



## **Kureha Corporation Reports Strong FY2006 Full-Year Results** ***Consolidated operating income rises by 22%, in line with forecasts***

**Tokyo, Japan – May 9, 2007** – Leading specialty chemicals and plastic products company, Kureha Corporation (“Kureha”), posted consolidated net sales of ¥146.3 billion in the fiscal year ended March 31, 2007, up 8% from ¥135.6 billion in the previous year. The Company recorded operating income of ¥11.8 billion, up 22% from the previous fiscal year, consolidated recurring income of ¥11.7 billion, up 27%, and net income of ¥5.8 billion, up 13%. In addition, earnings per share (EPS) rose from ¥27.61 to ¥31.58 and, as a result of net income growth, the Company announced an increase to the annual dividend per share from ¥9.0 in FY2005 to ¥10.0.

Kureha President and Chief Executive Officer, Takao Iwasaki, said, “We are delighted to announce strong results and see this as further evidence that the Company is progressing in accordance with the goals of our mid-term plan. Our objective is to continue evolving through innovation to meet the needs of the markets in which we operate and to become the leading global manufacturer of specific high value-added products. As our forecasts for 2008 suggest, we anticipate the strategy and efforts adopted as part of our mid-term plan to have a continued positive impact on financial performance in the years to come.”

### **Summary of Consolidated Full-year Results**

(¥ million, except where stated)

	<b>March 2007</b>	<b>March 2006</b>	<b>Change (%)</b>
Net sales	146,255	135,627	8
Operating income	11,841	9,708	22
Recurring income	11,682	9,185	27
Net income	5,832	5,171	13
Earnings per share (EPS) (¥)	31.58	27.61	14

### **Major developments**

#### **Advanced materials production capacity expanded**

Kureha successfully raised the production capacity of core products at the Iwaki factory during FY2006. Capacity expansion measures were completed for PPS resin in April 2006, increased to 10,000 tonnes per year, and for carbon textile materials in December 2006, increased to 1,100 tonnes per year. However, a fire at the PPS plant at the Iwaki factory in September 2006, which resulted in no injuries and minimal damage, meant that production was halted for a period of approximately one month. Production at raised capacity levels is now in full operation for both products and the positive impact is reflected in the Advanced Materials division buoyant results.

## **Business development in China**

Consumption of sausage products in China is growing rapidly and as a result so is the market for packaging materials. In October 2005, Kureha established a joint venture in Nantong for production of PVDC compound (*Krehalon*), used in a wide range of food packaging including sausages, and the Company became an equity-method consolidated subsidiary during FY2006. Kureha now provides PVDC compound to several major Chinese sausage manufacturers.

In addition, Kureha established Kureha Shanghai Trading Co., Ltd. in August 2006 and launched a full-scale business for household goods in China. Kureha's overall business operations in China have thus continued to gain momentum.

## **Acquisition of construction company in Fukushima prefecture**

In August 2006, Kureha acquired stakes in Nishiki Kogyo Co., Ltd., a company with strengths in public construction works. Following this move, Kureha Construction Co. Ltd., strong in private construction works, merged with Nishiki Kogyo Co., Ltd. in October 2006. The new entity, which will benefit from the economies of scale as a result of being able to cover both public and private construction projects, was named Kurehanishiki Construction Co., Ltd. and has made a significant contribution to top-line sales from the second half of FY2006.

## **Strengthened corporate governance**

During FY2006 Kureha has implemented a number of measures aimed at strengthening the Company's corporate governance in order to guarantee accountability to all stakeholders and ensure the Company's long term sustainability. In February 2007 the Company announced the introduction of an external directors system, an executive officer system, and a reform of the compensation system for board members. The Company has announced its intention to reduce the size of its board to a total of ten; comprising eight internal board members plus two external directors. In addition, as of April 1, 2007, Dr. Takao Iwasaki assumed the role of President and CEO of Kureha, becoming the Company's first CEO with a science and technology background.

