Kureha Corporation Reports Interim Results April – September 2015

Tokyo, Japan, November 2015 – Kureha Corporation (“Kureha”), a leading global supplier of specialty chemicals and plastics, has reported earnings for the first half of the year ending March 2016 (fiscal 2015).

On a consolidated basis, sales decreased 6.2% to ¥68,863 million year-on-year (YoY) while operating income fell 12.6% to ¥5,029 million. Recurring income decreased by 16.7% YoY to ¥5,028 million. This resulted in a 23.4% YoY decrease in net income to ¥3,356 million as well as a reduction in earnings per share by 5.98 yen to 19.53 yen.

A challenging business environment affected performance. External factors include the impact of the Japanese government’s promotion of generic drugs on the pharmaceuticals business; lower-than-expected sales of solar power equipment; slow sales of anode materials due to the limited spread of hybrid electric vehicles; and an unforeseen fall in market prices for agricultural produce in North America that left farmers less inclined to buy high-performance but high-price agrichemicals.

This situation was compounded by rising depreciation costs associated with new PVDF and PVDC plants, and non-operating factors including exchange rate adjustments.

However, Kureha also made progress on many fronts during the first-half period. The Advanced Materials division recorded continued growth driven by strong performance in the PGA (polyglycolic acid) and PVDF (polyvinylidene fluoride) businesses, thereby clearly establishing this division as a pillar for the Kureha Group. PGA in particular has gained a strong reputation for its application in shale oil and gas extraction, and the intense demand is now moving Kureha to rapidly scale up operations in this area.

In addition, group-wide cost reductions continued to make significant contributions to profits. The impact of these efforts on operating income is expected to reach approximately ¥4 billion over the three-year period from fiscal 2013 through fiscal 2015.

Yutaka Kobayashi, President and Chief Executive Officer, said, “The first half of the year proved very challenging, and it is unfortunately likely that we will not achieve the fiscal 2015 targets of our medium-term management plan, Grow Globally II. We must look critically at each business area to maximize performance and resilience.”

“That being said, the recovery of the Advanced Materials division and the extraordinary demand seen in the PGA business show that we are fundamentally right in our strategy to focus on downstream businesses with high margins. We will continue to innovate and add value to our product offering at every level of our operations, while continuing our successful drive to reduce costs across the group.”

Consolidated interim results

(¥ million, except where stated)

	Sept. 2015	Sept. 2014	Change (%)
Sales	68,863	73,449	-6.2
Operating income	5,029	5,756	-12.6
Recurring income	5,028	6,039	-16.7
Net income	3,356	4,382	-23.4
Earnings per share (EPS) (¥)	19.53	25.51	-

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Consolidated interim results by division

(¥ million, except where stated)

Division		Sept. 2015	Sept. 2014	Change
Advanced materials	Sales	18,795	18,168	626
	Operating income	113	-398	512
Specialty chemicals	Sales	15,094	17,779	-2,685
	Operating income	2,417	3,259	-842
Specialty plastics	Sales	21,976	22,981	-1,004
	Operating income	1,677	2,220	-543
Construction related	Sales	6,327	7,361	-1,034
	Operating income	318	369	-51
Other operations	Sales	6,669	7,158	-488
	Operating income	421	531	-110
	Cancellations	(82)	(226)	308
Total	**Sales**	**68,863**	**73,449**	**-4,586**
	Operating income	**5,029**	**5,756**	**-726**

Performance by Division

Advanced Materials

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

In the first-half period, the Advanced Materials division saw increases in both sales and income. Sales increased by 3% YoY to ¥18.8 billion from ¥18.2 billion. Operating income recovered from the previous period’s loss of ¥0.4 billion to a positive ¥0.1 billion. These results were driven by continued strong performance in the advanced plastics business. Factors negatively affecting performance in the period include increased depreciation costs related to a new PVDF plant in China.

In advanced plastics, favorable sales growth for PGA and PVDF

Sales of advanced plastics rose 20% to ¥11.5 billion. A key contributing factor was the extraordinarily strong demand for PGA in the shale oil and gas industry. While the number of shale oil wells overall decreased due to lower crude oil prices, PGA, which helps to reduce shale oil extraction costs as well as to increase productivity, saw extended demand in North America and other global markets. To meet growing demand, Kureha continued to enhance its manufacturing capacity for PGA extrusion products, achieving a fivefold increase in capacity in the one-year period to November 2015.

PVDF for use in binders for lithium-ion batteries continued to see solid demand, primarily for industrial and automotive applications, and sales were firm. However, operating income in the PVDF business was negatively affected by an increase in depreciation connected to the launch of operations at a subsidiary plant in China.

Carbon products on path to recovery

In carbon products, sales decreased by 8% to ¥3.0 billion due to factors including falling demand for heat-insulating materials used in the manufacturing of solar power equipment. Sales volumes of anode materials were at the same level as in the previous period, a key contributing factor being that sales volumes of hybrid electric vehicles are not rising as expected despite an increasing range of models. However, the loss reported in same period last year diminished significantly due to production streamlining and additional cost reductions.

