



## Kureha Corporation Reports Interim Results End of Q2 FY2012 (April - Sept. 2011)

**Tokyo, Japan – November 2011** – Leading specialty chemicals and plastic products company, Kureha Corporation (“Kureha”), has reported earnings for the half-year period ended September 30, 2011. On a consolidated basis, both operating income and recurring income increased significantly year-on-year (YoY), rising 40.1% to ¥4,214 million and 55.4% to ¥3,957 million, respectively. Overall sales, however, declined 9.0% YoY to ¥58,852 million and the company registered a net loss of ¥795 million.

Kureha’s internal cost reduction efforts covered the deterioration in top-line revenue resulting from the March 11 earthquake and April 11-12 aftershocks. However, the company had to accrue extraordinary losses related to the disaster (¥3,572 million) and securities’ evaluation losses (¥1,203 million), which led to a net deficit for the quarter. During the interim period, Kureha also recorded ¥700 million extraordinary income from the sale of the Besela business to Toppan Printing in April 2011.

Commenting on the results, Kureha President and Chief Executive Officer, Takao Iwasaki, said, “Our overall business environment has changed dramatically after the Great East Japan Earthquake. Although Kureha made significant progress on several new business initiatives, we were forced to temporarily close the Iwaki Factory for almost six months and devote our activities to repair work. Although a full scale recovery may not emerge until our customers see their own businesses bounce back, we anticipate gradual pick-up in demand for major strategic products, particularly in the Advanced Materials Division including PPS, PVDF and negative electrode materials for lithium batteries. Our efforts to bring a brand new product, PGA (polyglycolic acid) to market will continue and will bear fruit in years to come. With these developments in mind, Kureha will start reviewing its mid-term business plan during the second half of fiscal year 2012 and will reveal a new plan once thorough analysis has been completed.”

### Summary of consolidated half year results

(¥ million, except where stated)

	Sept. 2011	Sept. 2010	Change (%)
Sales	55,852	64,642	-9.0
Operating income	4,214	3,008	40.1
Recurring income	3,957	2,547	55.4
Net income	-795	1,253	-
Earnings per share (EPS) (¥)	-5.68	7.08	-

## Consolidated interim performance

(¥ million, except where stated)

Division		Sept. 20011	Sept. 2010	Change
Advanced materials	Sales	15,890	17,026	-1,135
	Operating income	587	109	478
Specialty chemicals	Sales	14,802	15,892	-1,089
	Operating income	2,870	2,412	458
Specialty plastics	Sales	17,110	20,813	-3,703
	Operating income	672	1,147	-474
Construction related	Sales	4,968	5,027	-58
	Operating income	341	-524	866
Other operations	Sales	6,080	5,883	197
	Operating income	388	22	365
<b>Total</b>	<b>Sales</b>	<b>58,852</b>	<b>64,642</b>	<b>-5,7900</b>
	<b>Operating profit</b>	<b>4,214</b>	<b>3,167</b>	<b>1,205</b>

## Performance by division

### Advanced Materials Division

*Major product areas: advanced plastics (PPS, PVDF), carbon fiber, PGA*

For the half-year period, the Advanced Materials Division's performance exceeded Kureha's latest forecast. Although divisional sales declined by 7% YoY to ¥15.9 billion, the division recorded improved operating profit of ¥587 million.

### **Carbon fibers business to expand**

Sales of carbon products continued to increase from ¥3.3 billion to ¥3.5 billion, due to growth in demand for heat insulation materials used in the manufacturing of solar power equipment, while reduced depreciation expenditure helped to improve profitability. Sales of Kureha's hard carbon, *Carbotron*, for lithium-ion secondary batteries, which are mostly used for Hybrid and Electric Vehicles (HEVs), were flat, partially impacted by the automobile model change cycle.

### **Mixed results for advanced plastics**

Sales of advanced plastics declined slightly from ¥7.5 billion to ¥7.3 billion. Factors contributing to these results included the PPS plant being damaged by March earthquake and aftershocks, and as a result production was halted for a period of months. In addition, the U.S.-based joint venture, Fortron Industries, where production capacity is being increased from 8,600t/year to 15,000t/year, experienced a delay to this process due to local technical issues. However, sales and earnings of PVDF resin, which is used in electrode binders for lithium-ion batteries, improved.

