

**Consolidated Earnings Report for the
Second Quarter of the Fiscal Year
Ending March 31, 2011(Unaudited)**

**October 28, 2010
Kuraray Co., Ltd.**

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**Consolidated Earnings Report for the Interim Period of the Fiscal Year
Ending March 31, 2011**

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

Representative
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Preparation of supplementary documentation for the quarterly earnings
report: Yes

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

(Millions of yen rounded down unless otherwise stated)

1. Consolidated Financial Results for the Interim Period of the Fiscal Year Ending March 31, 2011 (April 1, 2010 to September 30, 2010)

(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 2010 Interim	180,775	15.1 %	25,461	160.9 %	24,995	165.7%	13,913	166.5%
Fiscal 2009 Interim	157,065	(25.0 %)	9,758	(58.1 %)	9,409	(57.7 %)	5,221	(61.1 %)

	Net Income per Share (¥)	Fully Diluted Net Income per Share (¥)
Fiscal 2010 Interim	39.96	39.90
Fiscal 2009 Interim	15.00	14.98

(2) Consolidated Financial Position

(Millions of yen)

	Total Assets	Net Assets	Shareholders' Equity Ratio	Net Assets per Share
As of September 30, 2010	494,060	336,962	67.5 %	958.23 Yen
As of March 31, 2010	502,815	337,818	66.5 %	961.24 Yen

(Reference)

Shareholders' equity: As of September 30, 2010 ¥ 333,640 million
As of March 31, 2010 ¥ 334,583 million

2. Dividends

(Yen)

Record Date	Cash Dividends per Share				
	Jun. 30, 2010	Sept. 30, 2010	Dec. 31, 2010	Mar. 31, 2011	Annual
Fiscal 2009	—	8.00	—	8.00	16.00
Fiscal 2010	—	13.00			
Fiscal 2010 (Forecast)			—	14.00	27.00

Note: Revisions to cash dividend forecast during this period: Yes

3. Forecasts of Consolidated Financial Results for the Fiscal Year Ending March 31, 2011 (April 1, 2010 to March 31, 2011)

(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	
Full Fiscal Year	365,000	9.6%	52,000	70.8%	50,000	72.9%	28,500	74.7%	81.86	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 the Simplified Accounting Method and Special Accounting Practices in the Preparation of Quarterly Consolidated Financial Statements

Yes

(3) Changes in Accounting Principles, Procedures and Presentation Methods in Connection with the Preparation of Quarterly Consolidated Financial Statements (Recorded under “Changes in Important Items Considered Fundamental to the Preparation of Quarterly Consolidated Financial Statements”)

1. Changes following revision of accounting standards: Yes

2. Changes besides 1. above: None

(Note: Items to be disclosed in “Significant Changes in the Basis of Presenting Quarterly Consolidated Financial Statements”)

(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, 2010 382,863,603 shares
As of March 31, 2010 382,863,603 shares
2. Number of treasury stock as of the period-end:
As of September 30, 2010 34,681,527 shares
As of March 31, 2010 34,790,071 shares
3. Average number of shares for the period:
As of September 30, 2010 348,135,295 shares
As of March 31, 2010 348,212,265 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 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 p. 4 “Qualitative Information on Consolidated Operating Results Forecast” contained in the Attachment for the assumption used.

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1. Qualitative Information and Financial Statements

(1) Qualitative Information and Overview of Consolidated Business Results

The operating environment in the interim period (April 1, 2010 to September 30, 2010) saw a gradual recovery in demand for Group products in Europe and the United States as well as strong demand in emerging economies, chiefly China. On the other hand, the situation remained unpredictable, with a stagnant global economy and a decelerated Japanese economy due to rapid appreciation of the yen. Amid such circumstances, the Kuraray Group made across-the-board efforts, including cutting back fixed costs, to improve its earnings structure. The Company also took proactive measures for further business growth, one of the objectives stated in its “GS-Twins,” the medium-term action plan.

During the period under review, sales of LCD and LED-related products grew favorably, and demand in Kuraray’s core businesses, including poval resin, *EVVAL* and Isoprene Chemicals, increased. In line with sales growth, the plant utilization ratio of each business improved.

