

Summary of Consolidated Financial Statements for the First Half of the Fiscal Year Ending March 2011 [Japanese Standards]

November 10, 2010

Listed Company Name: KROSAKI HARIMA CORPORATION
Listed on the Tokyo Stock Exchange and the Fukuoka Stock Exchange
Securities Code: 5352 URL: <http://www.krosaki.co.jp/>
Representative: Yasuo Hamamoto, President

Scheduled date of submitting the quarterly financial statements: November 11, 2010

Scheduled date of starting distributing dividends:

Supplementary documents for this summary of financial statements: Yes

Explanation meeting for analysts on this summary of financial statements: Yes

(Figures shown are rounded down to the nearest million yen)

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

(1) Consolidated Business Results (The percentages indicate the rates of increase or decrease compared with the preceding fiscal year.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
1H FY Ending March 2011	46,838	23.1	3,258	—	3,040	—
1H FY Ending March 2010	38,056	(25.3)	(200)	—	(39)	—

	Net income		Net income per share		Diluted net income per share	
	Millions of yen	%	Yen		Yen	
1H FY Ending March 2011	1,958	—	23.19		—	
1H FY Ending March 2010	32	(97.5)	0.39		—	

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
September 30, 2010	82,449	32,910	38.6	377.17
March 31, 2010	86,280	33,269	37.3	381.50

Reference: Equity capital was ¥31,844 million as of September 30, 2010, and ¥32,219 million as of March 31, 2010.

2. Dividends

(Record date)	Dividend per share				
	1Q End	2Q End	3Q End	Year-End	Annual
	Yen	Yen	Yen	Yen	Yen
FY Ending March 2010	—	0.00	—	3.00	3.00
FY Ending March 2011	—	0.00	—	—	—
FY Ending March 2011 (Forecast)	—	0.00	—	4.00	4.00

Note: Revision to dividend forecasts made during the period under review: No

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

(The percentages indicate the rates of increase or decrease compared with the same period of the preceding fiscal year.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Full year	92,300	11.4	5,500	87.4	5,200	72.2

	Net income		Net income per share	
	Millions of yen	%	Yen	
Full year	3,300	(16.8)	39.08	

Note: Revision to performance forecasts made during the period under review: Yes

For details, please refer to the Notice of Revision to Performance Forecasts released today (November 10, 2010).

4. Other Information (For details, please refer to “Other Information” on page 3 of the Attachment.)

(1) Changes in important subsidiaries during the period: None

Newly included: — Excluded: —

Note: This refers to changes in specific subsidiaries involving a change in the scope of consolidation during the period under review.

(2) Adoption of simplified accounting methods and special accounting treatment: Yes

Note: This refers to whether the simplified accounting methods and special accounting treatment for preparing quarterly consolidated financial statements were adopted.

(3) Changes in accounting policies and procedures, method of presentation, etc.

1. Changes associated with the revision of accounting standards: Yes

2. Changes other than the above: None

Note: These refer to changes in accounting policies and procedures and the method of presentation for preparing the quarterly consolidated financial statements stated in “Changes in Basis of Presentation of Quarterly Consolidated Financial Statements.”

(4) Number of shares issued and outstanding (common stock)

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

1H FY ending March 2011:	91,145,280	FY ending March 2010:	91,145,280
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2. Number of treasury shares as of the period-end:

1H FY ending March 2011:	6,713,703	FY ending March 2010:	6,690,606
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3. Average number of shares outstanding:

1H FY ending March 2011:	84,435,679	1H FY ending March 2010:	84,467,942
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Status of execution of the quarterly review of financial statements:

The review of quarterly financial statements under the Financial Instruments and Exchange Act was in progress at the time this summary was disclosed.

Statement regarding the proper use of financial forecasts and other special remarks:

The above forecasts are based on certain assumptions available at present. Please understand that actual results may differ from those forecasts, depending on changes in business circumstances that may happen in the future. For details of the forecasts of business results, see “(3) Qualitative Information on the Forecast of Consolidated Business Results” under “1. Qualitative Information on Consolidated Business Results, etc., during the Period under Review” on page 3 of the Attachment.

