

KUREHA CHEMICAL

Business Report 2004

Year ended March 31, 2004



Profile

Since 1944, Kureha Chemical Industry Co., Ltd. has amassed an array of distinctive technologies as a research and development-oriented enterprise. With “Originality in the development of technology” as the conceptual core of its corporate philosophy, R&D spending at Kureha consistently ranks among the highest in the industry. The result of these expenditures has been the development of a unique lineup of products: polyvinylidene chloride-based products represented by Krewrap and others, pharmaceuticals, and Fortron KPS. These original products have given Kureha a distinctive presence in the marketplace.

Recognizing that in an environment characterized by deflation and a glut in the supply of commodities it is important to conduct business operations more closely aligned to market needs, Kureha focuses on global and specialty fields. Doing so heightens the company’s competitiveness while simultaneously enabling it to provide customers with higher added value.

CONSOLIDATED FINANCIAL HIGHLIGHTS

KUREHA CHEMICAL INDUSTRY CO., LTD.
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
For the year:			
Net sales	¥135,020	¥137,647	\$1,273,776
Operating income	9,463	8,289	89,277
Net income	4,183	1,453	39,463
Year-end:			
Total assets	¥173,295	¥173,129	\$1,634,867
Shareholders’ equity	91,774	85,866	865,802
Amounts per share:			
	Yen		U.S. dollars
Net income	¥ 21.45	¥ 7.13	\$ 0.20
Shareholders’ equity	483.12	442.40	4.56

MESSAGE FROM THE PRESIDENT

Kureha Chemical marked the 60th anniversary of its founding on June 21, 2004. At this milestone in Kureha's history, I would personally like to express my gratitude to shareholders and other stakeholders for their support and cooperation throughout the years.

On a macroeconomic level, the past fiscal year was characterized by a worldwide economic recovery, driven most notably by a rebound in the U.S. and economic growth in China. Other positive signs were the return of greater stability to the financial system, a stock market rally and signs of an upturn in personal consumption in Japan.

In this climate, Kureha concentrated on the key fields of plastics, advanced materials and pharmaceuticals/agrochemicals in line with our Medium-Term Corporate Strategy 2005, which aims to transform Kureha into a highly profitable company. We also took steps to expand sales of specialty products in niche markets worldwide. And based on our "select and concentrate" approach, we sold our business for plastic additives, which were becoming commodity products; our unprofitable PVC business; and other businesses. These actions yielded tangible results.

While these divestitures significantly affected sales, we held the overall decline in consolidated net sales to 1.9% by increasing sales in other businesses. Consolidated net sales were ¥135,020 million. Operating income rose 14.2% to ¥9,463 million, and recurring income increased 11.3% to ¥8,320 million, representing steady earnings growth over the previous fiscal year. Net income jumped 187.8% to ¥4,183 million.

The economic forecast calls for a sustainable, albeit moderate, economic recovery. In this environment, Kureha will focus on building an even more robust corporate base, implementing measures to strengthen and expand existing businesses and to quickly launch new businesses. We are determined to steadily deliver results. A basic premise in achieving our goals is that the Kureha Group wins the recognition of society. That's why we are working to upgrade corporate governance, ensure compliance in its many forms and increase management transparency. We are also actively engaged in environmental protection, safety management and other Responsible Care activities.

As we work to achieve our goals, we ask for your continued support and encouragement.



Hiroshi Tanaka
President & Chief Executive Officer

July 2004

A handwritten signature in black ink, appearing to read "H. Tanaka". The signature is fluid and cursive.

Hiroshi Tanaka
President & Chief Executive Officer

BUSINESS SEGMENT

STRATEGY

ADVANCED MATERIALS

Kureha plans to systematically ramp up production capacity for the engineering plastic Fortron KPS (PPS) to meet expanding demand. The company will also increase its production capacity of polyvinylidene fluoride (PVDF) plastic to respond to increasing demand. In addition to strong demand for existing applications, there is growing demand for new applications for PVDF such as in membrane filters for water treatment. And growth is expected to continue for PVDF for use in electrode binders for lithium-ion batteries, where Kureha commands an overwhelming market share, in line with the expanding supply of mobile phones and other IT devices and digital home appliances. In electronics packaging, Kureha plans to step up sales in the U.S., focusing on leading IT companies, mainly with Krefine, an ESD (electro static discharge) controlled compound with many distinctive properties. At the same time, it will develop business further in the Asian market, where foundries are concentrated.

