



## Kureha Corporation Reports Fiscal 2010 Results

**Tokyo, Japan – May 2011** – Kureha Corporation (“Kureha”), a leading global supplier of specialty chemicals and plastics, has reported earnings for the fiscal year ended March 31, 2011 (FY2010). On a consolidated basis, operating income increased by 11.37% year-on-year to ¥6.35 billion, while recurring income was up 2.5% to ¥5.638 billion on sales of ¥132.3 billion (down 1.7%). Net income was down 56.0% to ¥692 million as a result of extraordinary losses relating to the March 11 earthquake. The Company’s annual dividend remains at ¥10.0 per share.

Results were improved from the previous fiscal year. Figures were also slightly ahead of projections announced by Kureha in November 2010, with the exception of net income, which saw a sharp decline as a result of disaster related expenses such as repairing damaged facilities and allowance accrual.

Prior to the March 11 earthquake in Japan, Kureha had made strong progress during the fiscal year and had experienced growing demand, particularly in the Advanced Materials business, and recorded positive earnings increase. As a result of the disaster, Kureha was forced to temporarily close its Iwaki Factory. Repair work began immediately, but was interrupted by large aftershocks on April 11 and 12 that again halted operations. The factory successfully resumed operations in early May.

Kureha President and Chief Executive Officer, Takao Iwasaki, commented: “I would like to extend my deepest sympathies to all those affected by the earthquake and tsunami in the Tohoku region. Having been in Iwaki on March 11 and felt the unprecedented strength of the tremor, I remained on-site for a number of days to ensure the safety of employees and facilities. In total, we were forced to close the plant for approximately two months, like other manufacturers in the Tohoku region. As has been well documented, the impact of this disaster affected not only this region, but led to major disruptions to the global supply chain.”

“In recent years Kureha’s mission has been to secure the leading global position in the manufacture of high-value added specialist products. Our business has become increasingly global and the recent disaster is only likely to accelerate the trend among Japanese companies, including Kureha, to diversify production bases.”

“The direction of our mid-term business plan “Grow Globally” will remain unchanged. However, we will extend the timeframe for further three years and during that time will prepare more detailed plans to achieve earnings targets. I believe that Kureha is now set to experience the results of its new business endeavors. We expect to see the lithium-ion battery business fulfill its growth potential, and will experience a major milestone with the launch of commercial production of PGA; both of which are expected to become key drivers of future business growth,” said Iwasaki

## **Summary of consolidated full year results**

(¥ million, except where stated)

	March 2010	March 2011	Change (%)
Sales	134,606	132,309	-1.7
Operating income	5,706	6,350	-11.3
Recurring income	5,499	5,638	2.5
Net income	1,571	692	-56.0
Earnings per share (EPS) (¥)	8.77	3.97	-54.7

## **Business highlights**

### **PGA business progress**

Technical facilities at the plant have now been completed and trial production is set to start from early June, with commercial then due to begin from August. Utilization in PET bottles, where adding a layer of PGA can improve carbon dioxide retention for drinks and result in resource and cost savings, remains an important focus and Kureha can expect scale merits once global beverage producers approve and start adopting the material. However, attention has also been shifting towards another area for focus – applications to increase the efficiency of crude oil extraction. Kureha is working closely with drilling companies operating in the shale gas and crude oil sector to utilize PGA to improve the recovery ratio of residuals.

### **Recognized by Edison Awards for Innovation**

Each year the Edison Awards honor the development and successful launch of the most innovative products. Kureha was recognized by the 2011 Edison Awards, with PGA being selected as finalist for energy and sustainability in the packaging segment.

### **Negative electrode materials for EVs and HEVs**

The negative electrode material and binder used in the world's first practical lithium-ion secondary battery (LiB) developed in 1991 were Kureha's CARBOTRON P and KF POLYMER. Since that time there has been a growing global awareness of environmental issues, which has resulted in increased attention towards using these batteries in environmentally conscious vehicles, taking advantage of characteristics such as durability. Many automakers and battery manufacturers are currently focused on developing LiBs for use in vehicles, and are conducting tests using CARBOTRON P. Kureha's production capacity can be increased to as much as 1,800 tons per year, responding to the potential growth in demand from the automotive sector.

