



## Kureha Corporation Reports Interim Results

Period April- September 2012

**Tokyo, Japan – November 2012** – Kureha Corporation (“Kureha”), a leading global supplier of specialty chemicals and plastics, has reported earnings for the half-year period ended September 30, 2012. On a consolidated basis, operating income of ¥4,780 million represented an increase of 13.4% year-on-year (YoY), while recurring income declined 6.2% YoY to ¥3,713 million. Overall sales increased 8.3% YoY to ¥63,718 million, with the company registering a net profit of ¥2,222 million, a significant improvement from previous year.

Both top-line revenue and operating income recorded strong growth from the corresponding period the previous year, when damage caused by the March 2011 earthquake was still having a negative impact on operations, while the receipt of funds from a patent lawsuit settlement has also contributed to revenues. The company was also no longer required to record earthquake-related extraordinary losses this term, which helped to push up net income. At the same time, however, accrual of expenses associated with a temporary stoppage of the PGA plant in U.S. and costs associated with the issuance of new shares following the addition of new shareholders to its joint venture, Kureha Battery Materials Japan (KBMJ), negatively impacted recurring income.

Yutaka Kobayashi, who assumed the position of Kureha President and Chief Executive Officer on September 1, 2012 after former CEO Takao Iwasaki passed away, said, “Kureha has deeply mourned the loss of Dr. Iwasaki, who led the company with passion. At the heart of his vision was a commitment to Kureha achieving excellence in its operations and leveraging unique technologies. This commitment remains unchanged. We continue to overcome adverse challenges in the macro-economic environment through concerted efforts to expand our business in Japan and globally. Nurturing and expanding new businesses such as PGA and lithium-ion battery materials has been a critical area of focus, though we also recognize the value and contribution of existing businesses and the need to continue improving our product offerings, including enhanced competitiveness in quality and costs.”

“Our Grow Globally II medium-term business plan took effect from this fiscal year and runs through fiscal 2015, with human resources being a key driver to support Kureha becoming a truly global company. Our passion for innovative changes is essential and should serve as a driver to enhance the Company’s strength and growth. ”

### **Summary of consolidated half year results**

(¥ million, except where stated)

	Sept. 2012	Sept. 2011	Change (%)
Sales	63,718	58,852	8.3
Operating income	4,780	4,214	13.4
Recurring income	3,713	3,957	-6.2
Net income	2,222	-975	-
Earnings per share (EPS) (¥)	12.95	-5.68	-

### Update on PGA (polyglycolic acid) Resin

Oil exploration firms are paying fresh attention to Kureha's PGA for use in the extraction of shale gas resources, taking advantage of its hydrolytic properties at various temperatures. To extract gas from shale formations, pressurized fluid is applied to fracture the rock, creating passages for the gas to seep out. PGA is considered an ideal fracking compound, due to its strength and limited environmental impact. Apart from fracking compound, PGA is also used as a material for molded 'plugging pipes' that temporarily seal a drilled hole so inserted fluid pressure can be maximized at a designated location to effectively create fractures. Commercial shale-gas technology itself is still developing, seeking safer, lower-cost techniques, and as it does PGA is gaining increased recognition, with its value highly evaluated.

### Consolidated Interim Performance

(¥ million, except where stated)

Division		Sept. 2012	Sept. 2011	Change
Advanced materials	Sales	13,990	15,890	-1,899
	Operating income	-367	587	-955
Specialty chemicals	Sales	16,860	14,802	2,057
	Operating income	3,688	2,870	818
Specialty plastics	Sales	20,224	17,110	3,114
	Operating income	1,676	672	1,003
Construction related	Sales	5,998	4,968	1,029
	Operating income	205	341	-135
Other operations	Sales	6,644	6,080	563
	Operating income	-0	388	-389
	Cancellations	-422	-647	224
<b>Total</b>	<b>Sales</b>	<b>63,718</b>	<b>58,852</b>	<b>4,866</b>
	<b>Operating profit</b>	<b>4,780</b>	<b>4,214</b>	<b>566</b>

### Performance by Division

#### Advanced Materials Division

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

For the half-year period, the Advanced Materials Division's sales declined by 12% YoY from ¥15.9 billion to ¥14.0 billion. The division recorded an operating loss of ¥367 million.

#### **Carbon fibers suffer from sharp decline in demand**

Sales of carbon products recorded a 34% decrease from ¥3.5 billion to ¥2.3 billion. This was due to decline in demand for heat insulation materials used in the manufacturing of solar power equipment, as a result of inventory adjustments for solar panel products. Sales of Kureha's hard carbon, *Carbotron*, used in lithium-ion secondary batteries, also weakened.