As a result, net sales for the period under review grew 15.1% from a year earlier to ¥180,775 million, operating income jumped 160.9% to ¥25,461 million, ordinary income soared 165.7% to ¥24,995 million and net income surged 166.5% to ¥13,913 million.

(Reference) Quarterly consolidated performance

(Millions of yen)

	Fiscal year ended March 31, 2010				Fiscal year ending March 31, 2011	
	1Q	2Q	3Q	4Q	1Q	2Q
Net sales	72,910	84,154	85,588	90,226	87,715	93,060
Operating income	1,730	8,025	9,787	10,875	12,534	12,916
Ordinary income	1,512	7,896	9,240	10,276	11,983	13,012
Net income	138	5,082	6,923	4,170	5,699	8,213

Results by business segment compared with the corresponding period of the previous fiscal year are as follows. The interim period of Kuraray’s overseas subsidiaries is from January 1, 2010 to June 30, 2010.

From the fiscal year under review, the Company introduced the “Revised

Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (Accounting Standards Board of Japan (ASBJ) Statement No. 17 of March 27, 2009) and the “Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information” (ASBJ Guidance No. 20 of March 21, 2008). The Company has not had a quarterly review by an independent auditor for year-on-year data stated in the abovementioned “1. Qualitative Information and Financial Statements.”

Results by Business Segment

Resins

The Resin segment saw steady business recovery in China and other Asian countries as well as in Europe and the United States. As a result, sales in this segment grew 15.4% year on year to ¥74,815 million, while operating income jumped 49.1% to ¥25,239 million.

- (1) Sales of poval resins were brisk in China and other Asian countries as well as in Europe. Furthermore, sales of the Company’s local subsidiaries are expanding, particularly in Europe, on the back of a decreased inflow of competitors’ products from other regions due to the weaker euro. Sales of optical-use poval film for LCD polarizers grew as a result of booming demand for LCD TVs. In order to meet this demand growth for the medium term, the Company commenced the establishment of a new production line at the Saijo Plant to increase annual production by 20 million square meters. Sales of polyvinyl butyral (PVB) film remained sluggish, reflecting intensifying competition in the European construction market, despite healthy sales growth for encapsulant for solar power generators.
- (2) Demand for ethylene vinyl alcohol polymer resin *EVOH* expanded in the United States and Europe for use in food packaging and automobiles. Amid growing demand in emerging countries, sales of *EVOH* increased, particularly in the Asian market, and especially in China, for use in automobiles. Furthermore, sales expanded both in Japan and overseas for use in food packaging as well as new applications such as vacuum insulation panels in refrigerators.

Chemicals

The overall performance in the Chemicals segment expanded in China and other Asian countries. As a result, sales in this segment climbed 19.2% year on year to ¥37,495 million. The Chemicals segment recorded operating income of ¥3,418 million, a turnaround from an operating loss in the corresponding period of the previous fiscal year of ¥1,321 million.

- (1) Demand for methacrylic resin was vigorous for use in LCD light guide plates. Sales of this product also grew for molding materials and sheets.
- (2) As for Isoprene Chemicals, sales of *SEPTON* thermoplastic elastomer were steady in Asia and Europe. Sales for chemicals and fine chemicals steadily recovered, mainly in Japan and other Asian countries. Against this backdrop, the Company added higher value to its products.
- (3) In the Medical segment, sales of dental materials were healthy on the back of the introduction of new types of composite resins and bonds in the European and U.S. markets as well as the Company's efforts to reinforce its sales structure.
- (4) Demand for *GENESTAR* heat-resistant polyamide resin expanded for LED reflector applications in edge light-type LCD TVs despite a slow increase in demand for electronics materials, including connectors.

Fibers and Textiles

In the Fibers and Textiles segment, almost all businesses, including *KURALON*, recovered in the period under review. As a result, sales in this segment grew 10.0% year on year to ¥30,580 million. The Fibers and Textiles segment recorded operating income of ¥84 million, a turnaround from an operating loss in the corresponding period of the previous fiscal year of ¥1,622 million.