### **Divestiture of Besela business**

In April, Kureha sold its commercial packaging business for *Besela*, a high gas barrier film for lamination, to Toppan Printing.

### **Extraordinary losses**

In fiscal 2010 Kureha recorded extraordinary losses of ¥4.59 billion (in comparison to ¥2.75 billion in the previous year) largely as a result of costs associated with the March 11 earthquake, which amounted to ¥3.37 billion. A further ¥0.5 billion in losses were related to the withdrawal from certain business operations, including modifiers and nutritional foods related businesses, as well as the sale of some fixed assets. The company is expected to record extraordinary losses of ¥4.8 billion in FY2012, including a further ¥3.0 billion for earthquake and aftershock related costs.

## **Consolidated performance by segment**

(¥ million, except where stated)

<b>Division</b>		<b>March 2010</b>	<b>March 2011</b>	<b>March 2012 (Forecast)</b>
Advanced materials	Sales	28,423	33,391	35,500
	Operating income/loss	-3,645	363	↑
Specialty chemicals	Sales	35,831	33,552	32,000
	Operating income/loss	6,619	5,202	↓
Specialty plastics	Sales	42,430	41,091	38,500
	Operating income/loss	1,948	1,789	↓
Construction-related	Sales	17,502	12,759	28,000
	Operating income/loss	578	-386	
Other operations	Sales	10,418	11,514	↑
	Operating income/loss	812	38	
(Cancellations)	Sales	(18,592)	(16,699)	
	Operating income/loss	(606)	-657	-
<b>Total</b>	<b>Sales</b>	<b>134,606</b>	<b>132,309</b>	<b>134,000</b>
	<b>Operating income</b>	<b>5,706</b>	<b>6,350</b>	<b>6,500</b>

## **Performance by division**

### **Advanced materials division**

*Major product areas: advanced plastics (PPS resin, PVDF resin), carbon fiber and PGA*

Advanced materials division sales were up 17% year-on-year to ¥33.4 billion, with the division reporting operating profit of ¥0.4 billion. The overall growth in sales was led by strong demand in most strategic product areas.

### **Demand growth for advanced plastics**

Sales of advanced plastics were up 12% from ¥12.8 billion to ¥14.3 billion. PPS resin in particular experienced an increase in both sales and operating income on the back of strong demand for use in automotive, electrical and electronics applications, as well as an improved performance by the U.S. joint venture. PVDF resin also recorded stronger sales and operating profit, mainly due to growing demand from industrial applications and electrode binders for lithium-ion batteries. As a result, PVDF production has been running at full capacity.

### **Carbon fiber sales up**

Carbon fiber products recorded sales of ¥7.3 billion, 34% higher than previous year sales of ¥5.4 billion, with operating income also increasing. Demand for carbon fiber as an insulating material in silicon wafers for semiconductors was stable, while an upturn in demand was recorded for use as an insulating material for solar power equipment. In addition, demand for negative electrode materials expanded, also contributing to the growth of operating profit.

### **PGA business in progress**

Construction of Kureha's PGA plant in the U.S. is moving towards completion. A pilot plant in Japan has already shipped small amounts of PGA, but because of the heavy development costs, operating income declined year-on-year.

**Outlook:** FY2011 divisional sales are forecast to increase to ¥35.5 from ¥33.4, while operating income is also expected to grow. Kureha anticipates that PPS resin will experience steady growth on account of growing demand in diverse applications including in the electrical, electronics and automotive industries. PPS resin production at the Iwaki factory will continue at full capacity and operating capacity at the U.S. plant is expected to increase, which would further contribute to earnings. PVDF resin sales are also expected to grow, as a result of demand from applications including lithium-ion battery binders, and will be assisted by an increase in production capacity from this summer. Demand for carbon fibers is expected to continue to grow steadily, with sales of Kureha's negative electrodes and binders for lithium-ion batteries used in electronic vehicles (HEV, PHEV and EV) forecast to increase. Kureha will respond by enhancing production capacity, with a new facility to commence operations at the beginning of next year. For PGA, Kureha is accelerating market development and cultivation, with the U.S. production plant scheduled to be completed in June and begin shipping from August.

## **Specialty chemicals division**

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

Specialty chemicals division sales were down 6% year-on-year to ¥33.6 billion, from ¥35.8 billion, while operating profit declined 21% to ¥5.2 billion. This was in part due to exchange rate losses, as well as the absence of one-off payments relating to *Kremezin* that had a positive impact on last year's revenue.

