	4,501	6,819
Pension liability adjustments	(4)	(22)
Share of other comprehensive income of associates accounted for using equity method	0	—
Total other comprehensive income	4,812	6,521
Quarterly comprehensive income	14,309	12,420
(Breakdown of quarterly comprehensive income)		
Comprehensive income attributable to owners of the parent	14,153	12,344
Comprehensive income attributable to minority interests	155	75

(3) Notes Regarding Going Concern Assumptions

None

(4) Segment and Other Information

[Segment Information]

I. First Quarter of Fiscal 2011 (April 1, 2011 to June 30, 2011)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment					Others ¹	Total	Adjustment ²	Consolidated Statements of Income ³
	Resins	Chemicals	Fibers and Textiles	Trading	Total				
Net Sales									
Outside customers	30,522	11,588	9,924	28,072	80,107	9,813	89,921	—	89,921
Inter-segment sales and transfers	8,343	7,409	4,109	931	20,792	5,002	25,795	(25,795)	—
Total	38,865	18,997	14,033	29,003	100,900	14,816	115,716	(25,795)	89,921
Segment Income	14,088	2,534	580	840	18,043	1,582	19,626	(3,810)	15,815

Notes:

1. The “Other Business” category incorporates operations not included in business segments reported, including activated carbon, environmental business and engineering.
2. Adjustment is as follows: Included within segment income of ¥3,810 million is the elimination of intersegment transactions of ¥121 million and corporate expenses of ¥3,689 million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses not usually attributed to segments.
3. Segment income is adjusted with operating income under consolidated statements of income.

2. Information regarding impairment loss on fixed assets and goodwill by reporting segment

(Important change in the amount of goodwill)

In the Chemicals segment, goodwill of ¥1,483 million was recorded in the period under review, due to the corporate merger related to the dental materials business.

II. First Quarter of Fiscal 2012 (April 1, 2012 to June 30, 2012)

1. Net sales, income and loss by reporting segment

(Millions of yen)

	Reporting Segment					Others ¹	Total	Adjustment ²	Consolidated Statements of Income ³
	Resins	Chemicals	Fibers and Textiles	Trading	Total				
Net Sales									
Outside customers	29,721	12,631	9,218	25,926	77,497	11,025	88,523	—	88,523
Inter-segment sales and transfers	7,376	7,268	3,642	886	19,173	3,824	22,998	(22,998)	—
Total	37,097	19,900	12,860	26,813	96,671	14,850	111,521	(22,998)	88,523
Segment Income	11,913	1,154	494	754	14,316	1,011	15,327	(3,628)	11,698

Notes:

1. The “Other Business” category incorporates operations not included in business segments reported, including activated carbon, environmental business and engineering.
2. Adjustment is as follows: Included within segment income of ¥3,628 million is the elimination of intersegment transactions of ¥8 million and corporate expenses of ¥3,620 million. Corporate expenses mainly comprise headquarters’ general and administrative expenses and the submitting company’s basic research expenses not usually attributed to segments.
3. Segment income is adjusted with operating income under consolidated statements of income.

2. Information regarding assets by reporting segment

The amount of asset by reporting segment changed remarkably in the period under review compared to the corresponding period of the previous fiscal year. The abstract is as follows:

As Kuraray Holdings U.S.A., Inc., a consolidated subsidiary of the Kuraray Co., Ltd., acquired all the shares of MONOSOL HOLDINGS. INC. in the period under review, the asset of Resin segment increased. The amount of the increase by the acquisition is ¥37,837 million (\$478,087 thousands).

3. Information regarding impairment loss on fixed assets and goodwill by reporting segment (Important change in the amount of goodwill)

In the Resin segment, goodwill of ¥28,063 million (\$353,841 thousands) was recorded in the period under review due to the corporate merger involving MonoSol, LLC.

4. Matters Related to the Changes of Segments in the Statements

As stated in “Changes in Accounting Estimates and Minor Changes to Accounting Policies” in **2.** above, following the revision of the Corporation Tax Act, Kuraray has changed its accounting policies. From the period under review, its method of calculating depreciation expenses is in accordance with the revised Corporation Tax Act with regard to tangible fixed assets acquired after April 1, 2012. Accordingly, it has changed the method of calculating depreciation expenses for each business segment to agree with the revised Corporation Tax Act. The effect of this on the statements for each segment is minor.

(5) Mergers and Related Matters

Merger Due to Acquisition

Kuraray Holdings U.S.A., Inc. (hereafter to be called “KHU”), a consolidated subsidiary of the Kuraray Co., Ltd., has agreed to acquire the U.S. manufacturer of poval films MONOSOL HOLDINGS, INC. and its three 100% owned subsidiaries (hereafter to be collectively called “MonoSol, LLC” or “MonoSol”). KHU signed the share transfer agreement with MonoSol’s parent company MONOSOL HOLDCO, LLC on May 12, 2012, and acquired the shares on June 26, 2012, pursuant to the agreement.

MonoSol is a leading company in the United States for poval films for industrial applications, such as packaging films for unit dose detergent products, agrochemicals and dyes, mold-release films for synthetic marble and so on.

Through this acquisition, Kuraray is poised to become a global leader of poval films, not only in the area of optical applications, such as polarizing films for LCDs, but also in the area of industrial applications. Kuraray will also accelerate the expansion and development of its global “Vinyl Acetate Chemical Chains Business” through organic business collaborations in Japan, the United States, Europe and Asia.

1. Name and Business of the Acquired Company, Date of Merger, Legal Form of Merger, Name of the Company after the Merger, Shareholder Voting Rights Acquired, and Rationale for the Decision to Approve the Merger

- (1) Name and Business of the Acquired Company

Company Name	MONOSOL HOLDINGS, INC. and its three 100% subsidiaries
Business	Manufacture and sale of poval films for industrial applications such as packaging films for unit dose detergent products, agrochemicals and dyes, mold-release films for synthetic marble, etc.

(2) Date of Merger
June 26, 2012

(3) Legal Form of Merger
Acquisition of shares in exchange of monies

(4) Name of the Company after the Merger

MONOSOL HOLDINGS, INC
MONOSOL, LLC
MONOSOL AF, LTD
AQUAFILM LIMITED

(5) Shareholder Voting Rights Acquired
100%

(6) Rationale for the Decision to Approve the Merger
Approval was given as it entailed the acquisition of shares by KHU in exchange for monies.

2. Inclusion of the Performance of the Acquired Company in the Quarterly Consolidated Statements of Income for the Period Under Review

As June 30, 2012, is the acquisition date of record, the performance of the acquired company is not included in the quarterly consolidated statements of income for the period under review.

3. Acquisition Cost and its Breakdown

Acquisition price	393,559,000 USD
Acquisition cost	393,559,000 USD

However, the acquisition price is now going through the process of adjustment to reflect the change in working capital as per the purchase agreement. The acquisition cost of the shares is therefore tentative as of the end of the period under review.

4. Amount of Goodwill Arising from the Acquisition, Reasons Thereof, and Method and Terms of Amortization

- (1) Amount of Goodwill Arising from the Acquisition
353,841 thousand USD
The figure is tentative since the distribution of the acquisition cost, etc., is not complete.
- (2) Reasons Thereof
This is to accommodate the excess earnings power expected to emerge in the future.
- (3) Method and Terms of Amortization
Goodwill will be distributed evenly over the period it remains valid. Terms of amortization will be determined based on the results of the acquisition cost allocation and others.