

KUREHA CORPORATION

BUSINESS REPORT 2006

Year ended March 31, 2006



Profile

Kureha takes pride in its history of developing original, innovative technology

Kureha is a leading diversified chemical products manufacturer that has applied its technological development expertise to create original products in advanced products, pharmaceuticals, agrochemicals, and packaging materials. Since its establishment in 1944, Kureha's growth and development have come exclusively from producing innovative products developed in-house rather than from using outside technology.

Since 2001, Kureha has undergone a major transformation to enable it to constantly develop products to meet the ever-changing needs of customers. As part of this transformation, it moved away from manufacturing commodity chemicals to focus on key strategic business areas—including advanced products, pharmaceuticals and agrochemicals, and high-barrier packaging materials—where the company can benefit from its original technology and marketing strengths to secure steady growth.

To support its transformation, Kureha developed a new mission, "the pursuit of excellence," with an aim to become a leading global specialty products company. Kureha also changed its name from Kureha Chemical Industry Co., Ltd., to Kureha Corporation on October 1, 2005.

These moves have already reaped rewards, with Kureha displaying significant development, production, and marketing abilities. Kureha's goal is to foster future growth by advancing a model that takes a global perspective and focuses on winnable markets in each of its business areas, including those that are still in the developmental phase.

Consolidated Financial Highlights

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
For the year:			
Net sales	¥130,400	¥135,627	\$1,154,568
Operating income	10,255	9,708	82,645
Net income	4,467	5,171	44,028
Year-end:			
Total assets	¥172,727	¥185,203	\$1,576,598
Shareholders' equity	93,062	98,357	837,302
Amounts per share:			
	Yen		U.S. dollars
Net income	¥ 23.41	¥ 27.61	\$0.24
Shareholders' equity	500.56	535.26	4.56

Message from the President

Kureha unveiled an aggressive new mid-term business plan in January 2005 that saw its first full year of implementation during the fiscal year ended March 31, 2006. Through this new plan, Kureha aims to revitalize the business and firmly establish its position as a leading specialty products company, focusing on manufacturing high-value-added, original products. The emphasis is on expanding existing strategic businesses while commercializing new products based on in-house research and development (R&D) activities.

The Japanese economy continues to exhibit signs of sustained rehabilitation and growth. At the same time, private consumption and capital expenditure among businesses has increased, and the dramatic rise in raw material prices, including crude oil, has maintained significant pressures on our business. However, Kureha's strategy of focusing on selected key business areas that have long-term growth potential and are profitable, while withdrawing from commodity businesses, is beginning to have a positive and visible impact.

In the fiscal year ended March 31, 2006, Kureha posted record sales of ¥135.6 billion, up from ¥130.4 billion in the previous year. This was the company's first sales increase for five years and reflects our efforts, under the previous mid-term business plan, to refocus our business portfolio and withdraw from noncore businesses. We are confident that the current strategy is having a positive impact on financial results and that this will increasingly be the case in the years to come. The company recorded consolidated recurring income of ¥9.2 billion for the fiscal year ended March 31, 2006, and posted consolidated net income of ¥5.2 billion over the same period, a 15.8% increase from the previous year. As a result, we were able to announce an increase in the annual dividend payment from ¥8 to ¥9 per share.

Kureha will continue to focus on developing innovative technologies that result in specialty global products. We will therefore aggressively allocate our resources toward strategic areas while continuing our ongoing business restructuring initiatives. In line with this strategy, in March 2006 Kureha issued ¥5.0 billion in straight bonds, which secured funds for R&D investments and an increase in the production capacity for strategic products.

Having completed the move to a new building to help further integrate headquarters' functions, as well as established a new corporate brand and identity, we firmly believe that Kureha continues to deliver excellent products and services to its customers. All of our employees are motivated to help the company achieve its objective of becoming a global specialty products company.