SPECIALTY PRODUCTS

In the pharmaceuticals field, Kureha faces the dual challenges in Japan of NHI drug price reductions and competition from generics following the November 2003 expiration of the patent on Kremezin, a treatment for chronic renal failure. Against this backdrop, Kureha will pursue a lifecycle management strategy to maximize the value of its pharmaceutical portfolio. In agrochemicals, Kureha plans to expand regions and applicable crops for two types of fungicide, Metconazole, for wheat and oil seed rapes, and Ipconazole, for rice seed disinfectant. Kureha intends to develop both products, making investments following a long-term business strategy.

PLASTICS

In the plastics business, since developing polyvinylidene chloride resin, Kureha has maintained a leading presence in the food packaging market. In household-use products, the company is using an improved product line released in March 2004 to conduct proposal-driven sales as a strategy for improving the price of Krewrap household wrapping film. With respect to Krehalon compound, a polyvinylidene chloride resin for the Chinese market, Kureha has plans in hand to commence commercial operation at its Nantong Plant in China in October 2005, which is expected to give the company a pricing advantage. Strategic new products with long-term potential are high-barrier packaging films Besela (acrylic-coat film) and PGA (polyglycolic acid resin).

OTHER OPERATIONS

Other operations consists mainly of transportation and warehousing, the environment-related business, construction, trading and other businesses. Kureha Transport Co., Ltd., which undertakes transportation and storage operations, launched a logistics center in April 2004, aiming to enhance services for customers and lower costs by centralizing logistics management. Kureha Environmental Engineering Co., Ltd., Kureha Techno Eng Co., Ltd. and Kureha Special Laboratory Co., Ltd. are engaged primarily or partly in the environment-related business. Kureha Environmental Engineering is concentrating on the processing of medical waste with one of Japan's largest incineration capabilities.

 **PPS**

Together, Kureha and its U.S. joint venture have one of the world's largest production capabilities of PPS in a market that is growing at more than 10% a year. Production is being increased in line with rising demand for applications related to automobiles as well as electrical and electronic components. Kureha currently has an annual domestic output capacity of 6,000 tons but plans to raise this to 7,500 tons by May 2005 and to 10,000 tons thereafter.

 **Kremezin**

Clinical trials are proceeding smoothly with the view to developing a Kremezin business in the U.S. Phase II trials were completed in March this year and Phase III trials will start after a meeting with the FDA. If Phase III goes smoothly, Kureha is eyeing a market launch some time in 2009. There are an estimated 300,000 people afflicted by chronic renal failure in Japan, 100,000 in South Korea and 800,000 in the U.S., meaning that Kremezin has a large target market in both Japan and overseas. Kremezin obtained regulatory approval in South Korea in March and should go on sale there in the fall. Preparations have begun to obtain regulatory approval in China. In Japan, Kureha is working hard to provide evidence of Kremezin's rapid efficacy as a treatment for chronic renal failure. Plans also call for the addition of a new indication as a treatment for Crohn's disease.

 **PGA**

Priority is being given to the commercialization of PGA for use in carbonated beverage containers. PET bottles that contain a PGA layer have an extended shelf life and so have the potential to revolutionize the soft drink industry. Work is continuing to develop products that will meet demands from customers for PET bottles that can preserve their properties as a barrier to air for anywhere from five months to one year. Full-scale production is expected to start in 2006 in line with original plans.

 **Besela**

Kureha has been undertaking activities in the U.S. and Europe markets to convince food processors of the safety advantages of Besela, which now complies with FDA and European safety regulations. With dramatic growth expected in the market for retort-pouch food, food manufacturers are showing strong interest in Besela as a replacement for cans and bottles.

 **Medical Waste Processing**

Medical waste processing is extremely difficult, requiring sophisticated technologies. Although medical waste processing is a niche market in the overall scheme of industrial waste, this profile and requirement makes it a high-value-added business. Using incinerators developed with their proprietary technologies, Kureha Environmental Engineering provides one of Japan's largest incineration services to medical institutions across the country. The company has plans to ramp up its current processing capacity from 1,200 tons/month to 1,600 tons/month in the fiscal year ending March 31, 2005. It already has a high market share in southern Tohoku and northern Kanto and is planning a full-scale expansion drive into the Tokyo area, where regulations are even more stringent. Kureha Environmental Engineering has already started business in this area following its selection as a model service provider by some physicians associations.