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

Sales of advanced plastics continued to decline from ¥7.3 billion to ¥7.0 billion. PPS resin used in automotive applications showed favorable sales growth, while earnings at the U.S. joint venture, Fortron Industries, also increased. At the same time, however, PVDF resin experienced a decline in both sales and profits. Despite sales of the product for industrial-use improving, sales for use in electrode binders for lithium-ion batteries were deteriorated.

### **PGA hit by temporary halt in production**

Kureha has completed some shipments of PGA for use in shale gas extraction activities. However, operating costs at the U.S. production base swelled due to a temporary halt in operations, forcing Kureha to accrue a non-operating expenses of ¥550 million.

**Outlook:** Divisional sales for the full-year are projected to be ¥29.5 billion, down from ¥31.3 billion, with an operating loss of ¥1.6 billion. The carbon fiber business is expected to further weaken, with declining solar power related demand, and lithium-ion batteries set to plateau. Advanced plastics are expected to record a slight improvement. Evaluation of PGA is due to continue among potential customers for shale gas applications, while Kureha must accrue non-operating expenses associated with the temporary stoppage of its PGA facility in the U.S.

### **Specialty Chemicals Division**

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

Specialty Chemicals Division sales were up 14% YoY to ¥16.9 billion, while divisional operating income increased 28% to ¥3.7 billion.

### **Industrial chemicals recovering following earthquake**

Sales of industrial chemicals increased 7% YoY to ¥4.7 billion, after utilization rates recovered from earthquake-related cuts, with an improvement also recorded in operating profits.

### **Agrochemicals sales increase, profits flat**

Export sales of agrochemicals expanded, growing by 14% from ¥3.6 billion to ¥4.1 billion, but the weakened Euro placed negative pressure on profitability.

### **Sales and profits of pharmaceuticals improve**

*Kremezin*, a therapeutic agent for chronic kidney disease, recorded increased unit sales, despite an official price cut. In addition, Kureha also received settlement funds following a patent lawsuit for *Kremezin*'s generic agent. Overall, sales of pharmaceutical products increased from ¥4.0 billion to ¥5.4 billion, up 33% YoY.

**Outlook:** Divisional sales for the full fiscal year are projected to grow from ¥30.2 billion to ¥33.0 billion, up 9% YoY and operating income from ¥4.7 billion to ¥5.8 billion, up 23% YoY, as a result of improved utilization rates in the industrial chemicals business, expansion of export units of *Metoconazole*, and increased unit sales of *Kremezin*.

## **Specialty Plastics Division**

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

Specialty Plastics Division operating income showed significant improvement to reach ¥1.7 billion while sales increased by 18% YoY, from ¥17.1 billion to ¥20.2 billion. During the period the fishing line business was transferred from the Specialty Plastics division to the subsidiary, Kureha Gosen.

### **Commercial-use packaging materials slowed**

Sales of commercial-use packaging materials, which include film, bottles and PVDC compound exports to China for use in sausage products, suffered from declining demand during the period, and as a result declined by 5% YoY to ¥3.9 billion.

### **Huge improvement in household-use packaging materials**

Sales of household products recorded growth of 60% to reach ¥8.9 billion from ¥5.6 billion thanks to an updated marketing strategy. The company has promoted continual improvements and product upgrades to better match users' need. As a result, the product has been marketed as a value-added item, leading to a significant improvement in earnings.

**Outlook:** For the full fiscal year, divisional sales are expected to continue increasing to ¥425 billion from the ¥37.7 billion recorded during the previous fiscal year. Operating income is also expected to improve from ¥2.2 billion to ¥3.7 billion, largely due to the favorable performance of the household-use packaging business.

## **Other Operations / Construction Related**

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

### **Profitability of construction related businesses to deteriorate**

Sales at construction related businesses were down 21% YoY to ¥6.0 billion. The decline could be attributed to the transfer of environmental related engineering business operations from this division to the subsidiary, Kureha Environment, which offset an increase in sales due to work accrued from the previous term and new plant construction activities. At the same time, the profitability of construction related operations deteriorated due to a hike in labor and materials cost.

### **Other operations stable**

Sales performance of other operations increased to ¥6.6 billion, up 9% YoY, ensuring that the division was approximately break-even. Sales of environment related businesses, including earthquake related debris removal, grew but increased processing costs and other expenses pushed down operating profits. Sales of logistics and warehousing businesses were stable when compared to the previous year.