## **Consolidated Operating Highlights by Division**

(¥ million, except where stated)

Division		March 2007	March 2006	Change (%)
Advanced materials	Net sales	35,129	31,578	11
	Operating income	4,258	3,923	9
Specialty chemicals	Net sales	30,543	31,294	-2
	Operating income	3,348	3,493	-4
Specialty plastics	Net sales	48,399	45,261	7
	Operating income	2,212	607	265
Other operations	Net sales	32,184	27,492	17
	Operating income	2,289	2,100	9
	Operating income Cancellations	-267	-415	
<b>Total</b>	<b>Net sales</b>	<b>146,255</b>	<b>135,627</b>	<b>8</b>
	<b>Operating income</b>	<b>11,841</b>	<b>9,708</b>	<b>22</b>

## **Advanced Materials Division**

*Major product areas - advanced plastics (PPS resin, PVDF resin, Krefine), carbon products*

Divisional sales rose by 11% on a year-on-year basis, up from ¥31.6 billion in FY2005 to ¥35.1 billion. In addition, operating income for the division rose by 9% year-on-year to ¥4.3 billion following strong demand for a number of core products.

### **Advanced plastics: Core products buoyant**

PPS resin, a super engineering plastic, contributed strongly to divisional sales following an increase in production capacity at the Iwaki factory from 7,500 to 10,000 tonnes per year, completed in April 2006, and continued strong demand for use in applications including electronics and automobile parts. PVDF resin also contributed with stronger than expected sales due to growing demand for use in a wide variety of industrial applications, including lithium batteries. Combined, PPS resin and PVDF resin contributed to a 20% year-on-year growth in sales of advanced plastics.

### **Sales of carbon products ahead of forecasts**

Sales of carbon products were ¥7.3 billion, which although representing a 5% year-on-year decrease was ahead of the projected figure of ¥7.1 billion announced in November 2006. In particular, positive sales results were again recorded by carbon fibers for heat-resistant materials such as heat-treatment furnaces, although exports of bead-shaped activated carbon decreased due to a decline in demand.

## **Specialty Chemicals Division**

*Major product areas – pharmaceuticals, agrochemicals, industrial chemicals*

Sales for the Specialty Chemicals Division were in line with the forecast announced in November 2006, falling 2% on a year-on-year basis to ¥30.5 billion. Divisional operating income fell by 4% to ¥3.3 billion, largely due to the impact of drug price cuts.

### **Pharmaceuticals profitability declines following drug price cuts**

Pharmaceutical sales were ¥8.6 billion for FY2006, down 7% from the ¥9.3 billion recorded during FY2005, mainly as a result of the official price cuts for *Kremezin* and *Krestin* and a relatively weak *Krestin* sales volume. During FY2006 license contracts were agreed for *Kremezin* with Conmed on development rights for kidney disease applications in Taiwan and with Mitsubishi Pharma Corporation on development rights for kidney disease applications in the U.S. and Europe.

### **Agrochemicals sales slow following inventory adjustments**

Sales of agrochemicals fell slightly below expectations in FY2006, at ¥6.8 billion against the November 2006 projection of ¥6.9 billion. Particularly in the case of *Metconazole*, a fungicide for cereal crops, this was the result of a decline in export sales following customer inventory adjustments. Domestically, sales prospects of *Metconazole* were enhanced following the completion of registration procedures for the product as a wheat fungicide in Japan.

### **Sales and profitability improvement of industrial chemicals**

Having achieved an upward price revision for caustic soda, Kureha recorded industrial chemicals sales of ¥10.1 billion for FY2006, up 4% year-on-year. This result contributed to the stable performance of the overall specialty chemicals division.

## **Specialty Plastics Division**

*Major product areas – food packaging materials, household products, fishing lines*

The Specialty Plastics Division made a major contribution to Kureha's positive FY2006 results. Divisional sales rose by 7% to ¥48.4 billion, while operating income rose by 265% from ¥0.6 billion to ¥2.2 billion, aided by the successful attempts to create a higher margin product portfolio based on the *NEW Krewrap* line-up. In addition, development of the PVDC compound business in China, and the improved performance of European businesses contributed to earnings improvement.

### ***NEW Krewrap continues to have positive impact***

Sales of household products grew by 6% in comparison with FY2005, reaching ¥20.4 billion for the full year. *New Krewrap*, which has displayed improved margins, contributed strongly to both the increased sales and profitability of household products.

