



## Kureha Corporation Reports Fiscal 2009 Results

**Tokyo, Japan – May 2010** – Kureha Corporation (“Kureha”), a leading global supplier of specialty chemicals and plastics, has reported earnings for the fiscal year ended March 2010 (FY2009). On a consolidated basis, operating income declined by 39.7% year-on-year to ¥5.7 billion, while recurring income was down 36.4% to ¥5.499 billion on sales of ¥134.6 billion (down 6.4%). Net income declined by 53.4% to ¥1.57 billion. Kureha’s annual dividend remains at ¥10.0 per share.

Results were slightly ahead of projections announced by Kureha in November 2009 with the exception of net income, which saw a sharper than anticipated decline as a result of an increase in extraordinary losses and large tax payments associated with the sale of shares in affiliated companies.

Signs of a recovery based on external demand have emerged, but the macro-economic environment remains challenging due to consumer spending constraints, deteriorating employment conditions and volatile currency movements. Carbon fiber products along with construction and environmental engineering businesses suffered, while the specialty chemicals and specialty plastics divisions performed steadily.

Kureha President and Chief Executive Officer, Takao Iwasaki, said, “Kureha’s efforts to manufacture high value-added differentiated products and build a non-cyclical business have continued. Although there has been some improvement in exports, with sales of *Metconazole* in Europe and U.S. expanding and growth of PVDC compound sales in China, the Company’s earnings have not yet fully recovered. This can be attributed to factors including the recovery in demand for carbon fibers falling short of expectations. However, solid progress continues toward strengthening Kureha’s PGA and lithium-ion battery businesses, which are expected to become key drivers of future growth.”

### **Launch of PGA business imminent**

The production plant is to be completed by the end of August, with PGA products due to be available from the early 2011. The PGA Division was newly established as of April 2010. Consequently, all costs associated with PGA business development, which had been distributed across business divisions until the end of the previous fiscal year, will be allocated to the advanced materials division, under which the PGA business is operated.

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

(¥ million, except where stated)

|                              | <b>March 2009</b> | <b>March 2010</b> | <b>Change (%)</b> |
|------------------------------|-------------------|-------------------|-------------------|
| Sales                        | 143,741           | 134,606           | -6.4              |
| Operating income             | 9,456             | 5,706             | -39.7             |
| Recurring income             | 8,650             | 5,499             | -36.4             |
| Net income                   | 3,373             | 1,571             | -53.4             |
| Earnings per share (EPS) (¥) | 18.75             | 8.77              | -53.2             |

## Consolidated performance by segment

(¥ million, except where stated)

| Division            |                         | March 2009     | March 2010     | March 2011<br>(Forecast) |
|---------------------|-------------------------|----------------|----------------|--------------------------|
| Advanced materials  | Sales                   | 32,423         | 28,423         | 32,000                   |
|                     | Operating income        | 678            | -3,645         | -1,800                   |
| Specialty chemicals | Sales                   | 33,898         | 35,831         | 33,000                   |
|                     | Operating income        | 5,731          | 6,619          | 4,200                    |
| Specialty plastics  | Sales                   | 43,538         | 42,430         | 45,000                   |
|                     | Operating income        | 1,654          | 1,948          | 3,100                    |
| Other operations    | Sales                   | 33,881         | 27,921         | 3,000                    |
|                     | Operating income        | 2,104          | 1,379          | 900                      |
|                     | Cancellations           | -712           | -595           | -400                     |
| <b>Total</b>        | <b>Sales</b>            | <b>143,741</b> | <b>134,606</b> | <b>140,000</b>           |
|                     | <b>Operating income</b> | <b>9,456</b>   | <b>5,706</b>   | <b>6,000</b>             |

## Performance by division

### Advanced materials division

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

Advanced materials division sales were down 12% year-on-year to ¥28.4 billion, with the division reporting an operating loss of ¥3.6 billion. Sales of advanced plastics improved slightly, while carbon fiber products experienced a sharp decline.

### **Advanced plastics demand recovering**

Sales of advanced plastics were up 8% from ¥11.8 billion to ¥12.8 billion. In particular, PPS resin registered solid volume growth due to demand recovery in the electrical, electronics and automotive industries. However, inventory adjustment from the previous year and the severe operating climate affecting the U.S. joint venture had a negative impact at the profit level. PVDF experienced an expansion in sales for use in electrode binders for lithium-ion batteries, but a decline for use in various other industrial applications.

### **Carbon fiber sales decline**

Demand for carbon fiber, for an insulating material in silicon wafers for semiconductors and solar powered equipment, is yet to recover and higher depreciation costs also dragged on profits. Sales of carbon products in FY2009 were ¥5.4 billion, down from ¥7.8 billion a year ago. However, demand for negative electrode materials is expanding and contributing to growth in operating profits. Additionally, Kureha's negative electrodes and binders for lithium-ion batteries used in electronic vehicles have been positively evaluated by automotive companies.