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1. Qualitative Information on Consolidated Business Results, etc., during the Period under Review

(1) Qualitative Information on Consolidated Business Results

In the first half of the fiscal year ending March 31, 2011, an increase in steel demand, chiefly for exports, led to a significant recovery in the crude steel output of Japan's steel industry, a major customer of the Krosaki Harima Group, achieving a 27.9% jump compared with the same period of the previous fiscal year. The resulting recovery in refractory demand led to a 23.1% year over year increase in consolidated net sales for the period under review to ¥46,838 million.

Owing to the recovery of net sales and continued cost cuts, the Group achieved consolidated operating income of ¥3,258 million and ordinary income of ¥3,040 million for the first half of the fiscal year ending March 31, 2011, compared with an operating loss of ¥200 million and an ordinary loss of ¥39 million for the same period of the previous year.

Net income for the period under review advanced 5,914.1% from a year earlier to ¥1,958 million.

As a result, net income per share rose significantly to ¥23.19 from ¥0.39 for the same period of the previous year.

Consolidated business performance by industry segment was as follows.

The net sales of each segment represent sales to external customers and do not include inter-segment sales or transfers.

[Refractories]

Due to the recovery of refractory demand, the Refractories segment's net sales for the first half of the fiscal year ending March 31, 2011, amounted to ¥34,963 million and segment profit was ¥2,921 million.

[Furnace]

Partly due to sales from a large construction project, the Furnace segment achieved net sales of ¥7,827 million. However, segment profit was ¥162 million, reflecting the decreased profitability of furnace construction and increased labor costs.

[Ceramics]

The improvement of the market environment surrounding the semiconductor manufacturing equipment industry, a leading user of the Ceramics segment's products, increased the net sales and segment profit of the Ceramics segment to ¥3,115 million and ¥74 million, respectively.

[Real Estate]

The Real Estate segment achieved net sales of ¥500 million and segment profit of ¥154 million.

[Others]

The Others segment achieved net sales of ¥431 million and segment profit of ¥21 million.

(2) Qualitative Information on the Consolidated Financial Position

1) Assets

The Group's consolidated total assets at September 30, 2010, the closing date of the first half of the year ending March 31, 2011, decreased ¥3,831 million from the previous fiscal year-end to ¥82,449 million. Current assets were almost unchanged at ¥42,290 million. Noncurrent assets declined ¥3,826 million to ¥40,120 million, reflecting a decrease in investment securities due to a fall in the value of shares held by the Group.

2) Liabilities

The Group's consolidated total liabilities at September 30, 2010, the closing date of the first half of the year ending March 31, 2011, fell ¥3,471 million from the previous fiscal year-end to ¥49,539 million. Current liabilities declined ¥7,083 million to ¥21,269 million, whereas noncurrent liabilities increased ¥3,611 million to ¥28,269 million.

A primary factor for the decrease in current liabilities was a decrease in short-term loans payable, whereas a main reason for the increase in noncurrent liabilities was an increase in long-term loans payable.

3) Net assets

The Group's consolidated net assets at September 30, 2010, the closing date of the first half of the year ending March 31, 2011, declined ¥359 million from the previous fiscal year-end to ¥32,910 million, as a result of decreases in the valuation difference on available-for-sale securities and valuation and translation adjustments, which were not offset by an increase in retained earnings. As a result, the Group's equity ratio at the end of the second quarter was 38.6%.

Net assets per share decreased from ¥381.50 at the previous fiscal year-end to ¥377.17.

(3) Qualitative Information on the Forecast of Consolidated Business Results

The forecast of consolidated business results for the full year ending March 31, 2011, that was announced on May 13, 2010, has been revised upward as detailed in the Notice of Revision to Performance Forecasts released on November 10, 2010.