- (1) Demand for *KURALON* expanded for use in automotive brake hoses and primary cell separators. In addition, demand for use as an asbestos substitute in FRC (fiber reinforced cement) gradually recovered.
- (2) Sales of conventional *CLARINO* man-made leather and new environment-friendly processed *CLARINO* products^[ak1] showed signs of recovery for use in footwear. Amid a drastic business restructuring, the Company is transferring general-purpose product manufacturing to a Chinese joint venture, while promoting the integration of new processing procedures for high-value-added products in domestic plants.

- (3) Sales of *KURAFLEX* nonwoven fabrics were stable for use in industrial wipers, although demand for use in industrial masks was stagnant. During the period under review, *FELIBENDY* nonwoven fabric produced using steam jet technologies heating expanded its applications.
- (4) Demand for *MAGIC TAPE* hook and loop fasteners were steady for industrial materials and medical and transport-related applications despite stagnant sales for use in automobile and housing-related applications.
- (5) Demand for *VECTRAN* high strength polyarylate fiber showed a gradual recovery, mainly for optic fiber reinforcement applications in China.

Trading

The Trading segment saw market recovery in such fiber-related businesses as polyester (in apparel and materials fields), as well as in an increase in differentiated materials. On the back of steady demand, mainly in Asian countries, sales of resins, chemicals and chemical products expanded. As a result, sales in this segment grew 16.2% year on year to ¥57,856 million, while operating income surged 101.9% to ¥1,506 million.

- (1) During the period under review, demand for formalwear and uniform applications rapidly recovered. In addition, sales of the Company's proprietary *ELMOZA* polyester material with excellent color and texture steadily increased.
- (2) In the materials field, sales for materials used in medical-related items and footwear expanded on the back of a steady demand increase. Demand for industrial materials for use in automobiles grew substantially in Asian countries.
- (3) In the resin, chemicals and chemical products businesses, the Company enjoyed growth in sales of other items, such as solvents, environmental materials including activated carbon and industrial membranes, and in high-value-added businesses, including *ISOBAM* alkaline water-soluble polymer and elastomer.

Others

Sales in the Others segment climbed 22.6% year on year to ¥27,468 million, while operating income rose 24.0% to ¥2,408 million.

During the period under review, sales of active carbon for capacitors (electric storage devices) and water purification systems were steady, while

other business showed signs of gradual recovery.

(2) Qualitative Information on Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets decreased ¥8,755 million from the end of the previous fiscal year to ¥494,060 million, owing to a decrease in fixed assets. Total liabilities declined ¥7,899 million to ¥157,097 million, and net assets decreased ¥855 million to ¥336,962 million. Shareholders' equity stood at ¥333,640 million, for an equity ratio of 67.5%.

Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities stood at ¥31,566 million at the end of the period under review, a decrease of ¥6,761 million compared with the same period of the previous fiscal year. Major components included income before income taxes and minority interests of ¥22,416 million, depreciation and amortization of ¥16,295 million, an increase in notes and accounts payable of ¥2,915 million, an increase in notes and accounts receivable of ¥5,554 million and income taxes paid of ¥6,007 million.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥8,315 million. Major components included payments for the acquisition of property, plant and equipment and intangible assets worth ¥9,012 million and a net decrease in marketable securities of ¥16,996 million.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥11,839 million. Major components included proceeds from short-term loans of ¥1,565 million, a decrease in commercial paper of ¥6,000 million, repayment of long-term debt of ¥4,444 million and dividends paid of ¥2,784 million.

As a result, Kuraray recorded total cash inflow of ¥28,042 million in the period under review, and cash and cash equivalents at the end of the interim period increased ¥27,076 million from a year earlier to ¥43,488 million.

(3) Qualitative Information on Consolidated Operating Results Forecast

During the interim period under review, sales of LCD and LED-related products, and in the core businesses such as poval resins, *EVAL* and Isoprene Chemicals, increased on the back of demand recovery, while the plant utilization ratio also improved. Furthermore, the Company's sales and profits were higher than expected, reflecting across-the-board cost reduction efforts.

