

## GS-21 New Medium-Term Business Plan (FY2006 to FY2008)

Toward Exciting Innovation and Outstanding Earnings

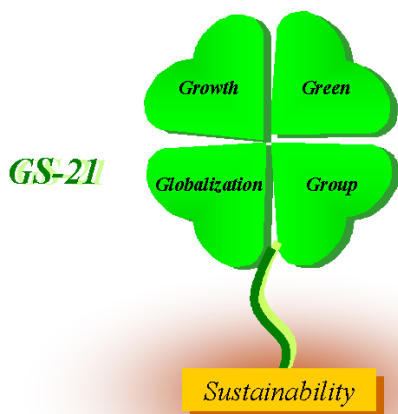
Kuraray recently formulated a 10-Year Corporate Vision that indicates the long-term direction in which the Kuraray Group is aiming to go, and our new GS-21 medium-term business plan, a three-year plan from FY 2006 to FY2008.

With an awareness of the increasing impact of deflation on business conditions, Kuraray undertook a review of its G-21 medium-term business plan (FY2001-2005) in FY 2002. Kuraray has adhered to a basic course of focusing on a growth strategy for its core businesses and four strategic fields, and the Company implemented measures to reinforce competitiveness by stepping up efforts to improve its earnings structure and reorganizing underperforming businesses. Consequently, business performance in FY 2005, the final year of G-21, is expected to fall 5% below numerical targets revised in FY 2002 (Net sales: ¥400 billion; Operating income: ¥40 billion). ROA, on the other hand, is anticipated to meet the target of 8% or more.

Net sales were weak due to the strategic cutback in the polyester business. The average growth rate over the past five years, however, was 3.6%, which included the benefits from M&A. Kuraray vigorously pursued capital investment and M&A mainly in its core business. Furthermore, we endeavored to expand businesses in strategic areas such as IT-released optical materials, creating a foothold in next-generation new business development.

Supported by production innovation and business structure improvement, operating income has exhibited double-digit growth for four consecutive years from FY 2002. The average growth rate over the past five years is 13.8%. However, failure to meet the Company's profit target is attributed to the slow pace at which investments have borne fruit, and delays in response to markets, product development, passing on increased raw material and fuel costs to sales prices and improving head office efficiency. Those remain outstanding issues.

Under G-21, Kuraray also promoted organizational reform with the aim of accelerating business operations and enhancing corporate governance. The Company effectively overhauled organizational management by: adopting an in-house company system that integrates production, sales and development; implementing an executive officer system; reducing the maximum number of directors; and establishing the New Business Development Division, which accelerates the process from R&D through commercialization. In terms of corporate governance, the Company bolstered its corporate auditor system and established the Management Advisory Committee. In addition, Kuraray set up the CSR Committee to formulate policies that contribute to the environment and society. Despite these comprehensive measures, the issue of risk management and prevention of accidents at plants remains.



- “GS-21”: Combines the 4G concept (**Growth, Green, Globalization, Group**) espoused in the current medium-term business plan G-21 with S for **Sustainability** to emphasize Kuraray's principal objective to become a corporate group driven by sustainable growth and the ongoing protection of the global environment.

## I. Business Environment — 10-Year Outlook

The world economy over the past decade enjoyed steady growth at 3-4% supported by a stable US economy and robust BRICs economies. Japan's economy, however, remained weak due to the aftermath of the economic bubble. The economic environment over the next decade is expected to face long-term structural transformation. This is likely to bring the following:

- **Increasing concern over the global environment and resources and a stifling of the mass production, high energy consumption economy**
- **Geographic imbalance in the global economy, lower growths rate and increased intensity in global competition**
- **More sophisticated market needs and rapid changes caused by diversified senses of value**
- **Growing risk associated with Japan's fundamental structure including fiscal deficit, an aging society and declining birthrate.**

Against this backdrop, the need for a chemical company to shift its management focus from quantity to quality will become increasingly important.