**Outlook:** Construction related sales for the full year are projected to drop 8% YoY to ¥15.0 billion, due to partial business transfer of environmental engineering operations, while operating profits are expected to continue to weaken due to the hike in costs. Sales of other operations are expected to improve 16% YoY to ¥15.0 billion following the expansion of industrial waste treatment business.

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

(¥ billion)

	Sept. 2012	Sept. 2011	March 2013 (forecast)
Capital expenditure	7.5	8.5	21.0
Depreciation	4.1	4.6	8.1
R&D	2.1	2.5	5.6
Interest-bearing debt	61.8	55.6	68.9

Capital expenditure dropped from ¥8.5 billion to ¥7.5 billion during the first half-year period due to a delay in construction work, while the company expects to spend ¥21.0 billion for the full year.

R&D expenditure was down from ¥2.5 billion to ¥2.1 billion, although the allocation for the full fiscal year is projected to be ¥5.6 billion.

Interest-bearing debt has increased, from ¥55.6 billion to ¥61.8 billion during the half-year period and is projected to reach ¥68.9 billion for the full fiscal year, due to increased investment in facilities.

### Outlook for the full year

(¥ million, except where stated)

	March 2013 (Forecasts)	March 2012	Change (%)
Sales	135,000	128,358	5.2
Operating income	9,000	8,472	6.2
Recurring income	6,500	7,867	-17.4
Net income	2,500	1,460	71.2
Earnings per share (EPS) (¥)	14.56	8.51	71.1

(¥ million, except where stated)

Division		March 2013 (Forecasts)	March 2012	Change (%)
Advanced materials	Sales	29,500	31,253	-5.6
	Operating income	-1,600	534	
Specialty chemicals	Sales	33,000	30,182	9.3
	Operating income	5,800	4,715	23.0
Specialty plastics	Sales	42,500	37,672	12.8
	Operating income	3,700	2,226	66.2
Construction related	Sales	15,000	16,300	-8.0
	Operating income	500	1,114	-55.1
Other operations	Sales	15,000	12,950	15.8
	Operating income	900	932	-3.4
	Cancellations	-300	-1051	
Total	Sales	135,000	128,358	5.2
	Operating income	9,000	8,472	6.2

Kureha anticipates trends during the second half of the fiscal year 2013 tracing a similar path to the first half. As such, overall sales for the fiscal year ending March 2013

are forecast to improve to ¥135.0 billion and operating income is also expected to grow 6.2% YoY. Recurring income, however, is expected to deteriorate. Net income for the full year is projected to be ¥2.5 billion.

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## Condensed interim balance sheets

As of 30 September 2012 and 2011

	¥ million	
	Sept. 2012	Sept. 2011
<b>Assets</b>		
Current assets	66,821	58,563
Cash and cash equivalents	8,857	6,055
Fixed assets	119,402	118,746
Property, plant and equipment	87,118	87,422
Intangible assets	840	909
Investments and other assets	31,443	31,324
<b>Total Assets</b>	<b>186,223</b>	<b>178,219</b>
<b>Liabilities and Net Assets</b>		
Current liabilities	57,316	49,620
Short-term borrowings	16,049	15,235
Fixed liabilities	40,352	40,878
Corporate bonds	20,000	20,000
Long-term borrowings	15,623	15,345
<b>Total Liabilities</b>	<b>97,669</b>	<b>90,499</b>
<b>Net Assets</b>		
Shareholders' equity	89,051	87,478
Minority interest	864	724
<b>Total Net Assets</b>	<b>88,554</b>	<b>87,720</b>
<b>Total Liabilities and Net Assets</b>	<b>186,223</b>	<b>178,219</b>

## Condensed interim income statement

For the fiscal years ended 30 September 2012 and 2011

	¥ million	
	Sept. 2012	Sept. 2011
<b>Sales</b>	<b>63,718</b>	<b>58,852</b>
Cost of goods sold	46,671	42,079
Selling, general and administrative expenses	12,266	12,558
<b>Operating income</b>	<b>4,780</b>	<b>4,214</b>
Non-operating income	626	672
Non-operating expenses	1,692	928
<b>Recurring income</b>	<b>3,713</b>	<b>3,957</b>
Extraordinary gains	170	841
Extraordinary losses	302	5,153
<b>Income before income taxes</b>	<b>3,581</b>	<b>-354</b>
Taxes and minority interest adjustments	1,422	499
<b>Net income</b>	<b>2,222</b>	<b>-975</b>