June 2006

Hiroshi Tanaka

President and Chief Executive Officer

Consolidated Five-Year Summary

	Millions of yen				
	2002	2003	2004	2005	2006
For the year:					
Net sales.....	¥140,438	¥137,647	¥135,020	¥130,400	¥135,627
Advanced materials	25,144	31,751	24,912	25,158	31,578
Specialty chemicals	28,259	31,102	32,823	31,000	31,294
Specialty plastics	47,344	50,950	51,139	50,729	45,261
Other operations	39,689	23,843	26,144	23,512	27,492
Operating income	6,290	8,289	9,463	10,255	9,708
Advanced materials	1,416	4,035	2,815	3,192	3,923
Specialty chemicals	1,466	1,459	3,291	4,050	3,493
Specialty plastics	2,597	1,778	1,285	872	607
Other operations	925	1,239	2,175	2,156	2,100
Elimination	(116)	(222)	(104)	(16)	(415)
Net income	2,034	1,453	4,183	4,467	5,171
Capital expenditure	8,434	9,943	8,653	12,001	11,983
Depreciation	8,516	8,790	7,929	7,644	7,898
R&D	6,096	6,295	6,367	6,458	7,405
Year-end:					
Total assets	¥189,188	¥173,129	¥173,295	¥172,727	¥185,203
Shareholders' equity	88,817	85,866	91,774	93,062	98,357
Interest-bearing debt	58,323	47,199	34,358	34,861	35,383
Number of employees	4,154	4,012	3,866	3,793	3,746
Amounts per share:					
	Yen				
Net income	¥ 10.05	¥ 7.13	¥ 21.45	¥ 23.41	¥ 27.61
Shareholders' equity	447.44	442.40	483.12	500.56	535.26
Cash dividends	6.00	6.00	8.00	8.00	9.00
Ratios:					
	%				
Operating income margin	4.5	6.0	7.0	7.9	7.2
Equity ratio	46.9	49.6	53.0	53.9	53.1
Return on equity	2.3	1.7	4.7	4.8	5.4

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.

Financial Review**Results Summary**

For the fiscal year ended March 2006, Kureha recorded consolidated sales of ¥135.6 billion, up 4.0% year on year. This represents the first top-line increase since Kureha took the decision to withdraw from commodity businesses and focus on key growth businesses.

The consolidated operating income was ¥9.7 billion, a year-on-year decrease of 5.3%, while the operating income margin decreased from 7.9% to 7.2%. These results are largely accounted for by a rise in pharmaceutical and agrochemical R&D expenditures and an increase in depreciation costs following aggressive capital expenditure on strategic business areas.

Consolidated recurring income also declined, falling 5.4%, to ¥9.2 billion. However, Kureha's move to a new corporate headquarters in October 2005 meant the sale of the old headquarters building and land resulted in higher profits, which were recorded as an extraordinary item. This led to the company posting consolidated net income of ¥5.2 billion for the fiscal year ended March 2006, up from ¥4.5 billion in the previous year.

The company announced an increase in the annual dividend payment from ¥8 to ¥9 per share.

Summary of Consolidated Full-Year Results

(¥ million, except where stated)

	2005	2006	Change (%)
Net sales	130,400	135,627	4.0
Operating income	10,255	9,708	(5.3)
Recurring income	9,705	9,185	(5.4)
Net income	4,467	5,171	15.8
Earnings per share (EPS) (¥)	23.41	27.61	18.0
Dividends per share (annual) (¥)	8.0	9.0	12.5

Results by Segment

Results by Segment: Sales and Operating Income

(¥ million)

Division		2005	2006	Change (%)
Advanced materials*	Sales	¥ 25,158	¥ 31,578	25.5
	Operating income	3,192	3,923	22.9
Specialty chemicals	Sales	31,000	31,294	1.0
	Operating income	4,050	3,493	(13.8)
Specialty plastics*	Sales	50,729	45,261	(10.8)
	Operating income	872	607	(30.4)
Other operations	Sales	23,512	27,492	16.9
	Operating income	2,156	2,100	(2.6)
	Elimination	(16)	(415)	
Total	Sales	¥130,400	¥135,627	4.0
	Operating income	10,255	9,708	(5.3)

*As of the fiscal year ended March 2006, the subsidiary company Kakogawa Plastics Co., Ltd., was transferred from the Specialty Plastics Division to the Advanced Materials Division.

