

# **KUREHA CHEMICAL**

## **BUSINESS REPORT 2005**

Year ended March 31, 2005

### Fiscal 2004 Financial Results

In fiscal 2004, the year ended March 31, 2005, Kureha Chemical Industry Co., Ltd. ("Kureha") made substantial progress on a number of fronts. The financial results showed a continual improvement in profitability. The company launched its new mid-term business plan, which outlines management's vision for Kureha in the years ahead. We also introduced our new corporate identity, including our new mission—the pursuit of excellence.

In fiscal 2004, Kureha recorded consolidated net sales of ¥130.4 billion, a 3.4% year-on-year decline. This decline in sales can be attributed in part to our strategic decision to withdraw from the OEM production of PVC in March 2004, allowing Kureha to further focus on our specialty products businesses. Operating income rose for the sixth consecutive year to reach ¥10.2 billion, an 8.4% year-on-year increase. Recurring income improved by 16.6% to ¥9.7 billion, maintaining the growth momentum from the previous fiscal year. Net income rose 6.8% to ¥4.4 billion, despite the fact that Kureha booked an extraordinary loss of ¥2.2 billion on the disposal and sale of property, plant and equipment related to ceasing PVC production and other factors.



**Hiroshi Tanaka**  
*President & Chief Executive Officer*

### New Mid-Term Business Plan

Fiscal 2005 is the first year of our aggressive new business plan. The plan seeks to revitalize the business by repositioning Kureha as a leading specialty products company, focusing on a range of high value-added, growth products. The new growth plan represents a new starting point for Kureha. Our previous business plan laid the foundations for future growth, by re-focusing our efforts on key businesses. We also made the strategic management decision to aggressively seek growth opportunities outside our traditional commodity chemicals manufacturing businesses. This new growth plan aims to bring these initiatives to fruition by commercializing new products developed in-house while, at the same time, expanding selected existing businesses.

We have identified four key objectives that, we believe, will help us achieve our goals:

1. To expand businesses that deliver profit growth;
2. To build a globally competitive production system;
3. To expand our operations globally; and
4. To accelerate capital expenditure.

Our new business plan sets quantitative financial targets for fiscal 2005 and 2006, based on where we believe Kureha should be in fiscal 2008. These targets, together with our business strategies, will be constantly reviewed to place us in the strongest possible position to meet our targets for fiscal 2008.

## New Corporate Identity

To help achieve the goals outlined in our new business plan, we have formulated a new corporate identity, including our mission, our corporate philosophy and our employee code of conduct. The key features of our new corporate identity are outlined below:



By adhering to this new corporate philosophy and code of conduct, we believe that we will be in a strong position to achieve our mission—the pursuit of excellence.

## The “New Kureha”

We have decided to change the name of the company with the launching of the new direction and corporate identity of Kureha. Our current name, Kureha Chemical Industry Co., Ltd., will be changed to Kureha Corporation from October of this year. The name change reflects our determination to both strengthen and broaden the Kureha brand, as we aim to excel in a range of industries, not just within the chemical sector. We also want to ensure that our new identity is ingrained in our corporate mindset as we fulfill our corporate social responsibilities. We look forward to your continued support as we work towards these goals.

July 2005

Hiroshi Tanaka  
President & Chief Executive Officer

## AT A GLANCE

### BUSINESS SEGMENT

### STRATEGY

#### ADVANCED MATERIALS

Engineering plastic *Fortron KPS* (PPS) and polyvinylidene fluoride (PVDF) plastic continue to be in strong demand for applications related to semiconductors, electronics and electrical materials and for industrial materials, respectively. The market for PPS plastic is growing at an annual rate of over 10%. Demand is growing steadily because PPS plastic is well suited for automotive electronics as well as other types of electronics. While the price of benzene, a key feedstock, has soared, Kureha has a cost advantage because it produces its own para-dichlorobenzene and sodium hydrosulfide intermediates. Armed with this competitive edge, Kureha is intent on capturing more market share. Regarding *Krefine*, an ESD (electro static discharge) controlled compound, Kureha has begun manufacturing molded products itself, and aims to step up expansion of this business by extending activities along the value chain as far as finished products.

#### SPECIALTY CHEMICALS

In the pharmaceuticals field, Kureha aims to expand *Kremezin*, a treatment for chronic kidney disease, in Japan as well as actively work to sell it overseas. Kureha is also aiming to sell *Metconazole* in Japan, Taiwan, Brazil and North America, and expand *Ipcnazole* to North America and Europe. This drive also involves increasing the types of crops on which these fungicides can be used.