Outlook: Divisional sales for the full fiscal year are projected to be ¥43.5 billion, up 20% YoY from ¥36.2 billion in the previous period. Operating income is expected to rise sharply by 378% to ¥2.1 billion.

The PGA business is expected to continue its strong growth trajectory, driven by high demand in the shale oil and gas industry as well as an enhanced product portfolio, including new PGA frac plugs incorporating dissolvable metal, that will be launched in January 2016. Kureha will also continue to increase extrusion processing capacity at its Japanese subsidiaries, with the goal of achieving a tenfold increase from the 2014 level in fiscal 2016.

For heat-insulating materials used in the manufacturing of solar power equipment, Kureha aims to improve profitability through price increases and continued cost reductions.

In the PVDF business, Kureha will continue to strategically optimize production, focusing on the production of specialty grades in Japan and semi-commodity grades in China. The company anticipates continued strong demand for industrial applications of PVDF for use in binders for lithium-ion batteries for the second half period, yet depreciation costs connected to the plant in China will also increase and weigh on overall performance.

The PPS business is expected to see steady sales, primarily for automotive applications. Kureha is proceeding with capacity expansions, with the aim of boosting production by 2000 tons at the US plant and 700 tons at the Japanese plant within fiscal 2016.

Specialty Chemicals

Major product areas – industrial chemicals, agrochemicals, pharmaceuticals

In the first-half period, the Specialty Chemicals division recorded sales of ¥15.1 billion, a decrease of 15% YoY, and operating income of ¥2.4 billion, a decline of 26%.

Agrochemicals sales and income decrease on lower US demand
A strong harvest season in North America led to an overall decline in the price of agricultural produce and lower demand for agricultural chemicals, including the fungicide *Metconazole*.

Pharmaceuticals sluggish due to impact of generics
The pharmaceuticals business was negatively affected by continued government promotion of generic drugs in the market, and recorded a continued decrease in the sales volume of *Kremezin*, a therapeutic agent for chronic kidney disease. This led sales to fall slightly by 4% to ¥4.2 billion, with operating income also decreasing.

Outlook: Divisional sales for the full fiscal year are projected to decrease from ¥35.5 billion to ¥33.5 billion, down 6% YoY, while operating income will decrease by 46% to ¥4.3 billion. In industrial chemicals, continued cost reductions are expected to have a positive effect on profitability. In agrochemicals, sales of fungicide *Metoconazole* are expected to improve on gradual demand recovery. In pharmaceuticals, due to continued market influence from generic drugs, Kureha projects lower sales and income for *Kremezin*, which will likely also negatively impact overall divisional performance. To counteract this trend, Kureha continues its development of new pharmaceuticals, including the next-generation *Kremezin*.

<u>Specialty Plastics</u>
Major product areas – food packaging materials, household products

In the first-half period, sales decreased 4% YoY to ¥22.0 billion from ¥23.0 billion, mainly due to a slowdown in sales of automated filling and clipping machines. Operating income was down 24% from ¥2.2 billion to ¥1.7 billion due to the afore-mentioned fall in sales as well as increasing depreciation costs.

Commercial-use food packaging materials affected by falling machine sales
In commercial-use food packaging materials, sales of heat-shrink barrier film continued to be strong. However, the absence of a large shipment of Kureha Auto Packer (KAP) automated filling and clipping machines, as was recorded in the previous period, led to an overall decrease in sales as well as operating income.

Consumer goods sales increase
In consumer goods, sales of *New Krewrap* household-use wrapping remained stable while sales of *Seaguar* fishing lines continued on an upward trajectory. However, operating income fell due to depreciation costs related to a new PVDC facility in Japan.

Outlook: Divisional sales for the full fiscal year are expected to increase slightly from ¥46.5 billion to ¥47.0 billion YoY, while operating income is projected to rise strongly by 26%, from ¥3.7 billion to ¥4.6 billion. Key factors forecast to drive this result include stable growth for *New Krewrap* household-use wrapping and continued promotion of global sales of heat-shrink barrier film.

<u>Construction Related / Other Operations</u>
Major product areas – construction and engineering, environmental engineering, logistics, trading related businesses

Sales and income decrease in construction-related businesses
In the first-half period, while official reconstruction projects connected to the Great East Japan Earthquake of March 2011 continued to be firm, there was a slowdown in private construction projects. As a result, construction-related businesses saw a decrease in both sales and income. In engineering businesses, while plant construction decreased leading to a fall in sales, operating income remained at the same level as in the previous period due to successful cost reductions. As a result, construction-related businesses as a whole saw a 14% decrease in sales YoY from ¥7.4 billion to ¥6.3 billion, and operating income fell from ¥0.4 billion to ¥0.3 billion.

Other operations see sales decrease
In the environmental business, sales of industrial waste disposal services fell on volume decline due to incinerator renewals. Sales were also slower in the transportation business. As a result, in other operations, sales decreased by 7% YoY to ¥6.7 billion while operating income fell by 21% to ¥0.4 billion.