Advanced Materials Division

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

Advanced plastics continue to grow

Sales of advanced plastics (PPS resin, PVDF resin, *Krefine*, etc.) increased from ¥9.8 billion in the fiscal year ended March 2005 to ¥11.8 billion in the fiscal year ended March 2006. Advanced materials is a key area of focus for Kureha and one with promising prospects for the company.

- **PPS resin (Fortron KPS) capacity raised following robust demand**

PPS resin, the superengineering plastics material with a diverse range of applications, including in car and electronic parts, because of its tough and heat-resistant properties, ran at full production capacity throughout the year. Kureha, together with its U.S. joint venture, Fortron Industries LLC, is the world's largest manufacturer of PPS resin, which remains one of the company's key strategic growth products. Production capacity of PPS resin in Japan rose from 7,500 tonnes to top 10,000 tonnes per year, as of April 2006, on the back of strong demand. Fortron Industries increased production capacity from 6,800 tonnes to 8,600 tonnes per year, as of December 2005, and has announced plans to further raise production capacity to 15,000 tonnes during the first half of 2007. Global demand is expected to continue growing at over 10% per year, and global market growth will continue to outpace production capacity over the next few years.

- **PVDF resin (KF Polymer) generates stable revenue**

Demand for polyvinylidene fluoride (PVDF) resin, a high-performance material used in the chemical and electronics industries, remains broadly positive. While application in lithium ion batteries is beginning to slow, use in the chemical industry has been expanding. As of December 2005, Kureha increased production capacity from 1,500 tonnes to 2,500 tonnes per year, though an increase in depreciation costs is expected to have an impact on profitability over the coming year.

- **Krefine sales increase**

Krefine, an advanced electrostatic discharge (ESD) material used to protect electronic devices from the damage caused by static electricity, is used in the electronics industry in parts such as the distribution trays used inside IC manufacturers' factories. This product has also received the approval required from the major IC manufacturers to allow application with IC test sockets and other parts. Kureha expects to expand this area of application further in the future.

Sales of carbon products grow

Sales of carbon products grew to ¥7.7 billion in the fiscal year ended March 2006, up from ¥7.1 billion in the previous year. In particular, positive sales results were posted by carbon fibers used in heat-resistance materials, such as heat-treatment furnaces for silicon wafer manufacturing. However, though sales increased, profitability was affected by surging raw material prices.

Specialty Chemicals Division

Major product areas: pharmaceuticals, agrochemicals, industrial chemicals

Pharmaceuticals remain stable

Sales of pharmaceutical products showed a slight decline in the fiscal year ended March 2006, to ¥9.3 billion, from the ¥9.5 billion posted in the previous year. The official cut in drug prices announced in April 2006 is expected to affect two of Kureha's key pharmaceutical products: *Kremezin*, a therapeutic agent for chronic renal failure, and *Krestin*, a drug for cancer immunotherapy. There has been growing demand for *Kremezin*, and Kureha will strengthen its sales efforts for this product with co-marketer Sankyo Co., Ltd., with the aim of selling a greater quantity at the new lower price. Targeting future growth, Kureha expects to expand overseas markets for *Kremezin*, particularly in South Korea, where it has already begun marketing activities; in China, where the product is slated for launch in 2007; and in Taiwan, where Kureha plans to market *Kremezin* in the near future. As a result, the company is expecting export sales to grow. Kureha is also targeting sales of *Kremezin* in the United States and Europe from around 2010 and is preparing for phase III clinical tests there. In addition, Kureha has tied up with Ocera Inc. (U.S.) to develop *Kremezin* for application in targeting gastrointestinal and liver diseases. Phase III clinical trials have begun for an application targeting the gastrointestinal ailment Crohn's disease.

