



Kureha Corporation Reports Full-Year Results

FY2006 consolidated operating income forecast to grow by 24%

Tokyo, Japan – May 10, 2006 – Leading specialty chemicals and plastic products company, Kureha Corporation (“Kureha”), posted record sales of ¥135.6 billion in the fiscal year ended March 31, 2006, up from ¥130.4 billion in the previous year. The company recorded consolidated recurring income of ¥9.1 billion for the fiscal year, which was slightly short of the company’s forecast of ¥10.0 billion announced in February 2006. However, it posted a 15.8% increase in consolidated net income of ¥5.17 billion over the same period. Consolidated return on equity (ROE) rose to 5.4%, up from 4.8%, and the company announced an increase in the annual dividend payment from ¥8 to ¥9 per share.

Kureha President and Chief Executive Officer, Hiroshi Tanaka, said, “We are pleased to report a year-on-year growth in sales. This is the company’s first sales increase in five years and reflects our efforts under our previous mid-term business plan to refocus our business portfolio and withdraw from unprofitable non-core businesses. Though we fell marginally short of our profit forecasts, we are confident that the new corporate direction and increased focus on key growth areas will have an increasingly positive impact on financial results in the years to come.”

Summary of Consolidated Full-year Results

(¥ million, except where stated)

	March 2006	March 2005	Change (%)
Sales	135,627	130,400	4.0
Operating income	9,708	10,255	-5.3
Recurring income	9,185	9,705	-5.4
Net income	5,171	4,467	15.8
Earnings per share (EPS) (¥)	27.61	23.41	17.9

The consolidated sales figure of ¥135.6 billion for the fiscal year ended March 2006 represents a 4.0% year-on-year increase. Following Kureha’s strategic decision to withdraw from the OEM production of *polyvinyl chloride* (PVC) in the fiscal year ended March 2004, the company’s consolidated sales figures had, until now, experienced a period of decline.

The consolidated operating income of ¥9.7 billion for the fiscal year ended March 2006 represents 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 agrichemical R&D expenditure and an increase in depreciation costs following aggressive capital expenditure on strategic business areas.

Consolidated recurring income also declined, falling by 5.4% to ¥9.1 billion. At the parent company level, recurring income fell by approximately ¥300 million, while consolidated subsidiaries recorded profit increases of approximately ¥150 million. However, a significant cancellation of ¥370 million was caused by a high level of internal transactions was one of the key factors behind recurring income failing to meet expectations for the period.

However, Kureha’s move to a new corporate headquarters in October 2005 meant that the sale of the old headquarters building and land resulted in higher than anticipated profits, which were recorded as an extraordinary item. This led to the company posting consolidated net income of ¥5.17 billion for the fiscal year ended March 2006, up from ¥4.46 billion in the previous year.

As is evident from the balance sheet, Kureha issued ¥5.0 billion in corporate bonds in February 2006, just before the rise in interest rates. This move secured funds for both future investments in R&D and for increasing the production capacity of strategic products.

March 2007 Forecast

(¥ million, except where stated)

	March 2007 (Forecasts)	March 2006	Change (%)
Sales	142,000	135,627	4.7
Operating income	12,000	9,708	23.6
Recurring income	11,500	9,185	25.2
Net income	5,700	5,171	10.5
Earnings per share (EPS) (¥)	31.05	27.61	12.5

Kureha forecasts consolidated operating income of ¥12.0 billion for the period ending March 31, 2007, a year-on-year rise of approximately 24%, on ¥142.0 billion sales. This projected growth is based on the prospect of a full-year contribution from *polyphenylene sulphide (PPS)*, the super engineering plastics material, at increased production levels following the boost in production capacity in both Japan and the U.S., and input from other high value-added products in growth areas. Sales volumes and sales unit prices are expected to be major contributors to increased profitability, though the company does expect some increases in its fixed cost base.

