

# KUREHA

## Kureha Chemical Industry Announces Record Profits for Fiscal 2004

### ***Strategic Businesses Make Solid Contribution to Earnings***

**Tokyo, Japan – May 10, 2005** – Leading specialty chemicals and plastic products company, Kureha Chemical Industry Co., Ltd. (“Kureha”), posted record profits for fiscal 2004, the year ended March 31, 2005. Consolidated operating income rose for the sixth consecutive year to ¥10.2 billion on sales of ¥130.4 billion. Record profits are likely to be achieved again in fiscal 2005.

The results suggest that Kureha’s recent strategy of focusing on high value-added products in growth areas is paying off. Advanced plastics (super engineering plastic, *polyphenylene sulphide (PPS) resin*), pharmaceuticals (chronic kidney disease treatment, *Kremezin*) and agrochemicals (fungicide, *Metconazole*) all made a significant contribution to the fiscal 2004 financial results. A number of innovative new products are also in the pipeline.

Kureha president and chief executive officer, Hiroshi Tanaka, said, “Kureha is pleased to, once again, be able to report solid financial results in fiscal 2004. Strategic management decisions made over the past few years, including withdrawing from unprofitable businesses and the company’s new focus on specialty products, have clearly had a positive impact on earnings. We anticipate that Kureha’s new corporate direction will have an increasingly positive impact on financial results in fiscal 2005 and beyond.”

### **Summary of financial performance**

#### *Summary of consolidated financial results*

(¥ million, except where stated)

	<b>Fiscal 2004</b>	<b>Fiscal 2003</b>	<b>Change (%)</b>
Sales	130,400	135,020	(3.4)
Operating income	10,255	9,463	8.4
Recurring income	9,705	8,320	16.6
Net income	4,467	4,183	6.8
Earnings per share (EPS) (¥)	23.41	21.45	9.1

Kureha recorded consolidated sales of ¥130.4 billion in fiscal 2004, a 3.4% year-on-year decline. However, this modest decline can largely be attributed to the company’s strategic decision to withdraw from the OEM production of PVC in fiscal 2003. Operating income rose by 8.4% to ¥10.2 billion. The operating profit margin improved from 7.0% in fiscal 2003 to 7.9%, reflecting a larger contribution from the company’s higher margin advanced plastics, pharmaceuticals and agrochemicals businesses.

Recurring income improved by 16.6% to ¥9.7 billion in fiscal 2004. The increase in the global oil price resulted in a ¥1.8 billion increase in raw material and fuel costs. However, Kureha was successfully able to pass on this cost increase, thanks to higher sales volumes, which contributed ¥740 million to recurring income, an improvement in the company’s non-operating financial balance (¥720 million), lower manufacturing fixed costs (¥630 million), changes in the unit cost of purchased products (¥410 million), and pricing changes (¥290 million).

Kureha is immune to the current high oil price environment because of the company's ability to produce many of the raw materials used in the production process, including the major feedstock raw materials used in the production of PPS resin and the PPS resin itself. Net income rose 6.8% to ¥4.5 billion, despite Kureha having booked ¥2.2 billion extraordinary losses, including following the withdrawal from the PVC market.

### **Operating highlights by division**

*Consolidated breakdown by division:*

(¥ million, except where stated)

<b>Division</b>		<b>Fiscal 2004</b>	<b>Fiscal 2003</b>	<b>Change (%)</b>
Advanced materials	Sales	25,158	24,912	1.0
	Operating income	3,192	2,815	13.4
Specialty chemicals	Sales	31,000	32,823	(5.6)
	Operating income	4,050	3,291	23.1
Specialty plastics	Sales	50,729	51,139	(0.8)
	Operating income	872	1,285	(32.1)
Other operations	Sales	23,512	26,144	(10.1)
	Operating income	2,156	2,175	(0.9)
	Operating income cancellations	(16)	(104)	--
<b>Total</b>	<b>Sales</b>	<b>130,400</b>	<b>135,020</b>	<b>(3.4)</b>
	<b>Operating profit</b>	<b>10,255</b>	<b>9,463</b>	<b>8.4</b>