CONSOLIDATED FIVE-YEAR SUMMARY

KUREHA CHEMICAL INDUSTRY CO., LTD.
Years ended March 31, 2000, 2001, 2002, 2003 and 2004

	Millions of yen				
	2000	2001	2002	2003	2004
For the year:					
Net sales	¥150,988	¥145,311	¥140,438	¥137,647	¥135,020
Advanced Materials	22,717	24,099	25,144	31,751	24,912
Specialty Products	29,054	28,981	28,259	31,102	32,823
Plastics	50,258	50,273	47,344	50,950	51,139
Other Operations	48,959	41,956	39,689	23,843	26,144
Operating income	5,358	6,272	6,290	8,289	9,463
Advanced materials	1,268	1,202	1,416	4,035	2,815
Specialty products	(281)	1,018	1,466	1,459	3,291
Plastics	2,849	3,248	2,597	1,778	1,285
Other Operations	1,152	765	925	1,239	2,175
Elimination	370	38	(116)	(222)	(104)
Net income	2,528	1,704	2,034	1,453	4,183
Capital expenditures	8,804	7,595	8,434	9,943	8,653
Depreciation	8,377	8,793	8,516	8,790	7,929
R&D expenditures	5,642	5,730	6,097	6,295	6,367
Year-end:					
Total assets	¥195,277	¥191,154	¥189,188	¥173,129	¥173,295
Shareholders' equity	87,920	85,639	88,817	85,866	91,774
Interest-bearing debt	66,882	62,316	58,323	47,199	34,358
Number of employees	4,622	4,419	4,154	4,012	3,866
Amounts per share:					
	Yen				
Net income	¥ 11.48	¥ 7.79	¥ 9.76	¥ 7.13	¥ 21.45
Shareholders' equity	409.95	411.69	446.72	442.40	483.12
Cash dividends	5.00	6.00	6.00	6.00	8.00
Ratio:					
Operating income margin (%)	3.5	4.3	4.5	6.0	7.0
Equity ratio (%)	45.0	44.8	46.9	49.6	53.0
Return on equity (%)	2.9	2.0	2.3	1.7	4.7

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 Products and Plastics.

Background

During the year ended March 31, 2004, the Japanese economy moved onto a recovery footing, led by exports and private-sector capital expenditure on the back of a U.S. economic uptick, growth in China and other factors. Other positive signs were the return of greater stability to the financial system, a stock market rally and signs of a rebound in personal consumption. However, with more time required for structural reforms, the economy failed to plot a growth trajectory based on wholesale growth in internal demand.

In the chemical industry, crude oil prices remained high as oil exporting countries implemented measures to hold prices. This, combined with burgeoning oil consumption in China, led to a sudden rise in the price of fuel. Amid these conditions, a growing imbalance emerged between products where the fuel price rise could be passed on to products and those where this was not as easy. The benefits of a stronger yen from midway through the fiscal year were cancelled out by the price of fuel and a spike in seaborne cargo rates, leading to a one-way decline in the profitability of export products.

Kureha responded to this economic climate by aiming to transform into a highly profitable company in line with its Medium-Term Corporate Strategy 2005, following a review during the fiscal year. Kureha concentrated on the key fields of plastics, advanced materials and pharmaceuticals/agrochemicals. It also took steps to expand its specialty products in niche markets worldwide. Furthermore, Kureha saw the results of the sale of commodity chemicals businesses that it decided to exit in the previous year under its "select and concentrate" approach. This includes PVC and plastic additives. As part of the same strategy, in the fiscal year ended March 31, 2004, Kureha stopped OEM production of PVC and withdrew from the artificial and natural turf businesses. Another move was a sweeping review of logistics-related inventory, cost structures and organizations under a project to optimize logistics.

As a result of the foregoing and other factors, consolidated net sales declined ¥2,627 million, or 1.9%, to ¥135,020 million. However, operating income rose ¥1,173 million, or 14.2%, to ¥9,463 million, and recurring income increased ¥847 million, or 11.3%, to ¥8,320 million, both representing steady earnings growth over the previous fiscal year.