### ***Overseas food packaging subsidiaries contribute to improved profitability***

Sales of food packaging materials also rose, by 4% year-on-year to ¥10.9 billion. Food packaging sales were buoyed by strong demand for PVDC compound from China for use in packaging materials for food products including sausages, a market that is expected to continue growth in the coming years.

In addition, European subsidiaries recorded significant earnings improvement due to production yield improvements of *ML40*, a multilayer shrinkable film for meats and cheeses, following the completion of product development efforts, and the sale of the unprofitable subsidiary, Krehalon Synclair Packaging B.V.

### ***Upgrade of fishing line series completed***

Although sales of the *Seaguar* fishing line series are relatively small, margins remain good with sales rising by 21% to ¥1.6 billion, up from ¥1.4 billion in FY2005. The upgraded *Seaguar* series was launched in February 2007 following the first product renewal in twenty-four years and is expected to contribute to further sales growth during FY2007.

## **Other Operations Division**

*Major product areas – environmental engineering, construction and transport/warehousing-related businesses*

The Other Operations Division recorded sales of ¥32.2 billion, up 17% year-on-year, while operating income for the division increased by 9% to ¥2.3 billion.

Contributing to the growth in divisional sales, construction-related business sales were ¥29.9 billion during FY2006, up by 19% on a year-on-year basis following the acquisition and creation of Kurehanishiki Construction Co., Ltd. Sales results for environmental engineering businesses remained largely unchanged at ¥6.1 billion due to rising fuel costs and declining sales prices.

## Capex, Depreciation and R&D

Consolidated capital expenditure, depreciation and R&D

(¥ billion)

	March 2006	March 2007	March 2008 (forecast)
Capital expenditure	12.0	10.7	11.5
Depreciation	7.9	9.1	10.5
R&D	7.4	6.9	7.5

Capital expenditure fell from ¥12.0 billion to ¥10.7 billion for FY2006, due to the timing of planned expenditures, not a change of planned activities. As a result, capital expenditure is forecast to rise to ¥11.5 billion in FY2007. Depreciation rose from ¥7.9 billion in FY2005 to ¥9.1 billion in FY2006 and is projected to further increase to ¥10.5 billion in FY2007, largely due to the change in accounting practices regarding residual value for fixed assets with five-year depreciation remaining. Reflecting Kureha's objective of being a highly innovative company, manufacturing original and differentiated products, R&D spending is forecast to rise to ¥7.5 billion in FY2007, up from ¥6.9 billion in FY2006.

## March 2008 Forecast

(¥ million, except where stated)

	March 2008 (Forecasts)	March 2007	Change (%)
Sales	155,000	146,255	6
Operating income	13,500	11,841	14
Recurring income	13,000	11,682	11
Net income	6,000	5,832	3

Kureha forecasts sales of ¥155.0 billion for the period ending March 31, 2008, up 6% from FY2006. In addition, operating income is projected to grow by 14% to ¥13.5 billion and recurring income is also projected to experience double-digit growth, up 11% to ¥13 billion. Net income is forecast to rise to ¥6 billion during FY2007, up 3% year-on-year.

### **Advanced Materials Division**

**Outlook:** Advanced materials maintain strong growth potential with the prospect of a full year contribution from PPS resin at increased production /capacity both at the Iwaki factory and at Kureha's US joint venture, Fortron Industries LLC, where production capacity was expanded in December 2005 and is planned for further expansion from 8,600 to 15,000 tonnes per year during mid-2007. In addition, sales of *Krefine* are forecast to grow in the coming year, resulting in projected divisional sales of ¥37.5 billion for FY2007, a year-on-year increase of 7%. Divisional operating income is projected to grow by 15% to ¥4.9 billion in FY2007.

### **Specialty Chemicals Division**

**Outlook:** Sales of specialty chemicals are expected to fall by approximately 3% to ¥29.5 billion during FY2007, largely due to continued customer inventory adjustments for *Metconazole*. In addition, as a result of receiving a one-off milestone payment from Mitsubishi Pharma Corporation in FY2006 for development rights of *Kremezin* in the U.S. and Europe, divisional operating income is forecast to decline by 13% to ¥2.9 billion in FY2007, despite the expected volume growth of *Kremezin*.