### **PGA applications promising, but current cost pressure remains**

Shipments of PGA for use for PET bottles are starting, while development of a product application in the oil extraction area is also showing promising signs. Kureha originally planned to commence commercial production of PGA from August, but due to technical

issues commercial products are not expected to be shipped until January next year, thus interim operational losses are relating to the product are expected to widen.

**Outlook:** Divisional sales for the full-year are projected to be ¥34.5 billion, up from ¥33.4 billion, with operating income to reach ¥3.0 billion. It is anticipated that major products across the division will record an increase in sales, although operational costs for PGA continue to place pressure on overall divisional profits.

## **Specialty Chemicals Division**

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

Specialty Chemicals Division sales were down 7% YoY to ¥14.8 billion, while divisional operating income increased 20% to ¥2.9 billion.

### **Industrial chemicals hit hard by earthquake**

Sales of industrial chemicals, namely caustic soda, inorganic chemicals and chlorobenzene, declined 17% YoY to ¥4.3 billion largely due to earthquake related production cuts and a slowdown in demand.

### **Sales of agrochemicals strong**

Sales of agrochemicals improved from ¥2.9 billion to ¥3.6 billion, up 24% YoY. During the period, strong export sales recorded by *Metconazole*, a fungicide for oilseed rape and wheat, more than offset the impact of the weakened Euro.

### **Improved profit performance from pharmaceuticals business**

Sales of *Kremezin*, a therapeutic agent for chronic kidney disease, were strong and offset slower sales of *Krestin*, a cancer immunotherapy treatment. Overall sales of pharmaceutical products declined from ¥4.6 billion to ¥4.4 billion. However, the subdivision recorded profits due to recognition of R&D expenditure being delayed.

**Outlook:** Divisional sales are projected to be ¥31.5 billion for the full fiscal year, down from ¥33.6 billion in previous year. The anticipated weakening of performance is due to the fall in demand of industrial chemicals as a result of the earthquake, as well as an expected decline in sales of core pharmaceutical products.

## **Specialty Plastics Division**

*Major product areas – food packaging materials, household products, fishing lines*

Specialty Plastics Division operating income was down 41% YoY to ¥672 million, with sales declining by 18% YoY to ¥17.1 billion.

### **Sales of commercial-use packaging materials deteriorated**

Sales of commercial-use packaging materials including multi-layer shrinkable film and vinylidene chloride film deteriorated during the period, down by 29% YoY to ¥4.1 billion. PVDC compound exports to China were also down due to earthquake. However, production in Vietnam is continuing, with profitability at this operation improving.

### **Household-use packaging materials adversely affected by earthquake**

Sales of household products declined dramatically to ¥5.6 billion from ¥9.6 billion, down 42% YoY, due to the cut in production. While the negative impact from March to August was partly offset by cost-cutting efforts, this business was the hardest hit by the earthquake.

**Outlook:** For the full fiscal year, divisional sales are forecast to decline to ¥39.0 billion, from the ¥41.1 billion recorded during the previous fiscal year. Operating income is also expected to weaken from ¥1.8 billion to ¥1.5 billion, with the adverse impact from the earthquake continuing to be felt.

## **Other Operations / Construction Related**

*Major product areas – construction, environment, logistics, trading related businesses*

### **Strong demand for construction related businesses**

Sales at construction related businesses expanded by 27% YoY to ¥10.9 billion due to the increase in earthquake related works. Profitability had also improved from having previously being loss-making to recording ¥300 million operating income during the interim period.

### **Other operations to show improvement**

Excluding construction related work, the Other Operations Division recorded sales of ¥6.1 billion, up 3% YoY and operating income of ¥400 million. Of note, sales at environmental engineering businesses increased 19% YoY to ¥3.5 billion on the back of increased demand for industrial waste processing - mostly medical waste - stemming from the earthquake. In addition, the newly opened office in Kanagawa contributed with a solid improvement in operating performance. However, sales at logistics and warehousing businesses were down by 8% YoY, from ¥5.5 billion to ¥5.1 billion.