#### SPECIALTY PLASTICS

Kureha is developing *Besela* (acrylic-coat film), a high-barrier packaging film. Efforts will focus on this product's strong suit, retort-pouch applications, with the view to increasing adoption of this film by companies in Japan and overseas that are currently using cans and bottles. Kureha is making steady progress toward the launch of a PGA (polyglycolic acid resin) business and will actively develop customers for *ML40*. In household-use products, through the renewal of *Krewrap* household wrapping film and sales promotion activities, Kureha has made gains in improving sales prices. Together with an alliance with a U.S. company in food storage containers, Kureha will work to expand this business further. With respect to *Krehalon* compound, a polyvinylidene chloride (PVDC) resin, a joint-venture company formed by Kureha, Toyota Tsusho Corporation and the Shineway Group in China will start production operations of the compound this fall at a plant in Nantong, China, to follow the growth of the sausage market in that country.

#### OTHER OPERATIONS

Other operations consists of the environment-related business, construction, and transportation and warehousing. The environment-related business operated by Kureha Environmental Engineering Co., Ltd., Kureha Special Laboratory Co., Ltd. and Kureha Techno Eng Co., Ltd. is positioned as a key business in this segment.

## Functional Plastics

With consistent growth expected for PPS plastic, Kureha has plans in hand to boost production capacity in Japan from the current 7,500 tons to 10,000 tons per year by April 2006. Overseas, Kureha's PPS plastic joint venture in the U.S. continues to perform strongly. Output will be ramped up from 6,800 tons to 8,500 tons per year by December 2005 at Fortron Industries in the U.S. Plans also call for PVDF output to be raised from 1,500 tons to 2,500 tons by December 2005.

## Kremezin

The only drug to have received regulatory approval for the treatment of chronic kidney disease, *Kremezin* is one of Kureha's mainstay products. In Japan, Kureha aims to expand the market by having *Kremezin* adopted as a standard treatment for chronic kidney disease. Kureha is also stepping up global development of markets for this drug. In February 2005, sales of *Kremezin* started in South Korea. Clinical trials have been undertaken since the start of 2005 in China, where an estimated 100,000 people suffer from kidney disease, most notably in the major coastal cities. Furthermore, Kureha aims to begin sales in the U.S. around 2009.

## PGA

PGA is expected to be used in carbonated beverage and beer bottles. With PGA having passed the exacting air-barrier continuity tests of major potential overseas customers, work has shifted to the joint evaluation stage. With the aim of having PGA adopted by a wide range of users, Kureha is approaching various types of beverage manufacturers. Kureha plans to launch a plant for the temporary mass production of PGA in stages from fiscal 2006 and will construct a full-fledged plant if warranted by subsequent expansion of demand.

## ML40

*ML40* is a multilayer film used for packaging meat and cheese. Under an alliance with German company Multivac, Kureha has jointly developed the world's first "Formshrink" packaging system. Both companies started marketing efforts during the past fiscal year. Orders remain strong, particularly in Europe, and plans call for an advance into markets in the U.S. and Oceania.

## Medical Waste Processing

Kureha Environmental Engineering Co., Ltd. and IBM Japan, Ltd. have built a wireless IC tag system for tracking medical waste to prevent unlawful disposal. Field trials of the system are now underway. Kureha Environmental Engineering plans to start marketing this system once it has proven its effectiveness in the field. Investments to ramp up capacity will be made to meet increasing demand for the processing of medical waste.

# CONSOLIDATED FIVE-YEAR SUMMARY

KUREHA CHEMICAL INDUSTRY CO., LTD.