Consolidated Operating Highlights by Division

(¥ million, except where stated)

Division		March 2006	March 2005	Change (%)
Advanced materials ¹	Sales	31,578	25,158	26
	Operating income	3,923	3,192	23
Specialty chemicals	Sales	31,294	31,000	1
	Operating income	3,493	4,050	-14
Specialty plastics ¹	Sales	45,261	50,729	-11
	Operating income	607	872	-30
Other operations	Sales	27,492	23,512	17
	Operating income	2,100	2,156	-3
	Operating income Cancellations	-415	-16	
Total	Sales	135,627	130,400	4.0
	Operating income	9,708	10,255	-5.3

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, which aims to grow sales by a further 26% to ¥14.8 billion in the fiscal year ending March 2007.

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

¹ As of fiscal year 2005, the subsidiary company Kakogawa Plastics Co., Ltd., was transferred from the Specialty Plastics Division to the Advanced Materials Division.

PPS resin, the super engineering plastics material with a diverse range of applications including in car engines and electronic parts due to its tough and heat-resistant properties, ran at full capacity throughout the year. Kureha, together with its US joint venture, Fortron Industries, 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. In the U.S., demand continues to grow at over 10% per year, a trend that is expected to continue. 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 fiscal 2007. It is predicted that global market growth will continue to outpace production capacity over the next few years.

2) PVDF resin (*KF Polymer*) to generate stable revenue

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

3) *Krefine* sales record strong increase

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

Sales of carbon products increased, but expected to slow

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 the surging oil prices.

Demand for bead-shaped activated carbon, used in applications such as air deodorization, gas absorption and water purification, has begun to slow due to inventory accumulation at client companies. As a result, Kureha anticipates sales of carbon products to decline to ¥6.6 billion for the fiscal year ending March 2007.

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, however, is expected to impact upon two of Kureha key pharmaceutical products; *Kremezin* (reduced by 12.5%), a therapeutic agent for chronic renal failure, and *Krestin* (reduced by 6.6%), a drug for cancer immunotherapy. Kureha will strengthen its sales efforts for *Kremezin*, 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 and China, and therefore expects exports to grow. Kureha is also targeting sales of *Kremezin* in the USA from around 2010, with the product now set to enter

phase III clinical trials there. The current trend is expected to continue for the short term, however, and as a result Kureha expects sales of pharmaceutical products to fall to ¥9.1 billion for the fiscal year ending in March 2007, partly due to the continuing rise in R&D expenditure.

Agrochemicals remain stable

Overall sales of agrochemicals remained flat at ¥7.3 billion for the fiscal year ended March 2006, due to high levels of investment in developing overseas business. However, sales of *Metconazole*, a fungicide for cereal crops, continued to grow by some 20% and the product is now marketed in over 30 countries. Long-term growth prospects for *Metconazole* are also strong as it is expected to receive approval to be marketed in Japan on wheat and citrus fruits and in Taiwan on mangos, all by March 2007. Kureha is continuing to review its product portfolio to focus on core products and as a result, forecasts sales of agrochemical products of approximately ¥7.1 billion for the fiscal year ending March 2007.

Industrial Chemicals price rises 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, but are forecast to return to around ¥9.4 billion in the year ending March 2007. During the fiscal year ended March 2006 Kureha successfully transferred the impact of the rise in oil prices onto product prices, and will continue to move to improve the profitability of industrial chemicals.

Specialty Plastics Division

Major product areas – food packaging materials, household products, 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 due to optimization of the retail price for the household wrapping film, *New Krewrap*, and product renewals in three-consecutive-years. Kureha aims to boost sales of other product lines such as the *Kichinto-San* series, which includes food containers, cooking paper and garbage bags for use in kitchen sinks. The company forecasts sales rising to ¥20.0 billion in the fiscal year ended March 2007 and also anticipates profitability rebounding strongly on the back of improved yield, a lower cost base and an increase in unit prices.

Food Packaging Materials

Overall sales of food packaging materials declined to ¥10.4 billion in the fiscal year ended March 2006, down from ¥11.8 billion during the previous year, mainly due to the slower-than-expected progress in sales development of *Besela*. Sales are expected to flatten at ¥10.5 billion in the fiscal year ending March 2007.