Net income jumped ¥2,729 million, or 187.8%, to ¥4,183 million over the previous fiscal year, when a large charge was recorded on the revaluation of shares. The bottom-line growth came despite the booking of restructuring charges as an extraordinary loss, which related to cessation of production and logistics reforms.

Results by Segment

Advanced Materials

Net sales in the Advanced Materials segment were ¥24,912 million, 21.5% down year on year, and operating income declined 30.2% to ¥2,815 million.

The Advanced Materials segment includes products such as polyphenylene sulphide (PPS) plastic and polyvinylidene fluoride (PVDF) plastic. 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 PVDF plastics, where higher demand for use in lithium-ion battery binders and industrial materials kept capacity utilization high. The result was growth in both sales and operating income over the previous fiscal year.

On the other hand, optical materials saw sales and operating income slip year on year amid stiffer price-based competition in optical filters used in camera-equipped mobile phones.

Bead-shaped activated carbon in the carbon products category experienced strong export growth, while carbon fiber was buoyed by an upturn in demand for heat-resistant materials for heat-treating furnaces. These factors drove sales and operating income higher in the carbon products category.

Accordingly, excluding the effect of the aforementioned divestiture of the plastic additives business, sales and operating income of existing products increased from the previous fiscal year.

Regarding plastic additives, Kureha and its Group companies transferred operations in January 2003 and shifted to OEM production in Japan. Overseas, the company is transferring all operations. These actions resulted in sharp drops in both sales and earnings from the previous year, when gains were recorded on the transfer of plastic additives operations.

Specialty Products

Net sales in the Specialty Products segment increased 5.5% to ¥32,823 million, and operating income climbed 125.6% to ¥3,291 million.

In the industrial chemicals field, sales and earnings rose in spite of increases in the prices of raw materials such as benzene. This result reflects the fact that the company was able to pass the higher raw materials prices on in the prices of its products and increased sales of para-dichlorobenzene and other chemicals.

In the pharmaceuticals/agrochemicals fields, sales and operating income also increased. Kremezin, a treatment for chronic renal failure, continues to record strong sales. Also contributing to the sales and earnings growth were a change in formulation of Krestin, a drug for cancer immunotherapy, and strong exports of Metconazole, a fungicide for cereal crops.

In PVC plastics, while sales declined year on year due to the transfer of operations from January 2003 and the outsourcing of manufacturing operations in this area, profitability improved considerably. OEM production was stopped in March 2004 due to the smooth progress that has been made in transferring PVC plastics operations to the transferee.

Plastics

Sales in the Plastics segment edged up 0.4% to ¥51,139 million, but operating income decreased 27.7% to ¥1,285 million.

In the foodservice-use food packaging materials field in Japan, PVDC film, high-barrier multilayer film, Pairflex film, and other films for this application as well as multilayer bottles and other existing products experienced weak demand. And Besela, a new high-barrier laminated material that Kureha has been promoting, still needs more time to penetrate the market as a new brand and establish its presence. Together, these factors brought down sales year on year in the food packaging materials field. Furthermore, operating income declined due to higher investments in R&D.

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

In the consumer products field, New Krewrap, a household wrapping film, started to show the results of actions taken to correct the market price. A revamped New Krewrap was brought to market in March 2004. While shipments of Seaguar fishing line were stunted by actions to streamline inventories, sales and operating income in the consumer products field rose as a whole year on year.

With regard to exports, while sales increased as Kureha focused its efforts on responding to intense competition in PVDC compounds in China, profit margins failed to improve due to the effect of the yen's appreciation and slow progress made in switching from competing products at a joint venture.