Years ended March 31, 2001, 2002, 2003, 2004 and 2005

	Millions of yen				
	2001	2002	2003	2004	2005
<b>For the year:</b>					
Net sales . . . . .	¥145,311	¥140,438	¥137,647	¥135,020	<b>¥130,400</b>
Advanced materials . . . . .	24,099	25,144	31,751	24,912	<b>25,158</b>
Specialty chemicals . . . . .	28,981	28,259	31,102	32,823	<b>31,000</b>
Specialty plastics . . . . .	50,273	47,344	50,950	51,139	<b>50,729</b>
Other operations . . . . .	41,956	39,689	23,843	26,144	<b>23,512</b>
Operating income . . . . .	6,272	6,290	8,289	9,463	<b>10,255</b>
Advanced materials . . . . .	1,202	1,416	4,035	2,815	<b>3,192</b>
Specialty chemicals . . . . .	1,018	1,466	1,459	3,291	<b>4,050</b>
Specialty plastics . . . . .	3,248	2,597	1,778	1,285	<b>872</b>
Other operations . . . . .	765	925	1,239	2,175	<b>2,156</b>
Elimination . . . . .	38	(116)	(222)	(104)	<b>(16)</b>
Net income . . . . .	1,704	2,034	1,453	4,183	<b>4,467</b>
Capital expenditures . . . . .	7,595	8,434	9,943	8,653	<b>12,001</b>
Depreciation . . . . .	8,793	8,516	8,790	7,929	<b>7,644</b>
R&D expenditures . . . . .	5,730	6,097	6,295	6,367	<b>6,458</b>
<b>Year-end:</b>					
Total assets . . . . .	¥191,154	¥189,188	¥173,129	¥173,295	<b>¥172,727</b>
Shareholders' equity . . . . .	85,639	88,817	85,866	91,774	<b>93,062</b>
Interest-bearing debt . . . . .	62,316	58,323	47,199	34,358	<b>34,861</b>
Number of employees . . . . .	4,419	4,154	4,012	3,866	<b>3,793</b>
<b>Amounts per share:</b>					
	Yen				
Net income . . . . .	¥ 7.79	¥ 9.76	¥ 7.13	¥ 21.45	<b>¥ 23.41</b>
Shareholders' equity . . . . .	411.69	446.72	442.40	483.12	<b>500.56</b>
Cash dividends . . . . .	6.00	6.00	6.00	8.00	<b>8.00</b>
<b>Ratio:</b>					
Operating income margin (%) . . . . .	4.3	4.5	6.0	7.0	<b>7.9</b>
Equity ratio (%) . . . . .	44.8	46.9	49.6	53.0	<b>53.9</b>
Return on equity (%) . . . . .	2.0	2.3	1.7	4.7	<b>4.8</b>

Note: From the year ended March 31, 2003, as a means of improving the accuracy of segment information, Kureha upgraded its information systems. Therefore, information previously included in Other Operations is included in the following categories: Advanced Materials, Specialty Chemicals and Specialty Plastics. The Specialty Products and Plastics segments were renamed Specialty Chemicals and Specialty Plastics, respectively, in the year ended March 31, 2005.

### Background

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During fiscal 2004, the year ended March 31, 2005, the Japanese economy failed to move onto a growth trajectory. Although exports and private-sector capital expenditures led a recovery, supported by firm economic growth in the U.S. and China, surging materials and fuel prices, inventory reductions in IT-related sectors in the latter half of the past fiscal year, and other factors conspired against a broad-based recovery. Personal consumption was also weak.

In the chemical industry, the export environment was favorable, partly due to comparatively stable forex rates. However, as materials and fuel prices surged, it was difficult to pass these higher costs on to product prices in downstream fields. Companies were forced to try to compensate for these difficult conditions with actions to rationalize operations internally.

In this climate, the company unveiled a new mid-term business plan, which starts in fiscal 2005, with policies for the future and an overriding goal of driving further growth. Kureha made a number of investments in fiscal 2004 to bolster production capacity of highly advanced materials, develop pharmaceuticals and agrochemicals businesses overseas, and improve sales prices of consumer products. In the second half of fiscal 2004, Kureha began to see results of its efforts emerge.

Consolidated net sales dropped ¥4,619 million, or 3.4%, to ¥130,400 million due to the termination of OEM production of PVC in March 2004 and other factors. Nevertheless, operating income rose ¥791 million, or 8.4%, to ¥10,255 million, and recurring income rose ¥1,384 million, or 16.6%, to ¥9,705 million, as earnings growth continued from the previous fiscal year. Net income rose ¥284 million, or 6.8%, to ¥4,467 million, despite the booking of a ¥2,232 million charge for losses on the disposal and sale of property, plant and equipment related to the aforementioned cessation of production.

### Results by Segment

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#### Advanced Materials

Net sales in the Advanced Materials segment increased ¥245 million, or 1.0%, to ¥25,158 million, and operating income rose ¥376 million, or 13.4%, to ¥3,192 million.

Polyphenylene sulphide (PPS) plastic operations continued to operate at full capacity due to expanding demand for applications related to automobiles as well as electrical and electronic materials. The same was true of polyvinylidene fluoride (PVDF) plastics, where higher demand for use in industrial materials kept capacity utilization at 100%. Together with strong growth at a PPS joint venture in the U.S., these operations posted higher year-on-year sales and earnings.

Bead-shaped activated carbon in the carbon products category benefited from strong exports. Meanwhile, carbon fiber saw increased demand for heat-resistant materials for heat-treating furnaces, the start of production overseas and benefits from efforts to cut processing costs. These factors led to higher year-on-year sales and operating income in the carbon products category.

In battery materials and optical materials, sales and operating income were lower year on year due to stiffer competition. In the case of the former, competition intensified in PVDF for lithium-ion rechargeable battery binders, while optical filters used in camera-equipped mobile phones met stiff competition in the latter sector.

