

Press Release

## **Kureha Formulates New Medium-Term Management Plan: “Kureha’s Challenge 2018”**

**Tokyo, Japan, March 14, 2016** – Kureha Corporation (“Kureha”) today announced “Kureha’s Challenge 2018,” its new medium-term management plan for fiscal years 2016-2018. The plan’s vision is for Kureha, as a “company built on technology,” to develop differentiated products in the specialty chemicals field, and become a high value-added company that continually contributes to society.

### **1. Summary of current medium-term management plan “Grow Globally II”**

The Grow Globally II (“GG-II”) management plan was launched from fiscal 2012 with the aim to “create a solid corporate foundation by strengthening the competitiveness of existing businesses while steadily cultivating and expanding new businesses.” However, mainly due to slow sales of carbon fiber products and slower-than-expected market growth for automotive lithium-ion secondary batteries in the Advanced Materials business, we are currently forecasting operating income of ¥12.0 billion for fiscal 2015. This falls short of the initial operating income target of ¥20.0 billion for GG-II, as well as the rolling plan target of ¥15.0 billion adopted in fiscal 2013.

Even so, during the period of the GG-II plan, we managed to maintain our earnings base for household products in the Specialty Plastics business and agrichemicals in the Specialty Chemicals business. In the Advanced Materials business we achieved steady growth for polyvinylidene fluoride (PVDF), used as binder in lithium-ion secondary batteries, and confirmed prospects for considerably higher profitability for polyglycolic acid (PGA). In addition, we built new production plants (PVDF in China, and PGA in the U.S.) to facilitate our global strategy, putting in place a structure for further advancement.

Furthermore, we have since fiscal 2013 implemented measures under the “Reform Project” to change employees’ mindsets and improve earning capabilities, and as a result established a profit structure that allows us to steadily generate over ¥10 billion in operating income. This project has been successfully carried out under the direct supervision of the president.

Reflecting on GG-II, we recognize as the main issues:

- (1) We should have made business forecasts from a greater number of angles, and with greater precision.
- (2) We did not fully consider preemptive strategies to cope with a downturn in the business environment.
- (3) Despite signs of a downturn, we were unable to respond promptly and flexibly.
- (4) We did not allocate adequate resources to future growth businesses (PVDF, PPS).

The new medium-term management plan has been formulated to reflect these lessons while also incorporating measures for additional risk factors. With this deliberate and strategic planning, we are determined to achieve the targets set for the next three years.

## 2. Overview of the new medium-term management plan

### **Name: Kureha's Challenge 2018 (Product Differentiation and New Business Creation)**

Remaining true to our corporate philosophy, we have determined the following future direction for Kureha: "As a 'company built on technology,' develop differentiated products in the specialty chemicals field, and become a high value-added company that continually contributes to society."

### Positioning of Kureha's Challenge 2018

The new medium-term management plan anticipates declining earnings capacity in the Specialty Chemicals business (such as pharmaceuticals and agrichemicals), which up to now had been a stable earnings base. In addition, despite initiatives toward new business creation, we have at the present point not generated themes that promise to support Kureha into the future. Therefore, we have designated the three years of the plan as "a period to lay the foundation for Kureha's future expansion." Based on the fundamental strategy of enhancing the competitiveness and earnings of existing businesses, we will steadily develop the PGA business into an earnings pillar, and through a newly established project led by the president, implement a company-wide effort to explore new business themes.

### Management Goals

#### (1) Business goals

- i) Enhance the competitiveness and earnings capacity of existing businesses that support the management foundation of the Kureha Group.
- ii) Expand the PGA business that is currently driving the Kureha Group's growth.
- iii) Explore new business themes that will carry the Kureha Group's future.

#### (2) Promote CSR management

#### (3) Strengthen the management foundation

### Measures to achieve management goals

#### (1) Business goals

- i) Enhance the competitiveness and earnings capacity of existing businesses

Advanced Materials: Expand business by pursuing differentiation strategies with PVDF and PPS and actively investing resources, and secure earnings by improving the profitability of carbon fiber products.

Specialty Chemicals: Promote new product development in the pharmaceutical and agrichemical fields.

Specialty Plastics: Increase earnings capacity for household products by strengthening brand power and global business development; expand sales globally for commercial packaging materials; and increase cost competitiveness for synthetic fibers.

Construction: Strengthen sales activities and reduce costs in anticipation of decreased demand for reconstruction associated with the Great East Japan Earthquake.

Other Operations: In the environment field, expand industrial waste processing, including processing of low-concentration PCBs.