Agrochemicals remain stable

Overall sales of agrochemicals remained flat, at ¥7.3 billion, for the fiscal year ended March 2006. While overseas sales increased, sales in Japan were slightly lower than in the previous year. However, sales of *Metconazole*, a fungicide for cereal crops that is marketed in over 30 countries, were strong. Long-term growth prospects for *Metconazole* are also strong, as it has recently received emergency-use exemption from registration to target soybean rust in the United States and is expected to receive full registration by March 2009. In addition, the product is expected to get approval for registration for use in Japan on wheat and on citrus fruits by December 2006.

Industrial chemicals price increases achieved

Sales of industrial chemical products grew slightly in the fiscal year ended March 2006, rising to ¥9.7 billion, from the ¥9.3 billion posted in the previous year. During the fiscal year ended March 2006, Kureha successfully transferred the impact of the rise in raw material prices onto product prices and will continue to neutralize the impact of such raw material price rises.

Specialty Plastics Division

Major product areas: household products, food packaging materials, fishing lines

Earnings from household products expected to grow strongly

Overall sales of household products grew to ¥19.3 billion in the fiscal year ended March 2006, from ¥19.2 billion during the previous year, partly because of efforts to optimize the trade price of the household wrapping film *New Krewrap* and because of three consecutive years of product renewals. Kureha aims to boost its sales of other of its product lines, such as the *Kichinto-San* series, which includes food containers, cooking paper, and garbage bags for use in kitchen sinks.

Food packaging materials sales temporarily faltered

Overall sales of food packaging materials declined to ¥10.4 billion in the fiscal year ended March 2006, mainly due to production beginning at the local factory in China.

• China joint venture completed for *Krehalon*

In October 2005, Kureha completed the construction of a new PVDC compound plant in Nantong, China, for *Krehalon*, which is used in the packaging of foods that have been preheated and sterilized, such as retort sausages, through a joint venture with a local manufacturer, Shineway Group, and a Japanese trading company, Toyota Tsusho Corporation. Demand for *Krehalon* in China remains strong, with exports from Japan required to make up for the supply shortfall locally. This joint venture will become an equity-method consolidated subsidiary from the fiscal year ending March 2007.

• Strong demand expected in Europe for *Besela*

Besela, Kureha's new high-barrier lamination film that has been developed to replace cans, has yet to gain growth momentum as a result of the longer than expected evaluation phase in overseas markets. Stronger demand is anticipated for this product over the coming fiscal year, particularly in Europe and in the United States. Kureha firmly believes in *Besela's* long-term prospects, especially in light of the changing social trends toward the environment and an expected acceleration in the transition to flexible soft packaging from hard cans and glass bottles.

Fishing lines benefit from adjustment

Sales of *Seaguar* fishing lines grew from ¥1.0 billion to ¥1.4 billion in the fiscal year ended March 2006, thanks to the completion of inventory adjustment. Operating profit also increased, due to reduced costs.

Other Operations Division

Major business areas: environmental engineering, construction- and transport- and warehousing-related businesses

Sales to grow, but profitability to remain constant

Environmental engineering businesses recorded strong sales results, up from ¥7.0 billion to ¥7.6 billion in the fiscal year ended March 2006. In 2005, the Tokyo Metropolitan Government began introducing the IC tag system to track medical waste, with Kureha acting as one of the project's leaders.

Construction-related businesses accounted for the largest individual business area within this division, generating increased sales of ¥25.2 billion, up from ¥22.4 billion in the previous fiscal year.

Sales from transport- and warehousing-related businesses remained flat, at ¥12.4 billion, in the fiscal year ended March 2006. And operating income deteriorated because of higher oil prices.

Consolidated Capital Expenditure, Depreciation, and R&D

(¥ million)

	2005	2006	Change (%)
Capital expenditure	¥12,001	¥11,983	(0.2)
Depreciation	7,644	7,898	3.3
R&D	6,458	7,405	14.7

Consolidated capital expenditure remained unchanged, at ¥12.0 billion, while depreciation costs increased to ¥7.9 billion, up from ¥7.6 billion in the previous fiscal year. Capital expenditure is largely accounted for by Kureha's investments in additional production capacity for PPS and PVDF resin, as well as by its upgrading of the Iwaki Factory power plant.