### **Specialty Plastics Division**

**Outlook:** Specialty plastics are forecast to offer an increasingly strong contribution to Kureha's group earnings during FY2007, with divisional operating income projected to increase by 58% to ¥3.5 billion. Factors expected to contribute to a strong divisional performance include domestic sales and increased profitability of household products following a shift in the product portfolio towards higher margin products, European food packaging businesses, and the upgraded series of *Seaguar* fishing line products.

### **Other Operations Division**

**Outlook:** Aided by a full year contribution from Kurehanishiki Construction following the merger and an overall projected 15% sales increase of construction related businesses, divisional sales are forecast to rise by 18% during FY2007. Within the environmental engineering businesses, greater focus will be placed on developing medical waste processing business due to its high operating margins, reflecting Kureha's continued aim of strengthening earnings capability throughout the division. This shift is expected to lead to increased profitability of environmental engineering businesses and, along with a continued positive impact from Kurehanishiki Construction, contribute to a divisional operating income increase in FY2007 of 9% to ¥2.5 billion.

### **For further information, please contact:**

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### **Notes to Editors**

#### **About Kureha Corporation**

Kureha Corporation is a leading chemical and plastic products company, listed on both the Tokyo and Osaka Stock Exchanges (4023). The company was established in 1944 as a manufacturer of caustic soda, chlorine-based chemicals, and fertilizers.

Utilizing strong in-house R&D capabilities, Kureha has developed into a leading manufacturer of advanced plastics (such as PPS resin and PVDF resin), specialty chemicals (pharmaceuticals, including therapeutic agent for chronic renal failure, *Kremezin*, and agrochemicals) and specialty plastics (food packaging products, including *New Krewrap*, and other household goods).

Kureha's main factory is located in Iwaki, Fukushima Prefecture, Japan. In addition, the company has overseas production facilities in China and in the United States. More information is found at <http://www.kureha.co.jp/>

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## <Appendix>

### Condensed Consolidated Balance Sheets

For the fiscal years ended 31 March 2007 and 2006

¥ millions

	31 March 2007	31 March 2006
<b>Assets</b>		
Current assets	69,128	66,715
Cash and cash equivalents	4,278	6,542
Fixed assets	126,966	118,463
Property, plant and equipment	71,970	70,882
Intangible assets	1,298	1,774
Investments and other assets	53,697	45,807
<b>Total Assets</b>	<b>196,106</b>	<b>185,203</b>
<b>Liabilities</b>		
Current liabilities	61,119	57,203
Short-term borrowings	19,374	19,309
Fixed liabilities	27,637	28,411
Long-term borrowings	8,095	11,074
<b>Total Liabilities</b>	<b>88,757</b>	<b>85,615</b>
<b>Minority Interest</b>		<b>1,229</b>
<b>Shareholders' Equity</b>		<b>98,357</b>
<b>Total Liabilities, Minority Interests and Shareholders' Equity</b>		<b>185,203</b>
<b>Net Assets</b>		
Shareholders' Equity	90,688	
Reevaluation and Conversion Gap, etc.	15,510	
Minority Interest	1,150	
<b>Total Net Assets</b>	<b>107,349</b>	
<b>Total Liabilities and Net Assets</b>	<b>196,106</b>	

### Condensed Consolidated Statement of Income

As of 31 March 2006 and 2005

¥ millions

	March 2007	March 2006
<b>Sales</b>	<b>146,255</b>	<b>135,627</b>
Cost of goods sold	103,911	96,188
Selling, general and administrative expenses	30,503	29,730
<b>Operating income</b>	<b>11,841</b>	<b>9,708</b>
Non-operating income	1,344	1,138
Non-operating expenses	1,503	1,661
<b>Recurring income</b>	<b>11,682</b>	<b>9,185</b>
Extraordinary gains	2,272	2,885
Extraordinary losses	4,453	4,253
Income before income taxes	9,501	7,817
Taxes and minority interest adjustments	3,459	4,477
<b>Net income</b>	<b>5,832</b>	<b>5,171</b>