On a full-year basis, the Company revised its forecast for the second half of the fiscal year under review as follows, based on the assumption of maintaining healthy performance following the first half in core businesses despite the influence of such negative factors as raw material price hikes and the appreciation of the yen on the Japanese economy.

Revision to the consolidated forecast for the full period of the fiscal year ending March 31, 2011 (April 1, 2010–March 31, 2011)

(Millions of yen, unless otherwise stated)

	Net Sales	Operating Income	Ordinary Income	Net Income	Net Income per Share
Previous forecast (A) (Announced on August 4, 2010)	365,000	48,000	46,000	26,000	74.69
Revised forecast (B)	365,000	52,000	50,000	28,500	81.86
Difference (B)-(A)	—	+4,000	+4,000	+2,500	
Difference (%)	—	+8.3%	+8.7%	+9.6%	
Result for the previous fiscal year ended March 31, 2010	332,880	30,451	28,925	16,315	46.86

Average currency exchange rates for the third quarter and later are assumptions and are as follows: ¥82 to the U.S. dollar, ¥114 to the euro, and a domestic naphtha price of ¥45,000 per kiloliter.

The assumptions and conditions upon which forecasts pertaining to main businesses in the second half of the fiscal year under review are based are as follows:

Demand for poval resins is expected to grow steadily in Asia and Europe. Even taking into consideration a part of the effect of users' ongoing production adjustments, Kuraray expects healthy demand for optical-use poval film throughout the year under review. Demand for *EVAL*

is projected to expand continuously in Europe and the United States, and it is expected to show particularly high growth in emerging nations, mainly in China, for use in automobiles and food packaging.

For methacrylic resin, the Company expects to see demand growth in molding materials for light guide plates as well as a positive impact from price revisions. For isoprene chemicals, Kuraray anticipates demand growth mainly in Asian countries, and it is thus pursuing sales expansion for new products and high-value-added items. The Company expects a sales volume increase for *GENESTAR* for use in LED reflector applications. Sales of medical-related products for dental applications will remain stable both in Japan and overseas.

Results of the Company's business restructuring efforts in the *CLARINO* business are expected to fully appear in the fiscal year ending March 31, 2012 and later.

2. Others

(1) Changes in Significant Consolidated Subsidiaries

No

(2) Application of Accounting Methods for Consolidated Financial Statements That Are Simplified or Extraordinary

(i) Simplified accounting method

Tax expenses related to certain consolidated subsidiaries that have no significant impact on Kuraray's quarterly consolidated financial statements are calculated by multiplying income before income taxes and minority interests for the period under review by the effective income tax rate after the application of tax effect accounting to the consolidated statements of income for the previous fiscal year.

(ii) Special accounting practices used in the preparation of quarterly consolidated financial statements:

No

(3) Outline of Changes in Significant Accounting Policies, Procedures and Presentation:

(i) Changes in accounting procedures

(Accounting Standard for Asset Retirement Obligations)

From the first quarter of the fiscal year ending March 31, 2011, Kuraray applies the “Accounting Standard for Asset Retirement Obligation” (ASBJ Statement No. 18, March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008).

This change has had no significant impact on the Company’s operating income and ordinary income. Income before income taxes and minority interests for the period under review decreased ¥1,549 million. The change in the asset retirement obligations due to the application of the relevant accounting standards was ¥1,564 million.

Up to the previous fiscal year-end, the asset retirement obligations of overseas subsidiaries were included in others under fixed assets. As of the fiscal year ending March 31, 2011, however, such obligations are classified differently for the purpose of facilitating comparison with the previous fiscal year.

(ii) Changes in presentation methods
(Consolidated Quarterly Statement of Income)

Based on the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008), Kuraray applies the “Cabinet Office Ordinance Partially Revising Regulation on Terminology, Forms and Preparation of Financial Statements” (Cabinet Office Ordinance No. 5, March 24, 2009). As a result, “Income before minority interests in net income of consolidated subsidiaries” is included in the consolidated financial statements for the interim period of the fiscal year ending March 31, 2011.