Kureha spent ¥7.4 billion on R&D in the fiscal year ended March 2006, a significant increase from the ¥6.5 billion spent during the previous term, with major expenditure in the pharmaceutical and agrochemical areas.

Consolidated Financial Figures

(¥ million, except where stated)

	March 31, 2005	March 31, 2006	Change
Total assets	¥172,727	¥185,203	¥12,476
Shareholders' equity	93,062	98,357	5,296
Interest-bearing debt	34,861	35,383	522
Shareholders' equity per share (¥)	500.56	535.26	34.7

Kureha issued ¥5.0 billion in straight bonds in March 2006, just before the rise in interest rates. This move secured funds for future investments in R&D and for increasing the production capacity for strategic products.

Cash Flow

The balance of cash and cash equivalents at March 31, 2006, was ¥6.5 billion, an increase of ¥0.5 billion from the previous year.

Net cash provided by operating activities was ¥11.3 billion, a decrease of ¥1.1 billion from the previous year mainly as a result of a decline in operating income.

Net cash used in investing activities was ¥9.6 billion, which was approximately the same level as in the previous year. While the proceeds from the sale of the former headquarters building and land added ¥1.1 billion, an increase in payments used for the acquisition of property, plant and equipment amounted to ¥12.0 billion, which was higher than the ¥11.5 billion recorded in the previous year. Investment expenditure primarily resulted from work to raise the production capacity for PPS at the Iwaki Factory.

Net cash used in financing activities was ¥1.0 billion, a decrease of almost ¥3.0 billion from the previous year due to the issuance of ¥5.0 billion in straight bonds. Repayment of short-term and long-term borrowings amounted to ¥10.2 billion, which was larger than the ¥7.4 billion recorded in the previous year.

Consolidated Balance Sheets

(March 31, 2005 and 2006)

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
ASSETS			
Current assets			
Cash and cash equivalents.....	¥ 6,001	¥ 6,542	\$ 55,693
Accounts and notes receivable.....	32,035	33,962	289,113
Short-term investments.....	5	506	4,308
Inventories.....	18,693	20,390	173,577
Deferred income taxes.....	1,588	2,261	19,254
Other current assets.....	3,497	3,297	28,071
Allowance for doubtful accounts.....	(298)	(244)	(2,083)
Total current assets.....	61,525	66,715	567,933
Fixed assets			
Property, plant and equipment			
Buildings.....	24,450	24,092	205,097
Machinery and equipment.....	20,625	21,504	183,063
Furniture and fixtures.....	2,084	2,136	18,191
Land.....	13,472	12,743	108,480
Construction in progress.....	8,656	10,405	88,577
Total property, plant and equipment.....	69,289	70,882	603,408
Intangible assets.....	2,091	1,774	15,106
Investments and other assets			
Investment securities.....	29,223	32,792	279,156
Amount invested.....	4,874	5,580	47,508
Long-term receivables.....	1,960	1,899	16,169
Deferred income taxes.....	1,321	2,612	22,237
Other investments.....	2,892	3,234	27,531
Allowance for doubtful accounts.....	(452)	(311)	(2,654)
Total investments and other assets.....	39,820	45,807	389,947
Total fixed assets.....	111,201	118,463	1,008,461
Deferred assets			
Bond issuing expenses.....	—	24	204
Total deferred assets.....	—	24	204
Total assets.....	¥172,727	¥185,203	\$1,576,598