**Outlook:** FY2010 divisional sales are forecast to increase by 13% to ¥32.0, while the operating loss is expected to shrink to ¥1.8 billion from ¥3.6 billion. Kureha anticipates that PPS resin will experience solid growth on the back of expanding demand from hybrid cars. PPS resin production at the Iwaki factory is due to reach full capacity during the current fiscal year, while operational capacity at the U.S. plant is expected to expand as demand recovers. Growth of PVDF resin sales is also forecast, especially for lithium-ion battery binder applications, with production levels expected to reach 90%

of capacity. Demand for carbon fibers is forecast to recover from the second half, with production levels set to reach around 60%.

### **Specialty chemicals division**

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

Specialty chemicals division sales were up 6% year-on-year to ¥35.8 billion, while operating income increased by 15% to ¥6.6 billion in part due to the strong performance of the pharmaceutical business.

#### **Pharmaceuticals record significant growth**

Sales of pharmaceutical products increased from ¥10.1 billion to ¥12.7 billion in FY2009, with continued sales expansion of *Kremezin*, a chronic kidney disease treatment, and *Krestin*, a cancer immunotherapy treatment. One-off revenue contribution from a domestic marketing contract also helped boost profit.

#### **Industrial chemicals slowed**

Sales of industrial chemicals declined slightly from ¥10.3 billion to ¥10.2 billion, while operating profit declined. Unit prices of chlorobenzenes and related products declined sharply, despite the sales volume having increased. Sales volume of caustic soda and other chlorine-based chemicals remained unchanged from the previous year.

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

Sales of agrochemical products were down 7% year-on-year from ¥7.4 billion to ¥6.9 billion. *Metconazole*, an agricultural fungicide, saw an increase in sales volume but profits deteriorated due to the weaker euro and declining license revenues.

**Outlook:** FY2010 divisional sales are expected to decline by 8%, from ¥35.8 billion to ¥33.0 billion, with operating income projected to decrease by 37% to ¥4.2 billion. Further sales growth of *Metconazole* in overseas market is expected, with the product continuing to enjoy stable demand in Europe and due to be utilized in corn cultivation in North America. The sales volume of both *Kremezin* and *Krestin* is expected to increase, although upcoming pharmaceutical price cuts and the loss of one-off payments for *Kremezin* will have a negative impact on results. Demand for industrial chemicals is expected to remain unchanged.

### **Specialty plastics division**

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

Specialty plastics division sales declined by 3% year-on-year to ¥42.4 billion, while operating income increased by 18% to ¥1.9 billion. Sales of packaging materials and fishing line products were up, but household products dropped due to the severe competitive environment.

#### **Packaging materials business improves**

Sales of food packaging materials were up by 8% to ¥10.8 billion thanks to growth of PVDC compound in China as a result of increased demand from Chinese sausage manufacturers. The steady growth in sales of multi-layer shrinkable film for meat and cheese packaging in Europe also supported the improved results, while PVDC compound profitability also improved.

**NEW Krewrap struggles amid competition**

Sales of household products were down by 6% to ¥21.5 billion. Despite product renewal and improvement efforts, *New Krewrap* sales and profitability declined due to increased material costs and severe competition in the market.

**Fishing line sales grow**

The timely launch of new *Seaguar* series products succeeded in boosting sales by 27%, from ¥1.0 billion to ¥1.3 billion.

**Outlook:** FY2010 divisional sales are forecast to increase by 6% to reach ¥45.0 billion due to an increase in packaging material sales in China, where PVDC compound continues to experience strong demand. Divisional operating income is forecast to expand by 59% from ¥1.9 billion to ¥3.1 billion, due in part to exceptional factors including reduced pension expenses in Europe for the period and the removal of PGA-related costs. The strategy of providing high value-added products continues, as does price optimization efforts for consumer products such as *New Krewrap* and the *Kichinto-San* series.

**Other operations division**

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

Other operations division sales declined by 18% year-on-year to ¥27.9 billion, with operating income down by 34% to ¥1.4 billion, mainly due to the economic slowdown. Competition in the environmental engineering and construction related sectors also intensified.

**Environmental engineering sales decline**

Environmental engineering sales were down 23% to ¥5.0 billion due to the combination of intensifying competition and decreased levels of industrial waste due to the sluggish economic environment.

**Construction related earnings deteriorate**

Sales at construction-related businesses dropped 18% to ¥28.5 billion; having also faced increased competition and the lack of a large-scale plant construction project as in the previous year.

**Logistics and warehousing businesses largely unchanged**

Logistics and warehousing business sales declined by 13% to ¥10.8 billion, with a fall in logistics business activity and intensified competition.

**Outlook:** FY2010 divisional sales are projected to increase by 7% to ¥30.0, although operating income is expected to decline by 35% to ¥0.9 billion. Environmental engineering sales are forecast to grow by 31% through efforts to expand the business in the Kanto and Western region of Japan with the opening of new plant in Kanagawa this April. Revenues at construction-related businesses are expected to fall as a result of reduced investment, mainly at engineering-related businesses.