Outlook: Looking at the full fiscal year, construction-related businesses will be affected by an overall reduction in construction projects, as well as rising wage and material costs that will have an impact on profitability. Sales are projected to decrease 10% YoY to ¥15.0 billion while operating income will fall 45% to ¥0.6 billion.

In other operations, Kureha forecasts an expansion of the micro-level PCB waste treatment business. However, costs related to facility renewal will reduce operating income. Sales are projected to increase 5% YoY to ¥16.0 billion, while operating income will fall 22% to ¥1.4 billion.

Capital Expenditure, Depreciation, R&D and Interest-bearing Debt

Consolidated interim capital expenditure, depreciation, R&D and interest-bearing debt

(¥ billion)

	Sept. 2015	Sept. 2014	March 2016 (forecasts)
Capital expenditure	5.3	9.2	16.0
Depreciation	4.8	3.9	10.0
R&D	2.3	2.3	5.7
Interest-bearing debt	85.8	84.5	89.7

Capital expenditure during the first-half period decreased from ¥9.2 billion to ¥5.3 billion. For the full fiscal year, Kureha expects to spend ¥16.0 billion, a slight decrease from the ¥17.6 billion in fiscal 2014. The capital will mainly be invested in upgrading aged facilities and equipment at the Iwaki Factory.

R&D expenditure remained unchanged at ¥2.3 billion. Kureha R&D will continue to focus on improving existing products and processes as well as developing next-generation products. The allocation for the full fiscal year is projected to be ¥5.7 billion, a slight increase over the previous year.

Interest-bearing debt increased slightly from ¥84.5 billion to ¥85.8 billion and is projected to reach ¥89.7 billion for the full fiscal year.

Outlook for the Full Fiscal Year

(¥ million, except where stated)

	March 2016 (Forecasts)	March 2015	Change (%)
Sales	155,000	150,182	3.2
Operating income	13,000	14,551	-10.7
Recurring income	12,500	15,426	-19.0
Net income	8,000	9,195	-13.0
Earnings per share (EPS) (¥)	46.55	53.53	-13.0

(¥ million, except where stated)

Division		March 2016 (Forecasts)	March 2015	Change (%)
Advanced materials	Sales	43,500	36,187	20
	Operating income	2,100	438	378
Specialty chemicals	Sales	33,500	35,535	-6
	Operating income	4,300	7,941	-46
Specialty plastics	Sales	47,000	46,519	1
	Operating income	4,600	3,660	26
Construction related	Sales	15,000	16,721	-10
	Operating income	600	1,081	-45
Other operations	Sales	16,000	15,218	5
	Operating income	1,400	1,789	-22
	Cancellations	(0)	(360)	
Total	Sales	155,000	150,182	3.2
	Operating income	13,000	14,551	-10.7

Kureha expects the PGA and PVDF businesses to continue their strong performance in the second half of fiscal 2015, and also forecasts an uptick for the household-use packaging materials business. We will also continue our group-wide program of cost reductions, which will make a positive contribution to results.

However, results will be impacted by the absence of one-time benefits associated with new business contracts in the pharmaceuticals business, increasing depreciation costs related to new PVDC and PVDF plants, and the effect of non-operating factors such as exchange rate adjustments and overall challenging business conditions. We also forecast a one-time loss on retirement of fixed assets of 1.7 billion yen.

For this reason, while overall sales for fiscal 2015 are forecast to improve to ¥155.0 billion, up 3.2%, operating income is expected to decrease 10.7% to ¥13.0 billion YoY. Recurring income is expected to decrease 19% to ¥12.5 billion. Net income will fall 13% to ¥8.0 billion for the full year.

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Condensed interim balance sheets

As of 30 September 2015 and 2014

(¥ million)

	Sept. 2015	Sept. 2014
Assets		
Current assets	74,432	75,125
Cash and cash equivalents	5,588	7,303
Fixed assets	172,961	160,559
Property, plant and equipment	123,054	117,365
Intangible assets	2,413	1,929
Investments and other assets	47,493	41,264
Total assets	**247,394**	**235,684**
Liabilities and net assets		
Current liabilities	62,064	72,125
Short-term borrowings	19,473	23,561
Fixed liabilities	62,229	53,591
Corporate bonds	17,000	10,000
Long-term borrowings	23,246	22,968
Total liabilities	**124,293**	**125,716**
Net assets		
Shareholders’ equity	104,422	98,281
Minority interest	2,370	2,321
Total net assets	**123,100**	**109,968**
Total liabilities and net assets	**247,394**	**235,684**

Condensed interim income statement

As of 30 September 2015 and 2014

(¥ million)

	Sept. 2015	Sept. 2014
Sales	**68,863**	**73,449**
Cost of goods sold	49,964	54,221
Selling, general and administrative expenses	13,869	13,471
Operating income	**5,029**	**5,756**
Non-operating income	882	1,113
Non-operating expenses	883	830
Recurring income	**5,028**	**6,039**
Extraordinary gains	363	122
Extraordinary losses	268	178
Income before income taxes	**5,122**	**5,982**
Taxes and minority interest adjustments	1,752	1,636
Net income	**3,356**	**4,382**