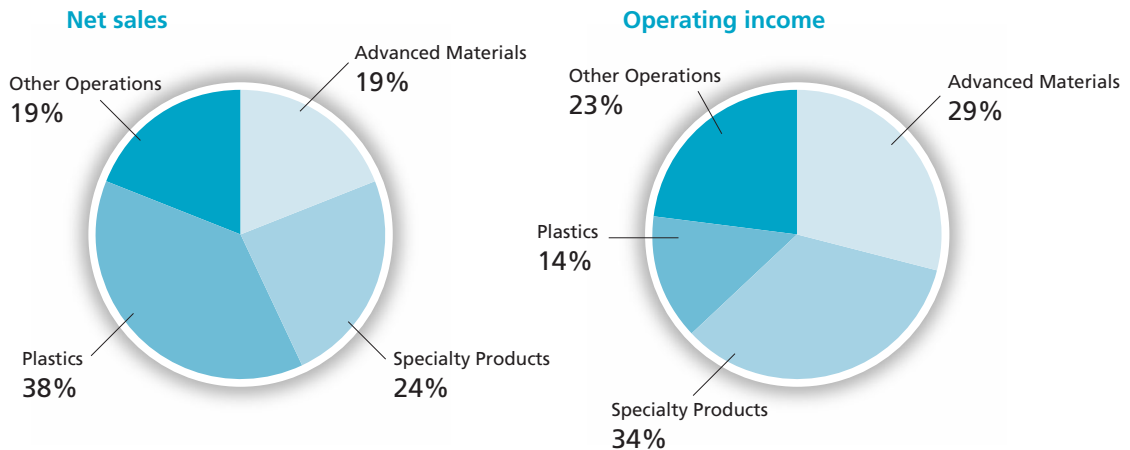
In the latter half of the fiscal year, Kureha withdrew from its unprofitable artificial turf and natural turf businesses.

Other Operations

Sales in this segment increased 9.6% to ¥26,144 million and operating income climbed 75.5% to ¥2,175 million.

In the construction business, sales and operating income increased due to the completion of major projects and initiatives at lower costs.

Sales and operating income also increased in the environment-related business on higher orders for polluted soil restoration and medical waste processing.



In the transportation and warehousing field, sales and operating income increased, the result of successful efforts to capture new external clients, which made up for lower internal sales in line with the company's exit from this business.

Financial Position

The balance of cash and cash equivalents at March 31, 2004 remained at ¥7,584 million, a ¥163 million increase from a year ago.

Net cash provided by operating activities increased ¥4,023 million to ¥19,756 million. The increase in assets and liabilities of ¥7,182 million contributed to the increase. This was the result of actions to recover accounts receivable quicker and reduce inventories, initiatives designed to increase the return on assets.

Net cash used in investing activities was ¥3,611 million. Cash of ¥8,564 million was used for the acquisition of fixed assets, including renewal work on the company's own power generation facility, and increases in capital investments used cash of ¥1,688 million, such as for the establishment of a joint venture to expand the Krehalon resin and carbon fiber businesses in China. Cash of ¥1,491 million was provided by the sale of fixed assets, including idle company dormitories and housing in line with a review of Kureha's employee welfare program. Additionally, cash of ¥4,058 million was generated from the acquisition of marketable and investment securities as the company unwound cross-shareholdings.

Net cash used in financing activities was ¥15,972 million. The company used ¥1,966 million in cash to buy back its own shares, and ¥1,163 million for the payment of dividends. The company also used ¥6,348 million in cash to repay long-term loans and ¥8,736 million for the repayment of short-term borrowings as it implemented a policy of keeping cash and cash equivalents at around the same level as the previous fiscal year-end.

CONSOLIDATED BALANCE SHEETS

KUREHA CHEMICAL INDUSTRY CO., LTD.
March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Current assets			
Cash and cash equivalents	¥ 7,584	¥ 7,421	\$ 71,553
Accounts and notes receivable — trade	35,439	40,247	334,335
Short-term investment	62	506	589
Inventories	18,505	20,352	174,579
Deferred income taxes	1,570	869	14,814
Other current assets	2,832	3,422	26,718
Allowance for doubtful accounts	(377)	(368)	(3,557)
Total current assets	65,617	72,451	619,031
Fixed assets			
Property, plant and equipment			
Buildings	25,028	26,828	236,113
Machinery and equipment	20,560	22,053	193,967
Furniture and fixtures	2,020	2,130	19,064
Land	13,314	13,582	125,606
Construction in progress	5,644	2,597	53,251
Total property, plant and equipment	66,568	67,191	628,001
Intangible assets	2,279	2,486	21,505
Investments and other assets:			
Investment securities	28,995	22,348	273,543
Amount invested	4,820	3,134	45,477
Long-term receivables	2,030	2,893	19,153
Deferred income taxes	1,241	1,253	11,712
Other investments	2,095	1,743	19,765
Allowance for doubtful accounts	(351)	(373)	(3,320)
Total investments and other assets:	38,831	30,999	366,330
Total fixed assets	107,678	100,678	1,015,836
Total assets	¥173,295	¥173,129	\$1,634,867