Notes to consolidated financial statements**1. Basis of financial statements**

Kureha and its consolidated domestic subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and 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 U.S. \$1 = ¥117.47, the approximate exchange rate on March 31, 2006. Included solely for the convenience of readers, the 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.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Current liabilities			
Accounts and notes payable.....	¥ 16,786	¥ 19,423	\$ 165,353
Short-term borrowings.....	25,209	19,309	164,377
Accrued expenses.....	5,203	5,910	50,316
Accrued income taxes.....	2,069	2,859	24,342
Accrued liabilities.....	3,792	4,113	35,021
Accrued bonuses.....	1,616	1,865	15,877
Allowance for restructuring expenses.....	—	539	4,597
Other current liabilities.....	3,035	3,181	27,082
Total current liabilities.....	57,713	57,203	486,965
Long-term liabilities			
Straight bonds.....	—	5,000	42,564
Long-term borrowings.....	9,651	11,074	94,272
Deferred income taxes.....	6,243	7,736	65,861
Accrued pension and severance costs.....	2,930	2,361	20,100
Reserve for retirement benefits for executives.....	675	701	5,973
Other long-term liabilities.....	1,664	1,537	13,091
Total long-term liabilities.....	21,165	28,411	241,861
Total liabilities.....	78,879	85,615	728,826
Minority interests.....	785	1,229	10,470
Shareholders' equity			
Common stock.....	12,460	12,460	106,071
Additional paid-in capital.....	9,715	9,838	83,756
Retained earnings.....	64,083	67,545	575,004
Net unrealized gain on investment securities.....	9,554	11,921	101,487
Foreign currency translation adjustments.....	(616)	(209)	(1,785)
Treasury stock.....	(2,136)	(3,198)	(27,231)
Total shareholders' equity.....	93,062	98,357	837,302
Total liabilities, minority interest and shareholders' equity.....	¥172,727	¥185,203	\$1,576,598

3. Consolidation

The consolidated financial statements comprise the company, its 33 subsidiaries, and one equity-method applied company.

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. Accounting for impairment of fixed assets

From the fiscal year ended March 2006, Kureha applied "Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council in Japan on August 9, 2002, and "Application Guideline for Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Standard Committee on October 31, 2003. As a result, net income before income tax adjustments declined ¥661 million. The accumulated amount of impairment losses are directly deducted from the total amount of each asset.

Consolidated Income Statements

(Years ended March 31, 2005 and 2006)

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Net sales	¥130,400	¥135,627	\$1,154,568
Cost of goods sold	91,987	96,188	818,833
Gross profit	38,413	39,438	335,735
Selling, general and administrative expenses	28,158	29,730	253,090
Operating income	10,255	9,708	82,645
Non-operating income	771	1,138	9,692
Interest and dividend income	461	612	5,212
Equity in earnings of affiliates	3	12	102
Other non-operating income	306	514	4,378
Non-operating expenses	1,320	1,661	14,140
Interest expenses	507	471	4,013
Other non-operating expenses	813	1,189	10,127
Recurring income	9,705	9,185	78,197
Extraordinary gain	1,621	2,885	24,564
Extraordinary loss	3,276	4,253	36,213
Income before income taxes	8,050	7,817	66,548
Provision for income taxes—current	3,254	4,477	38,114
Provision for income taxes—deferred	113	(2,089)	(17,785)
Minority interests in net income	216	257	2,191
Net income	¥ 4,467	¥ 5,171	\$ 44,028

Note: Extraordinary gains (losses) are listed in the table below.

	2005	2006
Extraordinary gain		
Gain on sale of investment securities	¥1,450	¥1,599
Gain on sale of fixed assets	140	1,112
Extraordinary loss		
Loss on elimination/sales of fixed assets	2,232	1,722
Loss on impairment of fixed assets	—	661
Restructuring expenses	—	573
Court settlement expenses	—	565
Retirement benefit expenses	444	—

Consolidated Cash Flow Statements

(Years ended March 31, 2005 and 2006)