Strategic Vision and a Corporate Image in Step with the Times

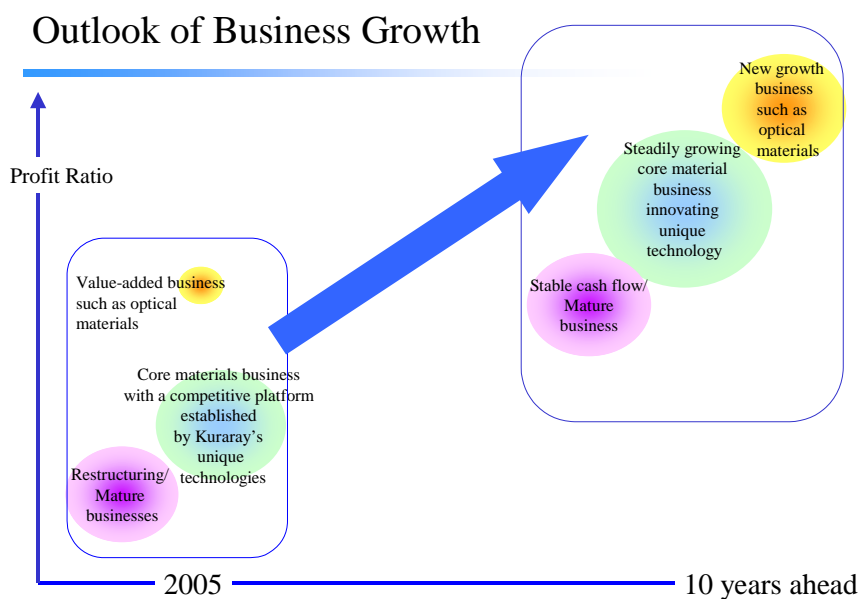
## II. 10-Year Corporate Vision

In formulating its 10-year corporate vision, Kuraray incorporated its tradition and history as well as its corporate culture to create an image of the Company's future and the Group's development over the long term.

**Toward Exciting Innovation and Outstanding Earnings**  
**Recognized throughout the World, To Make the Kuraray Group a Sustainably Growing**  
**Diversified Specialty Chemical Company**

**Contributing to the World and Individual Well-being through Actions that Others are**  
**unable to Produce**

**Targeting Net Sales of ¥1 Trillion in 2015**

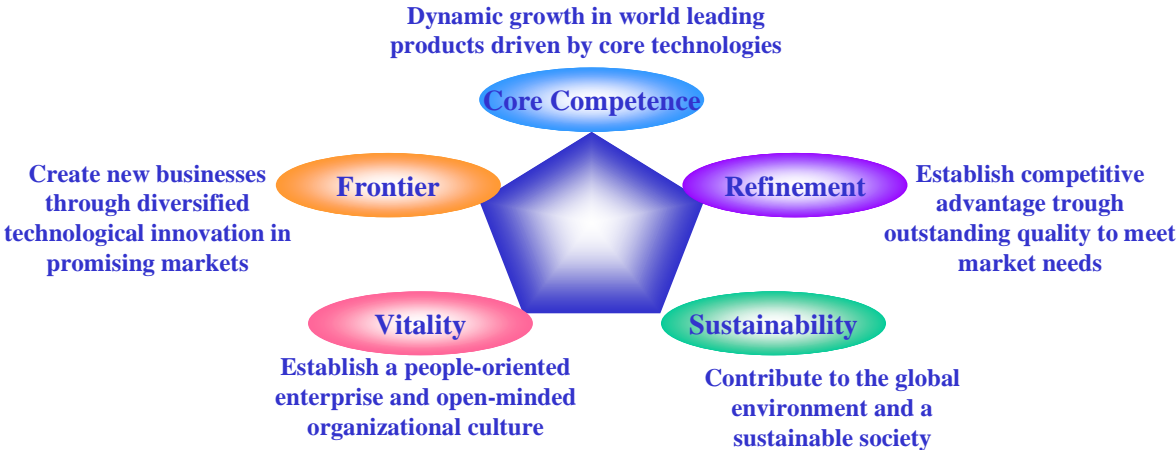


We will accelerate growth in our core materials businesses (such as vinyl-acetate materials, isoprene chemicals and man-made leathers), and create and expand new businesses in promising areas of new growth, including optical, automotive and energy-related materials. In these ways, Kuraray aims to increase high-profit business activities.

Kuraray’s identity is embodied in the power of its “innovation.” This power enables the Company to create numerous specialty chemical products and develop high-value-added applications that meet global market needs.

Leveraging a corporate platform bolstered over many years, over the next decade Kuraray will continue to reinforce its core technologies that have produced the world’s finest products and its global competitiveness (Core Competence), endeavor to create a continuous stream of highly profitable businesses by developing diversified technologies (Frontier), and strengthen global competitiveness by delivering the highest quality (Refinement). These reforms will better position Kuraray to achieve its target of ¥1 trillion in net sales. In the post industrial capitalist 21<sup>st</sup> century, a period during which corporate value is expected to focus more on the human factor as opposed to traditional capitalism, Kuraray will redouble efforts to promote a dynamic corporate culture (Vitality) and to become a high quality corporate Group that contributes to the global environment and a sustainable society (Sustainability).

**【Basic Policies to Realize Visions】**



**Improvements in Business Performance**

Billions of Yen

	FY 2005	FY 2008	FY 2015
Net Sales	375.0	450.0 (to 550.0)	1,000.0
Op. Income	38.0	50.0 (to 60.0)	150.0
Op. Income to Sales	10%	11%	15%

### III. New Medium-Term Business Plan “GS—21”

The new medium-term business plan consists of a “10-Year Corporate Vision” that clarifies Kuraray’s corporate image over the long term, and the GS-21 three-year strategy. The three-year strategy places considerable importance on concrete action plans that will enable the Company to reach established commitments and identifies stretch targets that include new businesses, M&A and individual strategic projects.