## Specialty Chemicals

Net sales in the Specialty Chemicals segment decreased ¥1,823 million, or 5.6%, to ¥31,000 million, while operating income rose ¥759 million, or 23.1%, to ¥4,050 million.

In the pharmaceuticals/agrochemicals fields, sales and operating income both increased year on year. While *Krestin*, a drug for cancer immunotherapy, was affected by drug price revisions, *Kremezin*, a treatment for chronic kidney disease, continued to deliver firm growth. Another factor was increased global demand for *Metconazole*, a fungicide for cereal crops.

In the industrial chemicals field, efforts to improve sales prices of caustic soda, hydrochloric acid and other products started to deliver results. However, because output of chlorobenzenes is partially used to make mothballs for household use, a retail product, Kureha was unable to raise the price of these compounds sufficiently to offset the sharply higher cost of raw materials and energy. Therefore, while sales in industrial chemicals increased year on year, operating income fell.

In PVC plastics, the cessation of OEM production in March 2004 meant no sales were recorded from these operations in fiscal 2004, resulting in a large decline in sales. However, there was almost no effect on operating income because of the OEM nature of these operations.

## Specialty Plastics

Sales in the Specialty Plastics segment declined ¥410 million, or 0.8%, to ¥50,729 million, and operating income declined ¥413 million, or 32.2%, to ¥872 million.

In Japan, professional-use food packaging materials field, sales of PVDC film, high-barrier shrinkable and non-shrinkable multilayer films recorded modest growth. However, sales of *Besela*, a high-barrier laminated material, fell slightly as more time is required for it to establish itself in the marketplace. Sales of multilayer bottles also dropped due to lackluster demand. The result was lower year-on-year operating income in the food packaging materials field.

In the consumer products field, a revamped version of household wrapping film *New Krewrap*, which was launched in March 2004, won strong acceptance from the marketplace, underscored by its selection for a Good Design Award 2004 in Japan. Furthermore, retail prices gradually improved. Nevertheless, operating income in this field decreased because of continuing inventory cutbacks in *Seaguar* fishing line and higher advertising and sales promotion expenses in consumer products as a whole.

In the industrial materials field, which includes metalized film and synthetic fiber, sales and operating income both rose on increasing demand for applications in the electrical and electronic materials fields.

With regard to exports, growth in PVDC compounds for the Chinese market slowed due to a spike in raw meat prices. Because of strong competition in the marketplace, Kureha was unable to raise sales prices to compensate for the loss due to an unfavorable yen/\$ exchange rate that began last year, as well as higher materials and fuel prices. Furthermore, packaging machinery sales dropped sharply following high exports in the previous fiscal year. As a result of these and other factors, operating income declined year on year.

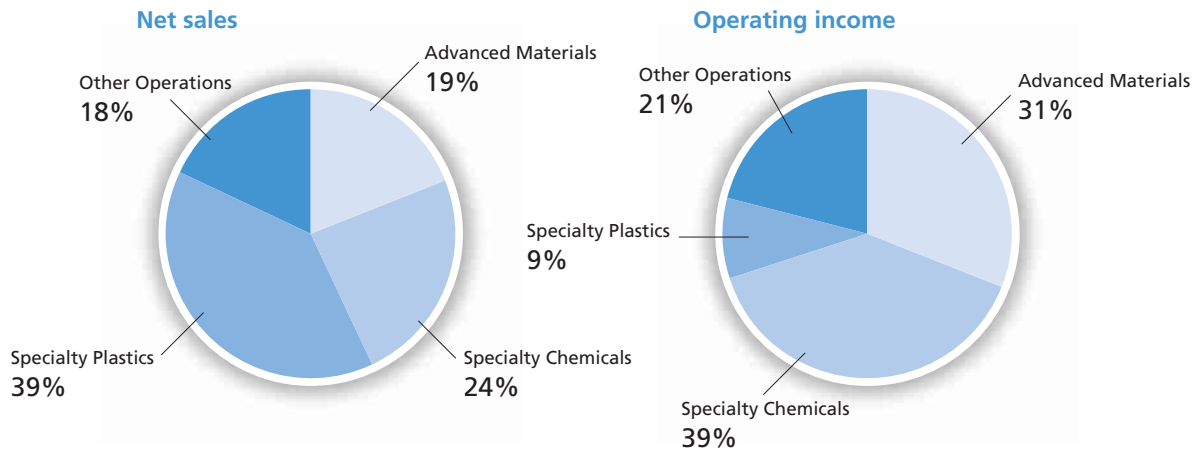
## Other Operations

Sales in this segment decreased ¥2,631 million, or 10.1%, to ¥23,512 million, and operating income declined ¥19 million, or 0.9%, to ¥2,156 million.