R&D and Production Divisions: Develop new grades and applications, expand downstream business by strengthening resin processing technologies, and develop innovative production processes.

ii) Expand the PGA business

- Achieve growth by extending the value chain (secure growth in the shale oil and gas sector by developing improved frac plugs and other products, and expand to regions other than North America).

iii) Explore new business themes

- We will accelerate exploration of new technologies and business themes to support the Kureha Group's future through the "New Business Creation Project," which will be initiated in April 2016 and led by the president.
- In the environment, energy, and life science fields, we will explore potential business themes that utilize Kureha's specialty technologies. We will also make use of other companies' resources through M&A and collaboration, conduct joint R&D with universities, and develop business in high value-added downstream sectors.

(2) Promote CSR management

- Conduct business operations in strict accordance with Kureha's compliance regulations and Corporate Governance Guidelines, and enhance the effectiveness of corporate governance.
- In line with the current emphasis on ESG (environmental, social, and governance) measures, enhance initiatives related to community support, environment and safety through a newly established CSR Promotion Division from April 2016, and by reorganizing the Responsible Care (RC) Division.

(3) Strengthen the management foundation

- Enhance technological capabilities by strengthening links between Research, Production, Engineering, and CSR Promotion divisions.
- Invest to increase production capacity by incorporating technological innovation and to ensure stable production with proper facility maintenance and upgrades, and enhance asset efficiency.
- Prioritize personnel placements in growth and strategic fields, and secure and develop globally-minded human resources.
- Promote personnel development to foster active participation by all employees, and create a work environment in which women play an active role.
- Continue the Reform Project to further reduce costs.

**Table 1: Quantitative Targets**

(Unit: ¥ billion)

	FY2015 (E)	FY2018 Plan	Variance
Net sales (Overseas proportion)	145.0 (32%)	170.0 (37%)	+25.0 (+5%)
Operating income (Operating margin)	12.0 (8.3%)	16.0 (9.4%)	+4.0 (+1.1%)
Net income	7.0	9.0	+2.0
Net income per share (¥)	40.73	43.7	+2.97

(Presumptions) Forex: ¥120/\$, ¥130/€, ¥18/yuan; Crude oil: \$40/bbl

Note: Total number of issued shares in fiscal 2018 is projected to total 206 million shares, due to the conversion of convertible bonds into shares.

**Table 2: Breakdown by Business Segment**

(Unit: ¥ billion)

	FY2015 (E)		FY2018 Plan		Variance	
	Net Sales	Operating Income	Net Sales	Operating Income	Net Sales	Operating Income
Total	145.0	12.0	170.0	16.0	+25.0	+4.0
Advanced Materials	38.0	1.8	55.0	7.0	+17.0	+5.2
Specialty Chemicals	32.0	4.3	30.0	2.0	-2.0	-2.3
Specialty Plastics	44.0	3.8	50.0	5.0	+6.0	+1.2
Construction	16.0	0.9	13.0	0.3	-3.0	-0.6
Other Operations	15.0	1.2	22.0	1.7	+7.0	+0.5

### Capital Investment

Kureha is planning a total of ¥50.0 billion in capital expenditures for fiscal 2016-2018. The main expenditures are:

- (1) Investment in increased production capacity that incorporates technological innovation (PVDF: New capacity to begin operating in fiscal 2018; PPS: New capacity provisionally planned to begin operating in fiscal 2019)
- (2) Investment in maintenance and upgrades to ensure stable earnings
- (3) Construction of a new process development building

### R&D Expenditures

Kureha is planning a total of ¥20.0 billion in R&D expenditures for fiscal 2016-2018. Expenditures are mainly related to strengthening processing technologies for downstream business development, and exploration of new business themes.

**Table 3: Capital Investment, Depreciation and R&D Expenditures**

(Unit: ¥ billion)

	FY2015 (E)	FY2016-2018 Plan (3 yrs)
Capital investment	16.0	50.0
Depreciation	10.0	35.0
R&D expenditures	5.7	20.0

### Basic capital policy

Kureha will aim for sustained growth that leads to mid- to long-term increases in enterprise value. We will steadily achieve the management goals and quantitative targets outlined in Kureha's Challenge 2018, as well as maintain financial stability, and enhance earnings capacity and capital efficiency.

We are assuming ROE in fiscal 2018 of 6.0%, but will aim to increase this further over the longer term. We will also reduce interest-bearing debt, increase the capital-to-asset ratio, and maintain and improve financial stability.

**Table 4: ROA, ROE, D/E Ratio and Interest-bearing Debt**

	FY2015 (E)	FY2018 Plan
ROA	4.6%	5.5%
ROE	5.8%	6.0%
D/E ratio	0.7x	0.5x
Interest-bearing debt at end of term	¥88.5bn	¥70.0bn

**Basic policy on shareholder returns**

Kureha's basic policy for the distribution of earnings is to strengthen the company overall to realize longer-term growth, prepare for future business expansion, enhance retained earnings, and provide a stable and continued dividend. We aim to increase the payout ratio over the medium to long term.

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