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

KUREHA CHEMICAL INDUSTRY CO., LTD.
Years ended March 31, 2004 and 2003

1. Basis of financial statements

Kureha Corporation (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 ¥106=U.S.\$1, the approximate exchange rate on March 31, 2004. Included solely for the convenience of readers, the

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Currents liabilities:			
Accounts and notes payable — trade	¥ 18,899	¥ 18,842	\$ 178,295
Short-term borrowings	24,405	33,648	230,236
Accrued income taxes	2,878	525	27,156
Accrued consumption taxes	732	585	6,913
Accrued expenses	3,596	3,849	33,928
Accrued bonuses	1,300	1,368	12,266
Other current liabilities	8,473	7,382	79,942
Total current liabilities	60,286	66,202	568,736
Long-term liabilities:			
Long-term borrowings	9,953	13,551	93,902
Accrued pension and severance costs	2,694	2,670	25,425
Reserve for retirement benefits for executives	637	608	6,011
Deferred income taxes	5,546	2,017	52,326
Other long-term liabilities	706	823	6,665
Total long-term liabilities	19,538	19,670	184,329
Total liabilities	79,824	85,873	753,065
Minority interests	1,696	1,390	16,000
Shareholders' equity			
Common stock	12,460	12,460	117,549
Additional paid-in capital	9,715	9,710	91,660
Retained earnings	61,656	60,562	581,667
Net unrealized gain on investment securities	8,827	3,771	83,282
Foreign currency translation adjustments	(606)	(409)	(5,721)
Treasury stock	(279)	(228)	(2,635)
Total shareholders' equity	91,774	85,866	865,802
Total liabilities, minority interest and shareholders' equity	¥173,295	¥173,129	\$1,634,867

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 34 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, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Net sales	¥135,020	¥137,647	\$1,273,776
Cost of goods sold	98,241	102,010	926,809
Gross profit	36,778	35,637	346,967
Selling, general and administrative expenses	27,315	27,347	257,690
Operating income	9,463	8,289	89,277
Non-operating income	686	1,180	6,480
Interest and dividend income	390	498	3,685
Equity in earnings of affiliates	5	59	56
Other non-operating income	290	621	2,739
Non-operating expenses	1,829	1,995	17,259
Interest expenses and discounts on notes	596	882	5,627
Other non-operating expenses	1,232	1,113	11,632
Recurring income	8,320	7,473	78,498
Other incomes	2,204	4,290	20,800
Other expenses	3,682	8,288	34,737
Income before income taxes	6,843	3,475	64,561
Provision for income taxes — Current	3,133	1,320	29,559
— Deferred	(638)	452	(6,026)
Minority interests in net income	165	249	1,565
Net income	¥ 4,183	¥ 1,453	\$ 39,463

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

	Millions of yen
	2004
Extraordinary gain	
Gain on sale of investment securities	¥1,389
Gain on elimination/sale of fixed assets	781
Extraordinary loss	
Restructuring expenses	1,518
Loss on elimination/sale of fixed assets	1,153
Retirement benefit expenses	524