In the environment-related business, sales and operating income declined year on year, despite steady growth, particularly in medical waste processing. This performance reflected the large orders for environmental restoration work in the previous fiscal year.

In the construction business, sales were down sharply due to a larger number of projects than in the previous fiscal year that were ordered in the latter half of fiscal 2004 but that were not completed in fiscal 2004. However, operating income fell by only a small margin due to efforts to lower costs.

In the transportation and warehousing field, sales declined year on year, because of the impact of several one-time orders in the previous fiscal year. Here, too, the fall in operating income was marginal as progress was made lowering costs.



## Financial Position

The balance of cash and cash equivalents at March 31, 2005 was ¥6,001 million, a ¥1,582 million decrease from a year ago.

Net cash provided by operating activities was ¥12,437 million, ¥7,318 million less than a year earlier. While income before income taxes increased, changes in assets and liabilities resulted in a decrease of ¥6,617 million and income taxes paid increased ¥3,212 million.

Investing activities used net cash of ¥9,592 million, ¥5,981 million more than the previous year. An increase in payments amounted to ¥2,941 million being used for the acquisition of property, plant and equipment, reflecting mainly renewal work on the company's own power generation facility, and work to expand production capacity of PPS and PVDF plastics. There was also a ¥1,200 million decline in cash from the sale of property, plant and equipment following the completion in the previous fiscal year of the sale of the bulk of the company's dormitories and housing due to a review of Kureha's employee welfare program.

Financing activities used net cash of ¥4,067 million, ¥11,905 million less than the previous fiscal year. The main reason was a ¥66 million net increase in debt compared with a net decrease of ¥12,840 million in the previous fiscal year.

## CONSOLIDATED BALANCE SHEETS

KUREHA CHEMICAL INDUSTRY CO., LTD.  
March 31, 2005 and 2004

ASSETS	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Current assets:</b>			
Cash and cash equivalents . . . . .	¥ 6,001	¥ 7,584	\$ 56,093
Accounts and notes receivable — trade . . . . .	32,035	35,439	299,399
Short-term investment . . . . .	5	62	56
Inventories . . . . .	18,693	18,505	174,710
Deferred income taxes . . . . .	1,588	1,570	14,847
Other current assets . . . . .	3,497	2,832	32,684
Allowance for doubtful accounts . . . . .	(298)	(377)	(2,787)
Total current assets . . . . .	61,525	65,617	575,002
<b>Fixed assets:</b>			
<b>Property, plant and equipment:</b>			
Buildings . . . . .	24,450	25,028	228,506
Machinery and equipment . . . . .	20,625	20,560	192,765
Furniture and fixtures . . . . .	2,084	2,020	19,480
Land . . . . .	13,472	13,314	125,911
Construction in progress . . . . .	8,656	5,644	80,906
Total property, plant and equipment . . . . .	69,289	66,568	647,568
Intangible assets . . . . .	2,091	2,279	19,551
<b>Investments and other assets:</b>			
Investment securities . . . . .	29,223	28,995	273,118
Amount invested . . . . .	4,874	4,820	45,559
Long-term receivables . . . . .	1,960	2,030	18,318
Deferred income taxes . . . . .	1,321	1,241	12,352
Other investments . . . . .	2,892	2,095	27,036
Allowance for doubtful accounts . . . . .	(452)	(351)	(4,233)
Total investments and other assets: . . . . .	39,820	38,831	372,150
Total fixed assets . . . . .	111,201	107,678	1,039,269
Total assets . . . . .	¥172,727	¥173,295	\$1,614,271

See accompanying notes.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

KUREHA CHEMICAL INDUSTRY CO., LTD.  
Year ended March 31, 2005

### 1. Basis of financial statements

Kureha Chemical Industry Co., Ltd. (the "Company") and its consolidated domestic subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan.

The accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity

with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

### 2. U.S. dollar amounts

The U.S. dollar amounts included in the consolidated financial statements represent the arithmetic results of translating Japanese yen to U.S. dollars at the rate of ¥107=U.S.\$1, the approximate exchange rate on March 31, 2005. Included solely for the convenience of readers, the