### **Advanced materials division**

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

#### **PPS resin – Global supply shortage expected**

Sales of advanced plastics (PPS resin and PVDF resin) totaled ¥9.8 billion in fiscal 2004. PPS resin, a super engineering plastic with a diverse range of applications, including in the electrical, electronic and automobile industries, ran at full production capacity throughout the year and registered strong sales. Kureha, together with its US joint venture, is the world's largest manufacturer of PPS resin, one of Kureha's key strategic growth products.

Kureha itself produced 6,200 of the 40,000 tonnes of PPS resin produced globally per year. Demand continues to grow at over 10% per year and this high rate is expected to continue with global demand widely expected to reach 50,000 tonnes by 2008. Due to this high growth rate, it is predicted that demand is likely to outpace production capacity within two or three years.

To meet this increase in demand, Kureha is rapidly expanding PPS production capacity at its Nishiki Factory in Japan from 6,200 to 7,500 tonnes per year in April 2005 and to 10,000 tonnes per year by April 2006. However, a significant increase in production capacity, including the possibility of Kureha constructing a new plant, may be necessary to respond to the global supply shortfall in PPS resin expected after 2008.

#### **Polyvinylidene fluoride (PVDF) resin – Production capacity to be increased**

The outlook for Polyvinylidene fluoride (PVDF) resin, a high performance material used in the chemical and electronic industries, remains positive, despite sales being flat in fiscal 2004. Currently PVDF resin is used in such applications as electrode binders for lithium-ion batteries, valves for chemical plants, and pipe coatings. There is also growing demand for PVDF for a number of new applications, such as hollow fiber membrane filters used in water treatment plants. Demand for Kureha's PVDF products has grown rapidly in recent years and production operated at full capacity in fiscal 2004. Kureha plans to increase production capacity from 1,500 to 2,500 tonnes per year by December 2005.

### **Carbon products buoyant**

Sales of carbon products totaled ¥7.1 billion in fiscal 2004 due to strong exports of bead-shaped activated carbon and increased demand for heat resistant materials for heat-treating furnaces.

### **Specialty chemicals division**

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

#### **Pharmaceuticals outlook remains buoyant**

Sales of pharmaceutical products totaled ¥9.5 billion in fiscal 2004. Sales of *Kremezin*, a chronic kidney disease treatment, and *Krestin*, a drug for cancer immunotherapy, remained steady throughout the year. Kureha is making progress in expanding overseas markets for *Kremezin*, a product currently sold predominantly in the domestic market. In June 2004, Kureha signed a licensing agreement for *Kremezin* in China, while in February 2005, the company started selling in South Korea via a business alliance with Sankyo Pharmaceutical and CJ Corp, a major Korean food and pharmaceutical firm. In the longer term, Kureha believes that by 2008, *Kremezin* is likely to become a standard treatment in Japan for chronic kidney disease. Kureha is also targeting *Kremezin* sales in the USA from about 2009, with the product now about to enter the phase III clinical trial stage.

#### **Worldwide registrations of agrochemicals increasing**

Sales of agrochemicals totaled ¥7.3 billion in fiscal 2004. Kureha's agricultural fungicides, *Metconazole* and *Ipconazole*, remained in strong demand, reflecting the growing number of countries that have received approval to market the products. *Metconazole*, a fungicide for cereal crops that Kureha produces in Japan and India, is registered in over 30 countries, mainly in Europe and Central/South America. Long term growth prospects for *Metconazole* are also strong as the product is expected to receive approval to be marketed in Japan on wheat and citrus fruits, in Taiwan on mangos, and in Brazil on soy beans, by March 2007. *Ipconazole*, a seed disinfectant, is currently marketed in five countries.