### **Pharmaceuticals revenue weakens**

Sales of pharmaceutical products declined from ¥12.7 billion to ¥10.2 billion in fiscal 2010. Despite an increase in sales volume for *Kremezin*, a chronic kidney disease treatment, the absence of one-off payments as had been recorded in the previous year meant comparatively weak results.

### **Industrial chemicals profits increase**

Operating income for industrial chemicals increased, despite sales declining 3% from ¥10.2 billion to ¥9.9 billion. Although inorganic chemicals such as sodium hydroxide (caustic soda) recorded a decrease in sales, organic chemicals, namely chlorobenzenes, experienced an increase in both sales volume and unit costs.

### **Agrochemicals profits suffer from volatile Euro**

Sales of agrochemical products were up 4% year-on-year from ¥6.9 billion to ¥7.2 billion. *Metconazole*, an agricultural fungicide, saw an increase in sales volume and exports, but operating income deteriorated due to the weak Euro.

**Outlook:** Fiscal 2011 divisional sales are expected to decline by 5% to ¥32.0 billion, with operating income also projected to decrease. Kureha will continue market expansion efforts for its pharmaceutical and agrochemical products, while further sales growth of *Metconazole* in overseas market is also expected. Pharmaceutical products were shipped ahead of schedule in order to avoid potential risks associated with the March 11 earthquake that could have had a negative impact on results. However, the drop in production and demand for industrial chemicals as a result of the earthquake and aftershocks in April 2011 are expected to have a negative impact on results in the early part of the fiscal year.

**Specialty plastics division**

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

Specialty plastics division sales declined 3% to ¥41.1 billion from ¥42.4 billion, while operating income declined 8% to ¥1.8 billion.

**Packaging materials business improves**

Sales of food packaging materials were up by 2% to ¥11.0 billion as profits from PVDC compounds for China and bottles improved, alongside an increase in sales volume of multi-layer shrinkable film in Europe.

***NEW Krewrap* struggles amid competition**

Sales of household products were down 19% to ¥17.5 billion from ¥21.5 billion. Despite product renewal and improvement efforts, *New Krewrap*'s profitability declined as a result of severe market competition. Shipping volume also declined due to the earthquake. As noted, the merger of Kureha Plastics also contributed to the decline sales figures.

**Fishing line sales decline**

Sales of *Seaguar* series products decreased 21% year-on-year, from ¥1.3 billion to ¥1.0 billion.

**Outlook:** Fiscal 2011 divisional sales are forecast to decline by 6% to ¥38.5 billion. Operating income is also projected to decrease due to the impact of earthquakes on both the packaging materials and household products businesses, despite efforts to improve profitability via the packaging film production plant in Vietnam. Kureha will continue its efforts to improve *New Krewrap* products. In addition, the household products business in China is expected to grow steadily, leveraging relations with partner companies.

**Other operations division**

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

Other operations division sales declined 13% year-on-year to ¥24.3 billion from ¥27.9 billion, with an operating loss of ¥0.3 billion. While sales at environmental engineering, logistics and warehousing businesses were up, construction-related businesses faced a severe decline in demand and also suffered from the postponement of projects after the earthquake.

**Environmental engineering sales improve**

Environmental engineering sales were up 15% to ¥5.8 billion from ¥5.0 billion. Levels of industrial waste processing increased, but costs associated with the new Kanagawa plant construction were up and resulted in operating income decreasing from the previous year.

**Construction demand further deteriorates**

Sales at construction-related businesses declined by 27% to ¥20.8 billion from ¥28.5 billion. The sharp decline in sales was due to a reduction in orders and the increase in the number of postponed projects, due to the earthquakes in March 2011.

### Logistics and warehousing businesses largely unchanged

Logistics and warehousing business sales were up 2% to ¥11.0 billion, with an increase in logistics business activity. However, as a result of fuel costs, operating income remained largely unchanged.

**Outlook:** Fiscal 2011 divisional sales are projected to increase by 15% to ¥28.0 billion, with operating income also expected to grow. Revenues at construction-related businesses are expected to increase, as a result of cost reduction efforts and the increasing number of public and private construction projects as part of post-earthquake and tsunami reconstruction efforts. The new plant opened in Kanagawa April 2010 is expected to contribute to sales expansion at industrial waste related businesses, and will also assist in responding to post-earthquake demand.