	Millions of yen		Thousands of U.S. dollars
	2005	2006	2006
Cash flows from operating activities			
Net income before income tax	¥ 8,050	¥ 7,817	\$ 66,548
Depreciation	7,644	7,898	67,241
Increase (decrease) in reserve	(478)	(681)	(5,802)
Equity in earnings of affiliates	(3)	(12)	(102)
Interest and dividend income	(461)	(612)	(5,212)
Interest expenses	507	471	4,013
Gain from sale of fixed assets	2,091	610	5,194
Gain on revaluation of marketable and investment securities	20	1	13
Gain (loss) on sale of marketable and investment securities	(1,445)	(1,568)	(13,352)
Decrease of working capital	565	1,135	9,664
Other	87	170	1,450
Subtotal	16,578	15,230	129,655
Interest and dividend income, received	466	620	5,286
Interest expenses, paid	(504)	(476)	(4,057)
Income taxes, paid	(4,101)	(4,067)	(34,625)
Net cash provided by operating activities	12,437	11,307	96,259
Cash flows from investing activities			
Payments for acquisition of tangible and intangible assets	(11,506)	(12,026)	(102,381)
Proceeds from sales of tangible and intangible assets	291	1,855	15,798
Payments for acquisition of marketable and investment securities	(24)	(417)	(3,558)
Proceeds from sales of marketable and investment securities	2,536	1,986	16,915
Increase (decrease) in capital investments	(350)	—	—
Short-term and long-term loans	(21)	(4)	(38)
Collection of short-term and long-term loans	141	55	475
Gain (loss) related to other investments	(659)	(1,097)	(9,344)
Net cash used in investing activities	(9,592)	(9,648)	(82,133)
Cash flows from financing activities			
Proceeds from short-term borrowings	2,386	732	6,238
Repayment of short-term borrowings	(1,290)	(5,356)	(45,601)
Proceeds from long-term loans	5,070	5,766	49,089
Repayment of long-term loans	(6,100)	(4,852)	(41,309)
Proceeds from issuing straight bonds	—	4,963	42,257
Payments for acquisition of treasury stock	(2,074)	(1,807)	(15,388)
Proceeds from issuing shares for minority shareholders	28	—	—
Proceeds from selling parent company stock	—	1,143	9,737
Dividends paid by parent company	(2,085)	(1,657)	(14,113)
Dividends paid to minority interests	(2)	(21)	(179)
Net cash used in financing activities	(4,067)	(1,088)	(9,269)
Effect of exchange rate changes on cash and cash equivalents	48	(25)	(217)
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	13	—	—
Increase in cash and cash equivalents upon change of fiscal year-end of consolidated subsidiary	(422)	(4)	(41)
Net increase (decrease) in cash and cash equivalents	(1,582)	540	4,599
Cash and cash equivalents at beginning of year	7,584	6,001	51,094
Cash and cash equivalents at end of year	¥ 6,001	¥ 6,542	\$ 55,693

Main Group Companies by Segment

The Kureha Group consists of Kureha Corporation, 34 subsidiaries (of which 33 are consolidated), and 6 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.