Though during the next three years the Japanese economy is expected to throw off deflation, an economic slowdown is expected in the long-robust U.S. economy, and Europe is expected to continue seeing low growth rates under structural reforms. There are concerns that a global economic downturn could occur if weaker growth in BRICs economies and instability in financial markets are added. Such factors do not permit an overly optimistic outlook for Kuraray, whose products are sold in markets around the world, and risks include intensifying competition and slower growth in all fields of business. Perceiving this era of uncertainty as an opportunity for corporate innovation, Kuraray will maintain a management strategy with a focus on quality.

#### 1. Core Business Strategies

- (1) In its internationally competitive core material businesses such as vinyl acetate, isoprene and man-made leather developed by Kuraray’s unique technologies, enhance competitive quality through diversified technological innovation including processing techniques. In this manner, Kuraray will accelerate growth through efforts to expand global markets.
- (2) Having established a foothold in new growth fields such as optical materials, automobiles and energy materials through G-21, conduct concentrated investment of management resources to facilitate further expansion. In addition, launch new material businesses targeting promising industries to solidify the Company’s position in next-generation platform businesses as a key supplier of high-quality innovative materials required by customers
- (3) Reinforce product earnings power across the board, reorganize or withdraw from uncompetitive businesses
- (4) Improve management quality as a global company

#### Performance Outlook

	FY2005 Forecast	FY2008 Commitment
Net Sales	375	450
Op. Income	38	50
ROA	8%	9%
ROE	6%	7%

#### (Billions of Yen)

FY2008 Stretch Target
550
60

Create new business; expand operations through M&A (¥100 billion net sales and ¥10 billion operating income).

## 2. Strategies by Segment

### Chemicals and Resins

#### **Raise profit growth based on priority investments outlined under G-21**

Underpinned by Kuraray's proprietary technology, poval, *EVAL* and isoprene boast international competitiveness. While maintaining competitive advantage based on its global strategies, Kuraray will accelerate growth through technological innovation and new product development. At the same time, the Company will actively expand new growth fields such as optical materials.

In the methacrylic resin business, Kuraray will establish a stable earnings structure by launching new products such as high-value-added optical materials as well as reinforcing manufacturing bases in China.

### Fibers and Textiles

#### **Establish firm profitability in core materials, while strengthening and improving the product portfolio**

Kuraray's *KURALON*, *KURALON K-II* and *CLARINO* are world-leading products. Responding to market needs, Kuraray will step up efforts to upgrade technologies, increase production capacity and invest in innovative processes to consolidate the platform for growth.

The Kuraray Group will reinforce its earnings structure in the mature domestic market for *KURAFLEX*, *MAGIC TAPE* and polyester by developing unique products through sophisticated processing technologies.

### High-Performance Materials, Medical Products and Others

#### **Actively expand new growth fields through speedy technology innovation for diversified products**

In Opto-screens, *GENESTAR* and liquid crystalline polymer film businesses, Kuraray will accelerate technological innovation suited to customer needs to establish competitive advantage in the new growth fields.

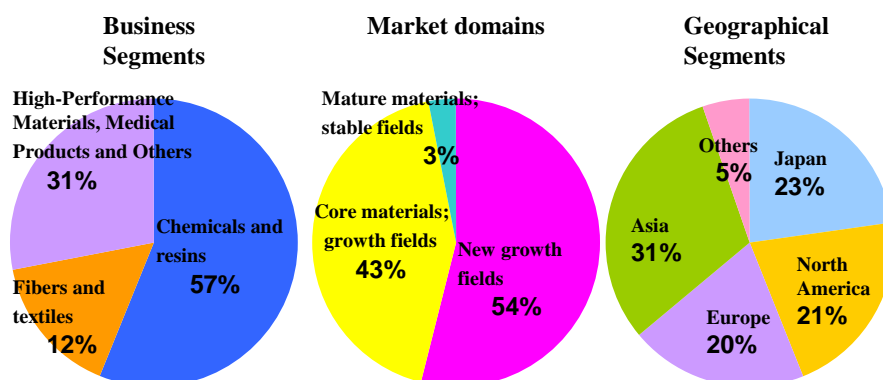
Furthermore, Kuraray will enhance stability by leveraging its strengths as a leading manufacturer of dental materials and activated carbon in the domestic market and developing unique products and global businesses. At the same time, Kuraray will implement strict measures to ensure management efficiency in engineering and other related businesses.