## **FY2010 Outlook**

(¥ million, except where stated)

|                              | March 2010 | March 2011<br>(Forecast) | Change<br>(%) |
|------------------------------|------------|--------------------------|---------------|
| Sales                        | 134,606    | 140,000                  | 4             |
| Operating income             | 5,706      | 6,000                    | 5.2           |
| Recurring income             | 5,499      | 5,000                    | -9.1          |
| Net income                   | 1,571      | 2,400                    | 53.0          |
| Earnings per share (EPS) (¥) | 8.77       | 13.39                    | 52.7          |

For fiscal 2010 Kureha forecasts sales of ¥140.0 billion, up 4.0%; operating income of ¥6.0 billion, up 5.2%; recurring income of ¥5.0 billion, down 9.1%; and net income of ¥2.4 billion, up 50.0%. The anticipated drop in recurring income is due to net losses accrued from non-operating financial activities.

Kureha expects the advanced materials division and specialty plastics division to record a gradual improvement in results. In addition, the PGA business is set to begin contributing to earnings from the latter part of this fiscal year. Positioned as the centerpiece of Kureha's strategy of focusing on value-added and highly differentiated products, the hope is that PGA and lithium-ion batteries become a future driver of the Company's growth.

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

(¥ billion)

|                       | March 2009 | March 2010 | March 2011<br>(forecast) |
|-----------------------|------------|------------|--------------------------|
| Capital expenditure   | 17.8       | 16.9       | 15.5                     |
| Depreciation          | 10.3       | 11.1       | 11.0                     |
| R&D                   | 6.1        | 6.2        | 6.1                      |
| Interest-bearing debt | 44.0       | 48.0       | 54.8                     |

Capital expenditure was lowered from ¥17.8 billion in FY2008 to ¥16.9 billion in FY2009, due in part to the completion of series of capacity expansion developments for PVDF, Kureha Vietnam's business and Kureha Ecology Management. In FY2010 Kureha plans capex of ¥15.5 billion, with major areas of investment including the PGA business, Kureha's Vietnam business and maintenance and upgrading activities. Depreciation increased from ¥10.3 billion to ¥11.1 billion, but is projected to decrease slightly to ¥11.0 billion for FY2010. R&D spending during FY2009 was ¥6.2 billion, marginally up from the previous year. R&D expenditure remains critical to Kureha, and the Company plans to commit a further ¥6.1 billion during FY2010.

On the back of Kureha's aggressive capital expenditure program, interest-bearing debt is set to increase from ¥48.0 billion in FY2009 to ¥54.8 billion in FY2010, assuming additional financing activities in relation to the PGA business.

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## <Appendix>

### Condensed Consolidated Balance Sheets

(¥ millions)

|   | 31 March 2010  | 31 March 2009  |
|---|----------------|----------------|
| <b>Assets</b>                                 |                |                |
| Current assets                                | 65,571         | 68,592         |
| Cash and cash equivalents                     | 7,213          | 7,264          |
| Fixed assets                                  | 119,052        | 113,631        |
| Property, plant and equipment                 | 81,794         | 77,363         |
| Intangible assets                             | 1,030          | 1,108          |
| Investments and other assets                  | 36,227         | 35,159         |
| <b>Total Assets</b>                           | <b>184,623</b> | <b>182,224</b> |
| <b>Liabilities</b>                            |                |                |
| Current liabilities                           | 48,433         | 52,436         |
| Short-term borrowings                         | 14,809         | 17,353         |
| Fixed liabilities                             | 39,367         | 32,713         |
| Corporate bonds                               | 15,000         | 15,000         |
| Long-term borrowings                          | 18,160         | 11,680         |
| <b>Total Liabilities</b>                      | <b>87,801</b>  | <b>85,149</b>  |
| <b>Net Assets</b>                             |                |                |
| Shareholders' equity                          | 93,655         | 93,988         |
| Reevaluation and conversion differences, etc. | 2,764          | 1,586          |
| Minority interest                             | 347            | 1,452          |
| <b>Total Net Assets</b>                       | <b>96,822</b>  | <b>97,074</b>  |
| <b>Total Liabilities and Net Assets</b>       | <b>184,623</b> | <b>182,224</b> |

### Condensed Consolidated Statement of Income

(¥ millions)

|  | March 2010     | March 2009     |
|--|----------------|----------------|
| <b>Sales</b>                                 | <b>134,606</b> | <b>143,741</b> |
| Cost of goods sold                           | 100,648        | 105,193        |
| Selling, general and administrative expenses | 28,251         | 29,091         |
| <b>Operating income</b>                      | <b>5,706</b>   | <b>9,456</b>   |
| Non-operating income                         | 1,481          | 1,351          |
| Non-operating expenses                       | 1,688          | 2,156          |
| <b>Recurring income</b>                      | <b>5,499</b>   | <b>8,650</b>   |
| Extraordinary gains                          | 715            | 358            |
| Extraordinary losses                         | 2,749          | 2,999          |
| <b>Income before income taxes</b>            | <b>3,465</b>   | <b>6,009</b>   |
| Taxes and minority interest adjustments      | 1,894          | 2,636          |
| <b>Net income</b>                            | <b>1,571</b>   | <b>3,373</b>   |