The revision was made to reflect the forecast of larger-than-expected refractory demand, despite a concern over the downward tendency of crude steel output, as the future of the economy is increasingly uncertain.

Actual results might differ significantly from our projections due to a change in refractory demand caused by fluctuations of crude steel output.

2. Other Information

(1) Changes in important subsidiaries: None

(2) Simplified accounting methods and special accounting treatment

1) Simplified accounting methods

i. Computation method for an estimated amount of the allowance for doubtful accounts on normal receivables

Because no significant difference was recognized between the past data on uncollected receivables and an estimate of the collectability of individual receivables at September 30, 2010, the closing date of the first half under review, and those at the previous fiscal year-end, we used the data at the previous fiscal year-end to compute an allowance for doubtful accounts for the first half under review.

ii. Computation method for inventories

For computation of inventories at September 30, 2010, the closing date of the first half of the year ending March 2011, we omitted the physical inventory check and adopted a reasonable computation method based on the result of the physical inventory check conducted at the end

of the previous fiscal year.

iii. Computation method for noncurrent assets

Noncurrent assets that are depreciated principally by the declining-balance method are equally amortized over the period of the consolidated fiscal year.

iv. Computation method for income taxes, deferred tax assets and deferred tax liabilities

Income taxes payable are computed limiting items to be added or subtracted and tax deductions to important items.

Recognizing no significant changes in the management environment and other factors that incur temporary differences since the end of the previous fiscal year, the collectivity of deferred tax assets was assessed based on the future performance projections and the tax planning used for the previous fiscal year.

v. Method to estimate total construction contract costs

To estimate total construction contract costs at September 30, 2010, the closing date of the first half under review, we applied the total construction contract costs estimated at the end of the previous fiscal year as those at September 30, 2010, the closing date of the first half under review, except for construction contracts for which total costs are recognized to have changed significantly from the amounts estimated at the end of the previous fiscal year.

2) Special accounting treatment: None

(3) Changes in accounting policies and procedures and the method of presentation for preparing the consolidated quarterly financial statements

1) Application of the Accounting Standard for the Equity Method of Accounting for Investments and the Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method

Effective from April 1, 2010, the Company applied the Accounting Standard for the Equity Method of Accounting for Investments (ASBJ Statement No. 16, released on March 10, 2008) and the Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method (PITF No. 24, dated March 10, 2008). There was no effect of this application on the profits and losses during the period under review.

2) Application of the Accounting Standard for Asset Retirement Obligations

Effective from April 1, 2010, the Company applied the Accounting Standard for Asset Retirement Obligations (ASBJ Statement No. 18, dated March 31, 2008) and the Implementation Guidance on the Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No. 21, dated March 31, 2008).

Due to this application, income before income taxes for the first half under review decreased ¥25 million. The amount of change in asset retirement obligations due to the application of the above standard and guidance was ¥25 million.

3) Application of the Accounting Standard for Business Combinations and other related standards

Effective from April 1, 2010, the Company applied the Accounting Standard for Business Combinations (ASBJ Statement No. 21, dated December 26, 2008), the Accounting Standard for Consolidated Financial Statements (ASBJ Statement No. 22, dated December 26, 2008), partial amendments to the Accounting Standard for Research and Development Costs (ASBJ

Statement No. 23, dated December 26, 2008), the revised Accounting Standard for Business Divestitures (ASBJ Statement No. 7, revised on December 26, 2008), the revised Accounting Standard for Equity Method of Accounting for Investments (ASBJ Statement No. 16, released on December 26, 2008) and the revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, revised on December 26, 2008).