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Currents liabilities:</b>			
Accounts and notes payable — trade . . . . .	¥ 16,786	¥ 18,899	\$ 156,887
Short-term borrowings . . . . .	25,209	24,405	235,603
Accrued income taxes . . . . .	2,069	2,878	19,340
Accrued consumption taxes . . . . .	509	732	4,760
Accrued expenses . . . . .	3,792	3,596	35,446
Accrued bonuses . . . . .	1,616	1,300	15,105
Other current liabilities . . . . .	7,729	8,473	72,239
Total current liabilities . . . . .	57,713	60,286	539,380
<b>Long-term liabilities:</b>			
Long-term borrowings . . . . .	9,651	9,953	90,201
Deferred income taxes . . . . .	6,243	5,546	58,352
Accrued pension and severance costs . . . . .	2,930	2,694	27,392
Reserve for retirement benefits for executives . . . . .	675	637	6,312
Other long-term liabilities . . . . .	1,664	706	15,554
Total long-term liabilities . . . . .	21,165	19,538	197,811
Total liabilities . . . . .	78,879	79,824	737,191
Minority interests . . . . .	785	1,696	7,340
<b>Shareholders' equity:</b>			
Common stock . . . . .	12,460	12,460	116,451
Additional paid-in capital . . . . .	9,715	9,715	90,803
Retained earnings . . . . .	64,083	61,656	598,913
Net unrealized gain on investment securities . . . . .	9,554	8,827	89,298
Foreign currency translation adjustments . . . . .	(616)	(606)	(5,759)
Treasury stock . . . . .	(2,136)	(279)	(19,966)
Total shareholders' equity . . . . .	93,062	91,774	869,740
Total liabilities, minority interests and shareholders' equity . . . . .	¥172,727	¥173,295	\$1,614,271

translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### 3. Consolidation

The consolidated financial statements comprise the accounts of the Company and its 35 subsidiaries.

### 4. Depreciation

Depreciation is mainly computed by the declining balance method for structures, machinery and equipment held by the

Company, and by the straight-line method for buildings held by the Company at rates based on the estimated useful lives of assets as prescribed by the Japanese income tax laws.

### 5. Income taxes

The tax effects of temporary differences between the carrying amounts of assets and liabilities used for tax financial reporting purposes and for income tax purposes are recognized as deferred income tax assets and liabilities.

# CONSOLIDATED STATEMENTS OF INCOME

KUREHA CHEMICAL INDUSTRY CO., LTD.  
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
Net sales . . . . .	<b>¥130,400</b>	¥135,020	<b>\$1,218,701</b>
Cost of goods sold . . . . .	<b>91,987</b>	98,241	<b>859,695</b>
Gross profit . . . . .	<b>38,413</b>	36,778	<b>359,006</b>
Selling, general and administrative expenses . . . . .	<b>28,158</b>	27,315	<b>263,164</b>
Operating income . . . . .	<b>10,255</b>	9,463	<b>95,842</b>
Non-operating income . . . . .	<b>771</b>	686	<b>7,206</b>
Interest and dividend income . . . . .	<b>461</b>	390	<b>4,314</b>
Equity in earnings of affiliates . . . . .	<b>3</b>	5	<b>29</b>
Other non-operating income . . . . .	<b>306</b>	290	<b>2,863</b>
Non-operating expenses . . . . .	<b>1,320</b>	1,829	<b>12,342</b>
Interest expenses . . . . .	<b>507</b>	596	<b>4,738</b>
Other non-operating expenses . . . . .	<b>813</b>	1,232	<b>7,604</b>
Recurring income . . . . .	<b>9,705</b>	8,320	<b>90,706</b>
Other incomes . . . . .	<b>1,621</b>	2,204	<b>15,155</b>
Other expenses . . . . .	<b>3,276</b>	3,682	<b>30,620</b>
Income before income taxes . . . . .	<b>8,050</b>	6,843	<b>75,241</b>
Provision for income taxes — Current . . . . .	<b>3,254</b>	3,133	<b>30,412</b>
— Deferred . . . . .	<b>113</b>	(638)	<b>1,060</b>
Minority interests in net income . . . . .	<b>216</b>	165	<b>2,019</b>
Net income . . . . .	<b>¥ 4,467</b>	¥ 4,183	<b>\$ 41,750</b>

Note: Extraordinary gains (losses) for fiscal 2004 included under "Other income (expenses)" are listed in the chart below.