**Outlook:** Construction sales are projected to expand 20% YoY to ¥15.5 billion on the back of increased earthquake-related rebuilding efforts. Other Operations divisional sales, excluding construction, are also expected to increase 18% YoY to ¥13.5 billion, as a result of an accumulation in industrial waste processing requirements.

## **Consolidated capital expenditure, depreciation and R&D**

	Sept. 2011	Sept. 2010	March 2012 (forecast)
Capital expenditure	8.5	4.8	16.5
Depreciation	4.6	5.0	10.5
R&D	2.5	2.6	6.0
Interest-bearing debt	55.6	51.6	61.6

(¥ billion)

Capital expenditure swelled from ¥4.8 billion to ¥8.5 billion during the half-year period, mostly associated with overseas production facilities including PGA, PPS and packaging materials. For the full-year, capital expenditure is projected to be ¥16.5, up 17% YoY. Depreciation for the half-year period declined slightly from ¥5.0 billion to ¥4.6 billion.

R&D expenditure was down slightly from ¥2.6 billion to ¥2.5 billion, but is projected to be approximately ¥6.0 billion for the full fiscal year.

Interest-bearing debt has increased, from ¥51.6 billion to ¥55.6 billion during the half-year period and is projected to reach ¥61.6 billion for the full fiscal year, due to the earthquake related drop-off in business.

### **Outlook for the full year**

(¥ million, except where stated)

	<b>March 2012 (Forecasts)</b>	<b>March 2011</b>	<b>Change (%)</b>
Sales	134,000	132,309	1.3
Operating income	6,500	6,350	2.4
Recurring income	6,000	5,638	6.4
Net income	500	692	-27.8
Earnings per share (EPS) (¥)	2.91	3.97	-26.7

Overall sales for the fiscal year ending March 2012 are forecast to decline to ¥134.0 billion, although operating and recurring income is expected to show some improvement. Net income for the full year is projected to be ¥500 million.

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## Condensed interim balance sheets

As of 30 September 2011 and 2010

	¥ million	
	Sept. 2011	Sept. 2010
<b>Assets</b>		
Current assets	58,563	62,720
Cash and cash equivalents	6,055	8,138
Fixed assets	118,746	114,815
Property, plant and equipment	87,422	81,124
Intangible assets	909	989
Investments and other assets	31,324	32,701
<b>Total Assets</b>	<b>178,219</b>	<b>177,536</b>
<b>Liabilities and Net Assets</b>		
Current liabilities	49,620	41,172
Short-term borrowings	15,235	12,306
Fixed liabilities	40,878	44,816
Corporate bonds	20,000	20,000
Long-term borrowings	15,345	19,260
<b>Total Liabilities</b>	<b>90,499</b>	<b>85,988</b>
<b>Net Assets</b>		
Shareholders' equity	87,478	90,730
Minority interest	724	204
<b>Total Net Assets</b>	<b>87,720</b>	<b>91,547</b>
<b>Total Liabilities and Net Assets</b>	<b>178,219</b>	<b>177,536</b>

## Condensed interim income statement

For the fiscal years ended 30 September 2011 and 2010

	¥ million	
	Sept. 2011	Sept. 2010
<b>Sales</b>	<b>58,852</b>	<b>64,642</b>
Cost of goods sold	42,079	47,976
Selling, general and administrative expenses	12,558	13,657
<b>Operating income</b>	<b>4,214</b>	<b>3,008</b>
Non-operating income	672	651
Non-operating expenses	928	1,113
<b>Recurring income</b>	<b>3,957</b>	<b>2,547</b>
Extraordinary gains	841	280
Extraordinary losses	5,153	408
<b>Income before income taxes</b>	<b>-354</b>	<b>2,418</b>
Taxes and minority interest adjustments	499	1,165
<b>Net income</b>	<b>-975</b>	<b>1,253</b>