1) China joint venture for *Krehalon*

In October 2005, Kureha completed the construction of a new compound plant in Nantong, China for *Krehalon*, which is used in the packaging of foods that have been pre-heated and sterilized; such as retort sausages, via a joint venture with a local manufacturer and a Japanese trading company. Demand for *Krehalon* in China remains strong with exports from Japan required to cater for the current supply shortfall. This joint venture will become an equity-method consolidated subsidiary from the fiscal year ending March 2007, and will be expected to contribute to earnings.

2) Strong demand expected in Europe for *Besela*

Besela, Kureha's new high barrier lamination film that has been developed to replace cans, has still 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 U.S. Kureha firmly believes

in Besela's long-term prospects, especially in light of the changing social trends towards the environment and an expected acceleration in the transition to soft packaging.

Other Operations Division

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

Sales to grow but profitability to remain constant

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. However, the trend for low profitability in such business areas remained unchanged. Environmental businesses also 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 supporting the program and acting as one of the project's leaders.

Capex, Depreciation and R&D

Consolidated capital expenditure, depreciation and R&D

	March 2005	March 2006	March 2007 (forecast)
Capital expenditure	12.0	12.0	13.0
Depreciation	7.6	7.9	8.9
R&D	6.5	7.4	7.0

(¥ billion)

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 upgrading the Iwaki Factory power plant. Looking towards March 2007, capital expenditure is estimated to remain relatively constant while depreciation costs are expected to increase slightly.

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. Kureha expects to invest a total of ¥7.0 billion in R&D in the fiscal year ending March 2007.

Promising New Products

In addition to focusing on the key growth areas already highlighted, 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 remains a priority for the company. Polyethylene terephthalate (PET) bottles that contain a PGA layer have an extended shelf life, meaning the product has the potential to revolutionize the soft drinks industry. Kureha intends to conduct test marketing of PGA in stages this summer and is working closely alongside a major soft drinks manufacturer for PGA to be used in the industry throughout the world.

Solar control material

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



Anti-pancreatic cancer antibody agent

Kureha is currently searching for an antibody that reacts to molecules exclusive to pancreatic cancer, which is quite a rare cancer with no specific drug currently on the market. A decision is yet to be made on whether or not to proceed to the next-stage of development within the current fiscal year.

For further information, please contact:

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Notes to Editors

About Kureha Corporation

Kureha Corporation 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 therapeutic agent for chronic renal failure, *Kremezin*, and agrochemicals) and specialty plastics (food packaging products, including *New Krewrap*, and other household goods).

Kureha's main factory is located in Iwaki, Fukushima Prefecture, Japan. In addition, the company has overseas production facilities in China and in the United States. More information is found at <http://www.kureha.co.jp/>

<Appendix>

Condensed Consolidated Balance Sheets

For the fiscal years ended 31 March 2006 and 2005

¥ millions

	31 March 2006	31 March 2005
Assets		
Current assets	66,715	61,525
Cash and cash equivalents	6,542	6,001
Fixed assets	118,463	111,201
Property, plant and equipment	70,882	69,289
Intangible assets	1,774	2,091
Investments and other assets	45,807	39,820
Total Assets	185,203	172,727
Liabilities and Shareholders' Equity		
Current liabilities	57,203	57,713
Short-term borrowings	19,309	25,209
Fixed liabilities	28,411	21,165
Long-term borrowings	11,074	9,651
Total Liabilities	85,615	78,879
Minority Interest	1,229	785
Shareholders' Equity	98,357	93,062
Total Liabilities, Minority Interests and Shareholders' Equity	185,203	172,727

Condensed consolidated statement of income

As of 31 March 2006 and 2005

¥ millions

	March 2006	March 2005
Sales	135,627	130,400
Cost of goods sold	96,188	91,987
Selling, general and administrative expenses	29,730	28,158
Operating income	9,708	10,255
Non-operating income	1,138	771
Non-operating expenses	1,661	1,320
Recurring income	9,185	9,705
Extraordinary gains	2,885	1,621
Extraordinary losses	4,253	3,276
Income before income taxes	7,817	8,050
Taxes and minority interest adjustments	4,477	3,254
Net income	5,171	4,467