	Millions of yen 2004
Extraordinary gain	
Gain on sale of investment securities . . . . .	¥1,450
Gain on fixed assets . . . . .	140
Extraordinary loss	
Loss on elimination/sale of fixed assets . . . . .	2,232
Retirement benefit expenses . . . . .	444

# CONSOLIDATED STATEMENTS OF CASH FLOWS

KUREHA CHEMICAL INDUSTRY CO., LTD.  
Years ended March 31, 2005 and 2004

	Millions of yen		Thousands of U.S. dollars
	2005	2004	2005
<b>Cash flows from operating activities:</b>			
Net income before income taxes	¥ 8,050	¥ 6,843	\$ 75,241
Depreciation	7,644	7,929	71,442
Increase in reserve	291	38	2,724
Equity in earnings of affiliates	(3)	(5)	(29)
Interest and dividend income	(461)	(390)	(4,314)
Interest expenses	507	596	4,738
Gain from the sale of fixed assets	2,091	372	19,550
Gain on revaluation of marketable and investment securities	20	31	193
Gain (loss) on sale of marketable and investment securities	(1,445)	(1,378)	(13,509)
Increase in assets and liabilities	565	7,182	5,282
Other	(682)	(369)	(6,379)
Sub total	16,578	20,850	154,939
Interest and dividend income, received	466	404	4,356
Interest expenses, paid	(504)	(609)	(4,719)
Income taxes, paid	(4,101)	(889)	(38,335)
Net cash provided by operating activities	12,437	19,756	116,241
<b>Cash flows from investing activities:</b>			
Payments for the acquisition of tangible and intangible assets	(12,078)	(8,564)	(112,882)
Proceeds from the sales of tangible and intangible assets	291	1,491	2,724
Payments for the acquisition of marketable and investment securities	(24)	(20)	(232)
Proceeds from the sales of marketable and investment securities	2,536	4,058	23,702
Increase in capital investments	(350)	(1,688)	(3,271)
Short-term and long-term loans	(21)	(61)	(203)
Collection of short-term and long-term loans	141	982	1,326
Gain (loss) related to other investments	(87)	191	(816)
Net cash used in investing activities	(9,592)	(3,611)	(89,652)
<b>Cash flows from financing activities:</b>			
Proceeds from short-term borrowings	2,386	142	22,308
Repayment of short-term borrowings	(1,290)	(8,736)	(12,058)
Proceeds from long-term loans	5,070	2,102	47,383
Repayment of long-term loans	(6,100)	(6,348)	(57,013)
Payments for the acquisition of treasury stock	(2,074)	(1,966)	(19,384)
Proceeds from issuing shares to minority shareholders	28		263
Dividends paid by parent company	(2,085)	(1,163)	(19,487)
Dividends paid to minority interests	(2)	(1)	(23)
Net cash used in financing activities	(4,067)	(15,972)	(38,011)
Effect of exchange rate changes on cash and cash equivalents	48	(8)	455
Increase in cash and cash equivalents from inclusion of additional subsidiaries on consolidation	13	–	128
Decrease in cash and cash equivalents due to change of fiscal year end of consolidated subsidiaries	(422)	–	(3,952)
Net increase (decrease) in cash and cash equivalents	(1,582)	163	(14,791)
Cash and cash equivalents at beginning of year	7,584	7,421	70,884
Cash and cash equivalents at end of year	¥ 6,001	¥ 7,584	\$ 56,093

## MAIN GROUP COMPANIES BY BUSINESS SEGMENT

KUREHA CHEMICAL INDUSTRY CO., LTD.  
Year ended March 31, 2005

The Kureha Group consists of Kureha Chemical Industry Co., Ltd., 35 subsidiaries (of which 35 are consolidated) and five affiliates (of which one applies the equity method). The Group is engaged in the manufacture and sale of products in three main business segments: Advanced Materials, Specialty Chemicals and Specialty Plastics. In addition, it undertakes construction and maintenance operations associated with each main business segment, transport operations, environmental management services and other service operations.

### (1) Advanced Materials

Company:	Business:
Kureha Chemical Industry Co., Ltd. . . . .	Manufactures and sells functional plastics and carbon products.
Kureha Chemicals GmbH . . . . .	Sells Kureha's advanced materials and other products in Europe.
Kreha Corporation of America . . . . .	Sells Kureha's advanced materials and other products in the U.S.
Kureha KPS, Inc. . . . .	Manufactures and sells PPS resin and compounds in the U.S. Has a controlling stake in Fortron Industries.
Resinous Kasei Co., Ltd. . . . .	A subsidiary of Nishiki Trading Co., Ltd., this company manufactures and sells advanced materials.
Kureha Chemicals Shanghai Co., Ltd. . . . .	Manufactures and sells carbon products.

\*In fiscal 2004, Kureha Chemicals Shanghai Co., Ltd. became a consolidated subsidiary.

### (2) Specialty Chemicals

Company:	Business:
Kureha Chemical Industry Co., Ltd. . . . .	Manufactures and sells inorganic chemicals, organic chemicals, pharmaceuticals, a pharmaceutical for animals, agrochemicals and other materials for agricultural use.
Rütgers Kureha Solvents GmbH . . . . .	Manufactures and sells solvents for carbonless copying paper in Germany. Receives technology under license from Kureha.