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	FY Ending March 2011 Second Quarter (As of September 30, 2010)	Condensed Balance Sheet for FY Ending March 2010 (As of March 31, 2010)
ASSETS		
Current assets:		
Cash and deposits	3,703	3,258
Notes and accounts receivable—trade	23,950	20,932
Merchandise and finished goods	5,557	5,612
Work in process	1,957	2,997
Raw materials and supplies	3,734	3,843
Deferred tax assets	1,634	1,921
Other	1,753	3,724
Allowance for doubtful accounts	(0)	(1)
Total current assets	42,290	42,289
Noncurrent assets:		
Property, plant and equipment:		
Buildings and structures	35,235	34,081
Accumulated depreciation	(23,583)	(23,197)
Buildings and structures (net)	11,652	10,883
Machinery, equipment and vehicles	49,838	48,312
Accumulated depreciation	(41,703)	(41,007)
Machinery, equipment and vehicles (net)	8,135	7,305
Tools, furniture and fixtures	3,644	3,547
Accumulated depreciation	(2,956)	(2,811)
Tools, furniture and fixtures (net)	688	736
Land	7,446	7,494
Construction in progress	338	3,725
Total property, plant and equipment	28,261	30,145
Intangible assets:		
Goodwill	43	74
Other	616	613
Total intangible assets	659	687
Investments and other assets:		
Investment securities	8,326	10,188
Long-term loans receivable	432	482
Deferred tax assets	307	339
Other	2,243	2,212
Allowance for doubtful accounts	(110)	(108)
Total investments and other assets	11,199	13,114
Total noncurrent assets	40,120	43,947
Deferred assets		
Bond issuance costs	38	43
Total deferred assets	38	43
Total assets	82,449	86,280

(Millions of yen)

	FY Ending March 2011 Second Quarter (As of September 30, 2010)	Condensed Balance Sheet for FY Ending March 2010 (As of March 31, 2010)
LIABILITIES		
Current liabilities:		
Notes and accounts payable—trade	12,937	12,885
Short-term loans payable	2,018	8,548
Income taxes payable	328	275
Deferred tax liabilities	15	14
Provision for bonuses	1,885	1,670
Provision for loss on construction contracts	—	65
Other current liabilities	4,084	4,892
Total current liabilities	21,269	28,353
Noncurrent liabilities:		
Bonds	10,000	10,000
Long-term loans payable	10,477	5,500
Deferred tax liabilities	1,592	1,954
Provision for retirement benefits	474	525
Provision for directors' retirement benefits	397	407
Provision for product warranties	7	7
Asset retirement obligations	25	—
Negative goodwill	751	849
Other	4,544	5,414
Total long-term liabilities	28,269	24,658
Total liabilities	49,539	53,011
NET ASSETS		
Shareholders' equity:		
Capital stock	5,537	5,537
Capital surplus	5,138	5,138
Retained earnings	22,582	20,886
Treasury stock	(1,556)	(1,547)
Total shareholders' equity	31,701	30,015
Valuation and translation adjustments:		
Valuation difference on available-for-sale securities	1,641	2,751
Deferred gains or losses on hedges	(8)	3
Foreign currency translation adjustment	(1,489)	(551)
Total valuation and translation adjustments	143	2,203
Minority interests	1,065	1,049
Total net assets	32,910	33,269
Total liabilities and net assets	82,449	86,280

(2) Quarterly Consolidated Statement of Income (Cumulative)

(Millions of yen)

	FY Ending March 2010 First Half (April 1, 2009, to September 30, 2009)	FY Ending March 2011 First Half (April 1, 2010, to September 30, 2010)
Net sales	38,056	46,838
Cost of sales	32,579	37,417
Gross profit	5,476	9,421
Selling, general and administrative expenses	5,676	6,163
Operating income (loss)	(200)	3,258
Non-operating income:		
Interest income	3	12
Dividends income	84	56
Subsidy income	217	—
Amortization of negative goodwill	98	98
Equity in earnings of affiliates	50	—
Other	108	81
Total non-operating income	563	249
Non-operating expenses:		
Interest expenses	179	186
Loss on transfer of receivables	75	—
Foreign exchange losses	—	103
Equity in losses of affiliates	—	15
Other	147	161
Total non-operating expenses	402	467
Ordinary income (loss)	(39)	3,040
Extraordinary income:		
Gain on sales of noncurrent assets	321	220
Other	114	45
Total extraordinary income	436	265
Extraordinary loss:		
Loss on retirement of noncurrent assets	28	56
Loss on sales of noncurrent assets	1	0
Impairment loss	7	—
Advisory commission	28	—
Environmental measures	26	—
Special addition to retirement benefits	—	160
Other	12	47
Total extraordinary loss	103	265
Income before income taxes and minority interests	293	3,041
Income taxes—current	137	351
Income taxes—deferred	82	641
Total income taxes	220	992
Income before minority interests	—	2,048
Minority interests	40	90
Net income (loss)	32	1,958