#### Net Sales and Operating Income Plan by Business Segment (Commitment)

(Billions of Yen)

	FY 2005		FY 2008		Increase/Decrease	
	Net Sales	Op. Income	Net Sales	Op. Income	Net Sales	Op. Income
Chemicals and Resins	192.0	32.0	235.0	42.0	+43.0	+10.0
Fibers and Textiles	111.0	9.0	120.0	12.0	+9.0	+3.0
High-Performance Materials, Medical Products and Others	72.0	7.5	95.0	9.0	+23.0	+1.5
Corporate		-10.5		-13.0		-2.5
Total	375.0	38.0	450.0	50.0	+75.0	+12.0

#### Breakdown of the Sales Increase (¥75 billion)



### 3. Priority Issues and Policies

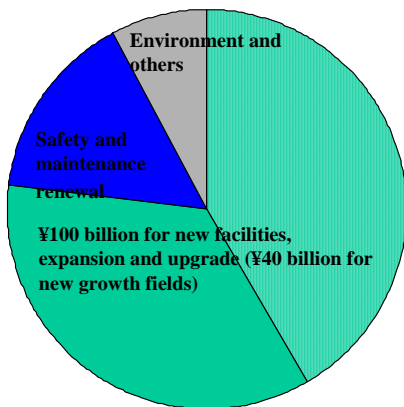
- 1) Accelerate the development of new businesses and new growth fields  
Focus on development themes with a demand-driven approach, promote the expansion and focus of research resources including introduction of outside resources
- 2) Pursue globally effective and speedy management  
Accelerate responsiveness to market, implement reforms to in-house company system for greater resource efficiency, establish a global Group management structure, strengthen efficiency of headquarter functions and management information systems
- 3) Nurture and strengthen “human resources,” the driving force for growth  
Establish a system to secure and educate personnel as purported by medium-term management strategy, reform personnel system to optimize employee assignments
- 4) Contribute to the global environment and strive for sustainable corporate growth  
Formulate global level environment initiatives and expand sales of eco-friendly products based upon the medium term environmental plan (fiscal 2001-2010), promote strengthening of manufacturing know-how and a thorough emphasis on safety, and establish an internal controls system to strengthen risk management

### 4. Resource Allocation

#### 1) Capital Expenditure

Strategies

**¥130 billion**



- Continue active investment of ¥130 billion over three years for capital expenditure, investment and loans (including ¥100 billion for new and additional facilities)

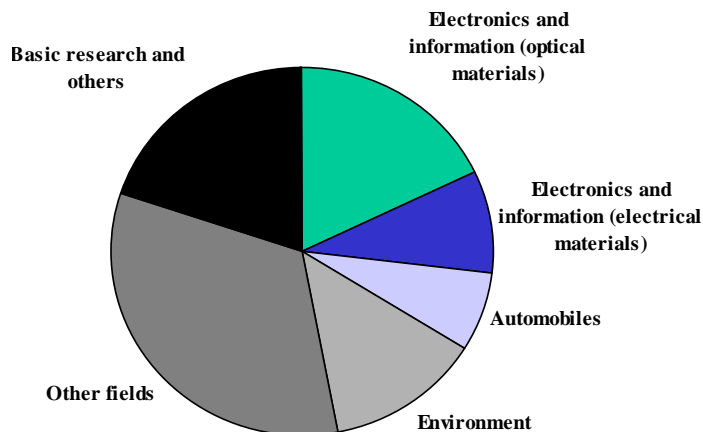
Major Capital Expenditure (Acceptance basis)

	Start of Operation
<i> EVAL </i> (4th line in USA+24,000 t)	Last Half of FY 2006
<i> SEPTON </i> (USA +6,000 t)	Last Half of FY 2006
Inorganic EL manufacturing and testing machines	Last Half of FY 2006
PVA Film for LCDs (+30 million sqm)	First Half of FY 2007
<i> TIRRENINA </i> new man-made leather (5 million sqm)	First Half of FY 2008
<i> GENESTAR </i> (+6,000 t)	Last Half of FY 2008

- Kuraray is currently considering separate strategic investment in new businesses and M&A over the next three to five years (approx. ¥200 billion)

#### 2) Business Development Strategies

**¥50 billion**



- Allocate ¥50 billion over three years for R&D
- Allocate resources on a strategic basis to highly functional materials that utilize sophisticated processing technology and the development of materials in promising industries such as optical products, automobiles and energy.

### 3) Financial Strategies

- Maintain a healthy financial structure (A credit rating or above) and procure strategic investment funds (approx. ¥200 billion over the next three to five years) for new projects and M&A according to needs.
- Maintain a dividend payout ratio of 25-30%. Target sustainable increases in dividends through ROE improvement.
- Considering financial plasticity, investment plan and the stock price, buy back the stocks.

This press release contains plans, targets and policies concerning the future, and Kuraray does not guarantee that such will be fulfilled as they are contained herein.