### (3) Specialty Plastics

Company:	Business:
Kureha Chemical Industry Co., Ltd. . . . .	Manufactures and sells food packaging products, consumer goods and synthetic fiber products, and also sells the raw materials used to make these products.
Kureha Plastics Co., Ltd. . . . .	Manufactures and sells food packaging products. Purchases raw materials from and sells its products to Kureha.
Kureha Gosen Co., Ltd. . . . .	Manufactures and sells synthetic fibers. Purchases raw materials from and sells its products to Kureha.
Kakogawa Plastics Co., Ltd. . . . .	Manufactures and sells metalized films.
Sanko Plastics Co., Ltd. . . . . (renamed Kureha Extech Co., Ltd. on April 1, 2005)	Manufactures and sells synthetic plastic products. Sells some products to Kureha.
Krehalon Industrie B.V. . . . .	Manufactures and sells food packaging products in the Netherlands. Receives raw materials from Kureha.
Kureha Europe B.V. . . . .	Has controlling stakes in Krehalon Industrie B.V. and four subsidiaries engaged in food packaging products.

### (4) Other Operations

Company:	Business:
Kureha Environmental Engineering Group . . . . . (Kureha Environmental Engineering Co., Ltd. and one subsidiary)	Undertakes industrial waste processing and in-plant physical distribution for various companies. Receives some of Kureha's business in these areas.
Kureha Special Laboratory Co., Ltd. . . . .	Analyzes, measures and performs environmental assessments for various substances. Performs tests for some Kureha products.
Kureha Techno Eng Group . . . . . (Kureha Techno Eng Co., Ltd. and one subsidiary)	Undertakes plant engineering and management operations, safety-related operations, and environmental protection services. Receives some of Kureha's business in these areas.
Kureha Construction Group . . . . . (Kureha Construction Co., Ltd. and three subsidiaries)	Undertakes engineering and construction work for various companies. Receives some of Kureha's business in these areas.
Kureha Transport Group . . . . . (Kureha Transport Co., Ltd. and six subsidiaries)	Undertakes transportation and storage operations. Receives some of Kureha's business in these areas.
Nishiki Trading Co., Ltd. . . . .	Sells advanced materials, specialty chemicals, specialty plastics and others. Also sells products manufactured by Kureha. Supplies raw materials to Kureha.
Kureha Kosan Group . . . . . (Kureha Kosan Co., Ltd. and two subsidiaries)	Conducts real estate transactions, leasing and management, and other services. Performs certain operations for Kureha.

## CORPORATE DATA

### Board of Directors and Auditors

(As of June 29, 2005)

#### Directors

##### *Chairman*

Hiroshi Amano

##### *President & Chief Executive Officer*

Hiroshi Tanaka

##### *Senior Executive Vice President*

Hisatsugu Kaji

##### *Senior Executive Vice President*

Masaki Uchiyama

##### *Executive Vice President*

Fujitoshi Tomizawa

##### *Senior Vice President*

Masahiko Fujii

##### *Senior Vice President*

Koji Hagino

##### *Vice President*

Tsuneo Okamoto

##### *Vice President*

Naoya Suzuki

##### *Vice President*

Masatomo Shigeta

##### *Vice President*

Takao Iwasaki

##### *Vice President*

Toshio Mizuno

##### *Vice President*

Keikichi Munakata

##### *Vice President*

Yutaka Kobayashi

##### *Vice President*

Tadashi Sagawa

#### Auditors

##### *Corporate Auditor*

Ryuichi Takaoka

##### *Corporate Auditor*

Junichi Kosugi

##### *Corporate Auditor*

Yasumasa Hirano

##### *Corporate Auditor*

Kazutoshi Kimura

#### Head Office:

1-9-11, Nihonbashi Horidome-cho, Chuo-ku, Tokyo 103-8552, Japan

Tel: 81 (03) 3249-4666 Fax: 81 (03) 3249-4601

#### Date of Establishment:

June 21, 1944

#### Number of Employees: (As of March 31, 2005)

3,793 (consolidated)

1,386 (non-consolidated)

#### Paid-in Capital: (As of March 31, 2005)

¥12,460 million

#### Number of Shares of Common Stock Issued: (As of March 31, 2005)

190,533,909 shares

#### Number of Shareholders: (As of March 31, 2005)

22,305

#### Stock Exchange Listings:

Tokyo Stock Exchange

Osaka Securities Exchange

#### Transfer Agent:

Mizuho Trust & Banking Co., Ltd.

#### Certified Public Accountants:

Nihombashi Corporation

**KUREHA CHEMICAL INDUSTRY CO.,LTD.**