(3) Quarterly Consolidated Statement of Cash Flows (Cumulative)

(Millions of yen)

	FY Ending March 2010 First Half (April 1, 2009, to September 30, 2009)	FY Ending March 2011 First Half (April 1, 2010, to September 30, 2010)
Cash flows from operating activities:		
Income (loss) before income taxes and minority interests	293	3,041
Depreciation and amortization	2,201	2,186
Impairment loss	7	—
Amortization of goodwill	30	30
Amortization of negative goodwill	(98)	(98)
Amortization of long-term prepaid expenses	3	3
Increase (decrease) in allowance for doubtful accounts	(25)	1
Increase (decrease) in provision for bonuses	(136)	214
Increase (decrease) in provision for retirement benefits	(108)	(50)
Increase (decrease) in other provision	64	(75)
Interest and dividends income	(88)	(68)
Interest expenses	179	186
Foreign exchange losses (gains)	(38)	(52)
Equity in (earnings) losses of affiliates	(50)	15
Loss on retirement of property, plant and equipment	28	56
Loss (gain) on sales and retirement of property, plant and equipment	(320)	(219)
Advisory commission	28	—
Decrease (increase) in notes and accounts receivable—trade	144	(2,906)
Decrease (increase) in inventories	4,896	1,043
Increase (decrease) in notes and accounts payable—trade	(3,485)	(31)
Other	(310)	(650)
Subtotal	<u>3,216</u>	<u>2,625</u>
Interest and dividends income received	88	72
Interest expenses paid	(133)	(194)
Special retirement benefits paid	—	(299)
Income taxes paid	(184)	(210)
Net cash used by operating activities	<u>2,986</u>	<u>1,994</u>
Cash flows from investing activities:		
Purchase of property, plant and equipment	(2,202)	(1,376)
Proceeds from sales of property, plant and equipment	424	1,977
Payments for retirement of property, plant and equipment	(24)	(67)
Purchase of intangible assets	(32)	(56)
Purchase of investment securities	(1,909)	(3)
Payments of loans receivable	(447)	(11)
Proceeds from collection of loans	14	122
Proceeds from business transfer	44	—
Payments of advisory commission	(27)	—
Other	(37)	25
Net cash used in investing activities	<u>(4,198)</u>	<u>610</u>
Cash flows from financing activities:		
Increase (decrease) in short-term loans payable	(9,550)	(2,126)
Proceeds from long-term borrowing	1,000	5,132
Repayment of long-term loans payable	(30)	(4,300)
Proceeds from issuance of bonds	9,947	—
Repayment of lease deposits received	(649)	(649)
Purchase of treasury stock	(2)	(9)
Cash dividends paid	(171)	(252)
Other	(2)	(2)
Net cash provided by financing activities	<u>540</u>	<u>(2,208)</u>
Effect of exchange rate change on cash and cash equivalents	27	(76)
Net increase (decrease) in cash and cash equivalents	(644)	320
Cash and cash equivalents at beginning of period	4,342	3,258
Increase in cash and cash equivalents resulting from a change in the scope of consolidation	—	124
Cash and cash equivalents at end of period	<u>3,697</u>	<u>3,703</u>

(4) Notes on the premise of a going concern

None

(5) Notes on a Significant Change in Shareholders' Equity

None