### FY2012 Outlook

(¥ million, except where stated)

	March 2011	March 2012 (Forecast)	Change (%)
Sales	132,309	134,000	1.3
Operating income	6,350	6,500	2.4
Recurring income	5,638	6,000	6.4
Net income	692	1,200	73.4
Earnings per share (EPS) (¥)	3.97	6.99	76.1

Kureha forecasts sales of ¥134.0 billion in fiscal 2011, up 1.3%; operating income of ¥6.5 billion, up 2.4%; recurring income of ¥6.0 billion, up 6.4%; and net income of ¥1.2 billion, up 73.4%.

As already noted, Kureha suspended a large part of its operations due to the impact of the earthquake and aftershocks in March and April. However, operations gradually resumed using private generators Kureha installed at its factory from the beginning of May 2011. First quarter operating income will likely remain at a low level due to the decline in business operations and sales, but with the market forecasted to grow a gradual recovery is expected, especially in the area of advanced materials. The Other Operations division, including construction related businesses, will return to profitability due to increased sales and cost-reduction efforts.

## **Capex, Depreciation, R&D and Debt**

(¥ billion)

	March 2010	March 2011	March 2012 (forecast)
Capital expenditure	16.9	14.1	17.0
Depreciation	11.1	10.3	11.8
R&D	6.2	5.5	6.0
Interest-bearing debt	48.0	54.9	61.9

Capital expenditure was decreased to ¥14.1 billion from ¥16.9 billion the previous year. The figure was lower than anticipated due to mainly postponement of planned projects and, with these projects now due to be carried out in fiscal 2011, capital expenditure is projected to rise to ¥17.0 billion.

Depreciation decreased from ¥11.1 billion to ¥10.3 billion in fiscal 2010, but is projected to increase slightly to ¥11.8 billion during the coming fiscal year.

R&D spending during fiscal 2010 was ¥5.5 billion, representing a decline from the previous year of ¥6.2. R&D expenditure remains critical to Kureha, and the Company plans to commit a further ¥6.0 billion during fiscal 2011.

Interest-bearing debt is set to increase from ¥54.9 billion to ¥61.9 billion in fiscal 2011, with an anticipated increase in long-term borrowing costs.

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

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## <Appendix>

### Condensed Consolidated Balance Sheets

(¥ millions)

	31 March 2011	31 March 2010
<b>Assets</b>		
Current assets	64,161	65,571
Cash and cash equivalents	10,746	7,213
Fixed assets	117,591	119,052
Property, plant and equipment	83,917	81,794
Intangible assets	868	1,030
Investments and other assets	32,805	36,227
<b>Total Assets</b>	<b>181,753</b>	<b>184,623</b>
<b>Liabilities</b>		
Current liabilities	49,051	48,433
Short-term borrowings	13,455	14,809
Fixed liabilities	43,200	39,367
Corporate bonds	20,000	15,000
Long-term borrowings	17,429	18,160
<b>Total Liabilities</b>	<b>92,252</b>	<b>87,801</b>
<b>Net Assets</b>		
Shareholders' equity	89,310	93,655
Reevaluation and conversion differences, etc.	-477	2,764
Minority interest	603	347
<b>Total Net Assets</b>	<b>89,500</b>	<b>96,822</b>
<b>Total Liabilities and Net Assets</b>	<b>181,753</b>	<b>184,623</b>

### Condensed Consolidated Statement of Income

(¥ millions)

	March 2011	March 2010
<b>Sales</b>	<b>132,309</b>	<b>134,606</b>
Cost of goods sold	98,674	100,648
Selling, general and administrative expenses	27,284	28,251
<b>Operating income</b>	<b>6,350</b>	<b>5,706</b>
Non-operating income	1,331	1,481
Non-operating expenses	2,043	1,688
<b>Recurring income</b>	<b>5,638</b>	<b>5,499</b>
Extraordinary gains	708	715
Extraordinary losses	4,590	2,749
<b>Income before income taxes</b>	<b>1,757</b>	<b>3,465</b>
Taxes and minority interest adjustments	1,065	1,894
<b>Net income</b>	<b>692</b>	<b>1,571</b>