### **Specialty plastics division**

*Major product areas – commercial-use food packaging materials, home products, fishing line*

#### **Besela sales slow but outlook remains positive**

Sales of *Besela*, Kureha's new high barrier laminated material to replace cans and other barrier packaging films, fell slightly in fiscal 2004, due to the time taken for users to switch to the new product. However, prospects for the product remain bright after having achieved compliance with food sanitation standards in the USA and Europe in 2004.

#### **Krehalon plant under construction in China**

Exports of polyvinylidene chloride (PVDC) compound, used in the packaging of perishable food, fell in fiscal 2004, due to slower growth in demand for sausages, as a result of high raw meat prices. The company is currently constructing a new *Krehalon* compound plant in Nantong, China, via a joint venture with a local manufacturer and Japanese trading company, which is scheduled to commence operations in October 2005.

#### **Marketing of new film product, ML-40 underway**

Kureha has developed and started marketing multi-layer shrinkable film, *ML-40*, a new product for wrapping meats and cheeses. The product, which has excellent barrier properties, has been jointly developed and marketed via an alliance with Multivac, a prominent packaging machinery manufacturer based in Germany. Kureha initially plans to target growth in Europe, where it has a well-established distribution network, though the business is also being developed in the USA and Oceania region.

### **NEW Krewrap wins good design award**

Overall, sales of consumer home products totaled ¥19.2 billion in fiscal 2004. Although sales of Kureha's kitchen use plastic wrap products were flat, the launch of the Good Design Award winning *NEW Krewrap* in March 2004, and a further improved version in February 2005 will boost the sales potential of this product range.

### **Other operations division**

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

#### **Medical waste processing capacity increased**

The area with the greatest growth potential in this division is environmental engineering-related businesses, such as medical waste processing and polluted soil restoration. These businesses contributed sales of ¥7.0 billion in fiscal 2004. Kureha operates one of the largest incineration services to medical institutions in Japan. The company increased its medical waste processing capacity in fiscal 2004 from 1,200 tonnes to 1,600 tonnes per month, maintaining a high market share in the Tohoku and Kanto regions. Business is also expanding in the Tokyo area.

#### **Medical waste traceability system under development**

In July 2004, Kureha and IBM Japan began joint development of a waste traceability system that uses IC tags to prevent the illegal dumping of medical waste. Testing is being conducted at Kureha Hospital in Fukushima prefecture. Kureha is considering introducing this system in the Tokyo metropolitan region in the medium term.

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

Consolidated capital expenditure in fiscal 2004 increased by ¥3.3 billion to ¥12.0 billion, with a further ¥2.5 billion increase forecast for fiscal 2005. This jump in capital expenditure is largely the result of the company's investment in additional PPS and PVDF resin production capacity, and the updating its Nishiki Factory power plant. Kureha invested a total of ¥6.5 billion in R&D in fiscal 2004.

*Consolidated capital expenditure, depreciation and R&D*

	Fiscal 2003	Fiscal 2004	(¥ billion) Fiscal 2005 (forecast)
Capital expenditure	8.7	12.0	14.5
Depreciation	7.9	7.6	8.0
R&D	6.4	6.5	7.5

## **Outlook for fiscal 2005 and beyond**

Kureha's financial forecasts for fiscal 2005 are shown in the following table:

### *Summary of consolidated financial forecasts*

(¥ million, except where stated)

	<b>Fiscal 2005 (Forecasts)</b>	<b>Fiscal 2004</b>	<b>Change (%)</b>
Sales	140,000	130,400	7.4
Operating income	11,500	10,255	12.1
Recurring income	10,500	9,705	8.2
Net income	5,200	4,467	16.4
Earnings per share (EPS) (¥)	27.99	23.41	19.6

In addition to the key growth areas mentioned above, Kureha also has a range of promising new products under development, including:

### **Polyglycolic acid (PGA) resin for carbonated drink containers and beer bottles**

The commercialization of PGA resin for use in carbonated drink containers and beer bottles is now a priority for the company. Polyethylene terephthalate (PET) bottles that contain a PGA layer have an extended shelf life. Hence, the product has the potential to revolutionize the soft drink industry. Kureha will conduct test marketing of PGA and commercial production is expected to commence in stages from fiscal 2006. The company is targeting PGA utilization by soft drink manufacturers around the world.