Figures for the interim period of the previous fiscal year are displayed for the purposes of comparison.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	September 30, 2010	March 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	32,235	28,991
Notes and accounts receivable–trade	79,251	75,923
Short-term investment securities	79,991	73,978
Merchandise and finished goods	37,736	38,829
Work in process	7,928	8,044
Raw materials and supplies	11,351	10,972
Deferred tax assets	6,206	5,824
Others	6,876	7,366
Allowance for doubtful accounts	(819)	(604)
Total current assets	260,754	249,326
Fixed Assets		
Tangible fixed assets		
Buildings and structures (net)	34,562	34,880
Machinery and equipment (net)	86,408	96,170
Land	18,004	18,230
Construction in progress	9,580	11,560
Others (net)	2,707	2,867
Total tangible fixed assets	151,263	163,709
Intangible fixed assets		
Goodwill	13,842	17,941
Others	3,129	3,848
Total intangible fixed assets	16,971	21,790
Investments and other assets		
Investment securities	45,892	49,006
Long-term loans receivable	1,302	1,279
Deferred tax assets	7,028	6,570
Prepaid pension costs	6,427	6,666
Others	4,699	4,999
Allowance for doubtful accounts	(279)	(532)
Total investments and other assets	65,070	67,989
Total fixed assets	233,305	253,489
Total	494,060	502,815

(Millions of yen)

	September 30, 2010	March 31, 2010
LIABILITIES		
Current Liabilities		
Notes and accounts payable–trade	28,899	27,235
Short-term loans payable	10,242	12,158
Commercial paper	—	6,000
Income taxes payable	8,569	6,038
Provision for bonuses	6,485	6,129
Other provision	3	138
Other	15,683	18,850
Total current liabilities	69,883	76,550
Long-Term Liabilities		
Corporate bonds	10,000	10,000
Long-term loans payable	45,690	46,502
Deferred tax liabilities	5,152	5,524
Provision for retirement benefits	14,195	14,248
Provision for retirement benefits for directors	135	167
Provision for environmental measures	1,170	1,275
Asset retirement obligations	2,295	812
Others	8,573	9,915
Total long-term liabilities	87,213	88,446
Total liabilities	157,097	164,996
NET ASSETS		
Shareholders' equity		
Capital	88,955	88,955
Capital surplus	87,168	87,192
Retained earnings	215,199	204,070
Treasury stock	(40,940)	(41,068)
Total shareholders' equity	350,383	339,150
Valuation and Translation Adjustments		
Valuation difference on available-for-sale securities	1,909	3,767
Deferred gain or losses on hedges	(50)	(103)
Foreign currency translation adjustments	(18,602)	(8,230)
Total valuation and translation adjustments	(16,742)	(4,566)
Stock subscription rights	209	186
Minority interests	3,113	3,048
Total net assets	336,962	337,818
Total liabilities and net assets	494,060	502,815

(2) Quarterly Consolidated Statements of Income

	(Millions of yen)	
	Six-month period ended September 30, 2009 (April 1, 2009 – September 30, 2009)	Six-month period ended September 30, 2010 (April 1, 2010 – September 30, 2010)
Net sales	157,065	180,775
Cost of sales	115,433	121,933
Gross profit	41,632	58,842
Selling, general and administrative expenses		
Selling expenses	8,208	9,376
General and administrative expenses	23,664	24,004
Total selling, general and administrative expenses	31,873	33,381
Operating income	9,758	25,461
Non-operating income		
Interest income	190	208
Dividend income	961	918
Equity in earnings of affiliates	9	12
Other, net	649	550
Total non-operating income	1,810	1,690
Non-operating expenses		
Interest expenses	706	587
Other expenses	1,453	1,568
Total non-operating expenses	2,160	2,155
Ordinary income	9,409	24,995
Extraordinary expenses		
Impact of the application of the Accounting Standard for Asset Retirement Obligations	—	1,548
Loss on valuation of investment securities	173	627
Loss on disposal of tangible fixed assets	—	219
Business structure improvement losses	1,033	183
Impairment losses	59	—
Total extraordinary expenses	1,266	2,579
Income before income taxes and minority interests	8,142	22,416
Current income taxes	2,864	8,843
Deferred income taxes	18	(416)
Total income taxes	2,882	8,427
Income before minority interests in net income of consolidated subsidiaries	5,260	13,989
Minority interests in net income of consolidated subsidiaries	38	75
Net income	5,221	13,913