CONSOLIDATED STATEMENTS OF CASH FLOWS

KUREHA CHEMICAL INDUSTRY CO., LTD.
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes	¥ 6,843	¥ 3,475	\$ 64,561
Depreciation	7,929	8,790	74,807
Increase (decrease) in reserve	38	(105)	366
Equity in earnings of affiliates	(5)	(59)	(56)
Interest and dividend income	(390)	(498)	(3,685)
Interest expenses	596	882	5,627
Payments for the transfer of intellectual assets	–	(1,659)	–
Gain from the sale of fixed assets	372	807	3,517
Gain on revaluation of marketable and investment securities	31	3,879	294
Gain (loss) on sale of marketable and investment securities	(1,378)	174	(13,001)
Increase in assets and liabilities	7,182	1,879	67,760
Other	(369)	350	(3,483)
Subtotal	20,850	17,915	196,707
Interest and dividend income, received	404	537	3,815
Interest expenses, paid	(609)	(885)	(5,753)
Income taxes, paid	(889)	(1,835)	(8,391)
Net cash provided by operating activities	19,756	15,732	186,378
Cash flows from investing activities:			
Payments for the acquisition of tangible and intangible assets	(8,564)	(11,075)	(80,799)
Proceeds from the acquisition of tangible and intangible assets	1,491	712	14,075
Payments for the acquisition of marketable and investment securities	(20)	(2,559)	(197)
Proceeds from the acquisition of marketable and investment securities	4,058	5,635	38,285
Proceeds from the sale of intellectual assets	–	1,659	–
Increase in capital investments	(1,688)	–	(15,930)
Short-term and long-term loans	(61)	(30)	(584)
Collection of short-term and long-term loans	982	2,768	9,269
Gain (loss) related to other investments	191	(21)	1,810
Net cash used in investing activities	(3,611)	(2,909)	(34,071)
Cash flows from financing activities:			
Proceeds from short-term borrowings	142	97	1,343
Repayment of short-term borrowings	(8,736)	(6,664)	(82,424)
Proceeds from long-term loans	2,102	3,627	19,830
Repayment of long-term loans	(6,348)	(6,192)	(59,889)
Payments for the acquisition of treasury stock	(1,966)	(1,933)	(18,555)
Dividends paid by parent company	(1,163)	(1,191)	(10,974)
Dividends paid to minority interests	(1)	(24)	(19)
Net cash used in financing activities	(15,972)	(12,280)	(150,688)
Effect of exchange rate changes on cash and cash equivalents	(8)	27	(78)
Net increase/decrease in cash and cash equivalents	163	570	1,541
Cash and cash equivalents at beginning of year	7,421	6,851	70,012
Cash and cash equivalents at end of year	¥ 7,584	¥ 7,421	\$ 71,553

MAIN GROUP COMPANIES BY BUSINESS SEGMENT

KUREHA CHEMICAL INDUSTRY CO., LTD.
Years ended March 31, 2004 and 2003

The Kureha Group consists of Kureha Chemical Industry Co., Ltd., 35 subsidiaries (of which 34 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 Products and 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 advanced materials and carbon products.
Kureha Chemicals GmbH	Sells Kureha's advanced materials and other products in Europe.
Kureha 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.

(2) Specialty Products

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) 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.
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 Transport Co., Ltd.	Undertakes transportation and storage operations. Receives some of Kureha's business in these areas.
Kureha Techno Eng Co., Ltd.	Undertakes plant engineering and management operations, and safety-related operations. Receives some of Kureha's business in these areas.
Kureha Construction Co., Ltd.	Undertakes engineering and construction work for various companies. Receives some of Kureha's business in these areas.
Kureha Environmental Engineering Co., Ltd.	Undertakes industrial waste processing and in-plant physical distribution for various companies. Receives some of Kureha's business in these areas.
Nishiki Trading Co., Ltd.	Sells advanced materials, specialty products, plastics and others. Also sells products manufactured by Kureha. Supplies raw materials to Kureha.

CORPORATE DATA

Board of Directors and Auditors

(As of June 29, 2004)

Directors

Chairman

Hiroshi Amano

President & Chief Executive Officer

Hiroshi Tanaka

Senior Executive Vice President

Hisatsugu Kaji

Executive Vice President

Masaki Uchiyama

Senior Vice President

Fujitoshi Tomizawa

Vice President

Yoshiyuki Hiramatsu

Vice President

Tsuneo Okamoto

Vice President

Masahiko Fujii

Vice President

Naoya Suzuki

Vice President

Koji Hagino

Vice President

Kunio Arai

Vice President

Masatomo Shigeta

Vice President

Takao Iwasaki

Vice President

Toshio Mizuno

Vice President

Keikichi Munakata

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, 2004)

3,866 (consolidated)

1,441 (non-consolidated)

Paid-in Capital: (As of March 31, 2004)

¥12,460 million

Number of Shares of Common Stock Issued: (As of March 31, 2004)

190,533,909 shares

Number of Shareholders: (As of March 31, 2004)

23,060

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.