### **Solar control material**

Solar control material is a type of filter that, when applied to a window, absorb heat from the sun, thereby reducing room temperature without the need to darken the room with blinds or curtains. Kureha is currently developing applications for this technology alongside glass and automobile parts manufacturers.

### **Anti HIV agent**

Pre-clinical tests have been completed and the company is now considering partnerships with major foreign manufacturers. Kureha has the option of either licensing or selling the technology.

## **Aggressive new mid-term business plan launched**

Kureha's longer-term financial targets are outlined in the new mid-term plan, announced in April 2005. The focus of the plan is to revitalize the business by repositioning Kureha as a leading specialty products company, strategically focusing on high value-added growth products.

## **"Kureha Corporation" – A new corporate direction**

To mark the adoption of a strategic new corporate direction, the company has decided to change its name to Kureha Corporation from Kureha Chemical Industry Co., Ltd., effective October 1, 2005. The name change reflects the company's determination to both strengthen and expand the Kureha brand, as it aims to excel in a range of strategic business areas.

Details of Kureha's new mid-term business plan, name change and new corporate identity are outlined in the press release, *"Kureha Corporation" – New Name, New Mission, New Focus, January 17, 2005*.

## Condensed consolidated statement of income

For the fiscal years ended 31 March 2004 and 2005

¥ millions

	FY2004 31 March 2005	FY2003 31 March 2004
Sales	130,400	135,020
Cost of goods sold	91,987	98,241
Selling, general and administrative expenses	28,158	27,315
Operating income	10,255	9,463
Non-operating revenue	771	686
Non-operating expenses	1,320	1,829
Recurring income	9,705	8,320
Extraordinary gains	1,621	2,204
Extraordinary losses	3,276	3,682
Profit before income taxes	8,050	6,843
Taxes and minority interest adjustments	3,583	2,660
Net income	4,467	4,183

## Condensed consolidated balance sheets

As of 31 March 2005 and 2004

¥ millions

	FY2004 31 March 2005	FY2003 31 March 2004
<b>Assets</b>		
Current assets	61,525	65,617
Cash and equivalents	6,001	7,584
Fixed assets	111,201	107,678
Property, plant and equipment	69,289	66,568
Intangible assets	2,091	2,279
Investments and other assets	39,820	38,831
<b>Total Assets</b>	<b>172,727</b>	<b>173,295</b>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities	57,713	60,286
Short-term borrowings	25,209	24,405
Long-term liabilities	21,165	19,538
Long-term liabilities	9,651	9,953
<b>Total Liabilities</b>	<b>78,879</b>	<b>79,824</b>
<b>Minority Interest</b>	<b>785</b>	<b>1,696</b>
<b>Shareholders' Equity</b>	<b>93,062</b>	<b>91,774</b>
<b>Total Liabilities, Minority Interests and Shareholders' Equity</b>	<b>172,727</b>	<b>173,295</b>

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**Notes to Editors**

**About Kureha Chemical Industry Co., Ltd.**

Kureha Chemical Industry Co., Ltd. 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 anti-cancer agent *Krestin*, and agrochemicals) and specialty plastics (food packaging products, including *New Krewrap*, and other household goods).

The company also undertakes a number of construction and maintenance operations in association with each of its major businesses, as well as providing transport, environmental management and other services.

Kureha's main factory is located in Nishiki, Fukushima Prefecture, Japan. In addition, the company has overseas production facilities in China, The Netherlands, and via a joint venture in the United States. More information may be found at <http://www.kureha.co.jp/>

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