Advanced Materials	
Kureha Corporation	Manufactures and sells advanced plastics and carbon products.
Kureha GmbH (renamed from Kureha Chemicals GmbH on December 1, 2005)	Sells Kureha's advanced materials and other products in Europe.
Kureha America, Inc. (renamed from Kureha Corporation of America on January 1, 2006)	Sells Kureha's advanced materials and other products in the U.S.
Kureha KPS, Inc. (merged with Kureha Corporation of America on January 1, 2006)	Manufactures and sells PPS resin and compounds in the U.S. Has a controlling stake in Fortron Industries LLC.
Kakogawa Plastics Co., Ltd.	Manufactures and sells metalized films.
Resinous Kasei Co., Ltd.	A subsidiary of Nishiki Trading Co., Ltd., the company manufactures and sells advanced materials.
Kureha Chemicals Shanghai Co., Ltd.	Manufactures and sells carbon products. Purchases raw materials from and sells products to Kureha.
Specialty Chemicals	
Kureha Corporation	Manufactures and sells inorganic chemicals, organic chemicals, pharmaceuticals, pharmaceutical for animals, and 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.
Specialty Plastics	
Kureha Corporation	Manufactures and sells food packaging materials, household products, and synthetic fiber products and sells the raw materials used to make these products.
Kureha Plastics Co., Ltd.	Manufactures and sells food packaging materials. Purchases raw materials from and sells products to Kureha.
Kureha Gosen Co., Ltd.	Manufactures and sells synthetic fibers. Purchases raw materials from and sells some products to Kureha.
Kureha Extech Co., Ltd.	Manufactures and sells synthetic plastic products. Sells some products to Kureha.
Krehalon Industrie B.V.	Manufactures and sells food packaging materials in the Netherlands. Receives raw materials from Kureha.
Kureha Europe B.V.	Holds controlling stakes in Krehalon Industrie B.V. and three subsidiaries engaged in making food packaging materials.
Other Operations	
Kureha Ecology Management Co., Ltd. (renamed from Kureha Kankyo Co., Ltd., on April 1, 2006)	Undertakes industrial waste and medical waste processing.
Kureha Special Laboratory Co., Ltd.	Analyzes, measures, and performs environmental assessments for various substances. Performs tests for some Kureha products.
Kureha Engineering Group (Kureha Engineering Co., Ltd., and one subsidiary) (Kureha Engineering Co., Ltd., was renamed from Kureha Techno Eng Co., Ltd., on October 1, 2005)	Undertakes plant engineering and management operations, safety-related operations, and environmental protection services.
Kureha Construction Group (Kureha Construction Co., Ltd., and three subsidiaries)	Undertakes engineering and construction work.
Kureha Unyu Group (Kureha Unyu Co., Ltd., and six subsidiaries) (Kureha Unyu Co., Ltd., was renamed from Kureha Transport Co., Ltd., on April 1, 2006)	Undertakes transportation and storage operations.
Nishiki Trading Co., Ltd.	Sells and supplies advanced materials, specialty chemicals, specialty plastics, and other products.
Kureha Service Group (Kureha Service Co., Ltd., and one subsidiary) (Kureha Service Co., Ltd., was renamed from Kureha Kosan Co., Ltd., on October 1, 2005)	Conducts real estate transactions, leasing and management, and other services. Performs certain operations for Kureha.
Kureha Staff Service Co., Ltd.	Provides staff and undertakes distribution work.

Corporate Data

Board of Directors and Auditors

(As of June 28, 2006)

Directors		Auditors
Chairman Hiroshi Amano	Senior Vice President Tsuneo Okamoto	Corporate Auditor Yasumasa Hirano
President & Chief Executive Officer Hiroshi Tanaka	Vice President Naoya Suzuki	Corporate Auditor Ryuichi Takaoka
Senior Executive Vice President Hisatsugu Kaji	Vice President Takao Iwasaki	Corporate Auditor Junichi Kosugi
Senior Executive Vice President Masaki Uchiyama	Vice President Toshio Mizuno	Corporate Auditor Kazutoshi Kimura
Executive Vice President Fujitoshi Tomizawa	Vice President Keikichi Munakata	
Senior Vice President Masahiko Fujii	Vice President Yutaka Kobayashi	
Senior Vice President Koji Hagino	Vice President Tadashi Sagawa	
Senior Vice President Masatomo Shigeta	Vice President Tamotsu Miyamori	

Head Office 3-3-2, Nihonbashi-Hamacho, Chuo-ku, Tokyo 103-8552, Japan
Tel: 81-3-3249-4666 Fax: 81-3-3249-4744

Date of Establishment June 21, 1944

Number of Employees 3,746 (consolidated), 1,349 (non-consolidated)
(As of March 31, 2006)

Paid-in Capital ¥12,460 million
(As of March 31, 2006)

Number of Shares of Common Stock Issued 190,533,909 shares
(As of March 31, 2006)

Number of Shareholders 19,309
(As of March 31, 2006)

Stock Exchange Listings Tokyo Stock Exchange, Osaka Securities Exchange

Transfer Agent Mizuho Trust & Banking Co., Ltd.

Certified Public Accountants Nihombashi Corporation