(3) Quarterly Consolidated Statements of Cash Flows

	(Millions of yen)	
	Six-month period ended September 30, 2009 (April 1, 2009 – September 30, 2009)	Six-month period ended September 30, 2010 (April 1, 2010 – September 30, 2010)
Net Cash Provided by (Used in) Operating Activities		
Income before income taxes and minority interests	8,142	22,416
Depreciation and amortization	16,976	16,295
Impairment losses	59	—
<u>Loss on disposal of tangible fixed assets</u>	—	219
Impact of the application of the Accounting Standard for Asset Retirement Obligations	—	1,548
Write-down of investment securities	173	627
Increase in notes and accounts receivable	(5,396)	(5,554)
Decrease (increase) in inventories	13,787	(1,647)
Increase in notes and accounts payable	257	2,915
Other, net	1,701	203
Subtotal	<u>35,703</u>	<u>37,026</u>
Income taxes refunded (paid)	2,073	(6,007)
Others	551	547
Net Cash Provided by Operating Activities	<u>38,327</u>	<u>31,566</u>
Net Cash (Used in) Provided by Investing Activities		
Net (increase) decrease in time deposits	(7,671)	834
Net (increase) decrease in marketable securities	(51,988)	16,996
Payments for acquisition of property, plant and equipment and intangible assets	(13,016)	(9,012)
Payments for purchase of investment securities	(430)	(117)
Other, net	(777)	(385)
Net Cash (Used in) Provided by Investing Activities	<u>(73,884)</u>	<u>8,315</u>
Net Cash Provided by (Used in) Financing Activities		
Net increase (decrease) in short-term loans payable	(2,584)	1,565
Net decrease in commercial paper	(3,000)	(6,000)
Proceeds from long-term loans payable	12,000	—
Repayment of long-term loans payable	—	(4,444)
Dividends paid	(3,482)	(2,784)
Other, net	(267)	(175)
Net Cash Provided by (Used in) Financing Activities	<u>2,665</u>	<u>(11,839)</u>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	<u>193</u>	<u>(966)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	<u>(32,698)</u>	<u>27,076</u>
Cash and Cash Equivalents, Beginning of the Period	<u>46,157</u>	<u>16,412</u>
Cash and Cash Equivalents, End of the Period	<u>13,459</u>	<u>43,488</u>

(4) Notes Regarding Going Concern Assumptions

None

(5) Segment Information

1) Overview of Reportable [ak2]Segments

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

Consequently, Kuraray has created four business segments for reporting—"Resins," "Chemicals," "Fibers and Textiles" and "Trading"—categorized by products based on respective in-house companies.

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

Business Segments Reported
Interim Period of Fiscal 2010 (April 1, 2010 to September 30, 2010)

(¥ million)

	Reportable Segments					Other Business ¹	Total	Adjustment ²	Consolidated Statements of Income ³
	Resins	Chemicals	Fibers and Textiles	Trading	Total				
Net sales									
(1) Outside customers	58,940	23,216	21,064	56,168	159,389	21,386	180,775	--	180,775
(2) 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
Operating income (loss)	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 business segments reported, including activated carbon, environmental business and engineering.
2. Adjustment is as follows: Included within operating income (loss) 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 segments.
3. Segment income is adjusted with operating income under consolidated statements of income.
4. From the first quarter of the fiscal year ending March 31, 2011, Kuraray applied the “Accounting Standard for Asset Retirement Obligation” (ASBJ Statement No. 18, March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008). This change has had no significant impact on the Company’s operating income and ordinary income.

(Supplemental Information)

From the consolidated first quarter under review, Kuraray has applied the Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Statement No. 17 of March 27, 2009) and Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20 of March 21, 2008).

(6) Material Changes in Shareholders' Equity

None