

GS-21 Medium-term Business Plan

Toward Achieving Targets

Management Benchmarks and Medium and Long-term Management Strategy

The GS-21 Medium-Term Business Plan is a commitment to clearly defined three-year targets and includes additional stretch targets for new businesses, M&A, specific strategic projects, and other areas. The plan commits the Kuraray Group to achieving net sales of ¥450 billion, operating income of ¥50 billion, ROA of 9%, and ROE of 7% in fiscal 2008. The stretch targets are designed to spur further expansion of the Group's operating activities and set ambitious objectives of raising net sales an additional ¥100 billion to ¥550 billion and operating income an additional ¥10 billion to ¥60 billion.

The economic environment is expected to undergo significant long-term structural transformation over the next decade based on several trends, including growing concern about the global environment, natural resources, and increasingly unsustainable mass-production & high energy-consumption economies. Other factors include regional imbalances, declining economic growth rates, increasingly intense global competition, increasingly sophisticated market needs and accelerated change arising from diversifying values. Finally, factors specifically for Japan include growing risk from changes in the fundamental structure of Japanese society, including the fiscal deficit, aging society, and declining birthrate. Kuraray believes these changes demand chemicals manufactures modify their corporate management approach from quantity to quality.

Based on the Kuraray Group's corporate culture of contributing to society and individual well-being and engaging in activities that only we have the ability to carry out, we have created a 10-Year Corporate Vision aimed at making

the Kuraray Group a sustainably growing, diversified and specialized chemicals group recognized around the world for innovation and outstanding earnings.

Our business growth plan aims to achieve steady and sustainable growth through ongoing technological innovation and global development of unique core technologies in vinyl acetate, isoprene, and man-made leather materials that form the competitive foundation of our businesses. The G-21 Medium-Term Business Plan (fiscal 2001 to fiscal 2005) laid the groundwork for advances into the new growth fields of optical materials, automotive, energy and other high value-added operations. We are focusing management resources on expanding our businesses in these high profit-margin growth fields while also reinforcing the competitive advantages of our mature businesses, and on restructuring to ensure steady earning power. These strategies are designed to enable us to achieve our 10-Year Corporate Vision target of ¥1 trillion in net sales in 2015.

Performance Outlook

	Billions of Yen				
	FY2005 (Actual)	FY2006 (Actual)	FY2007 (Forecast)	FY2008 (Commitment Target)	FY2008 (Stretch Target)
Net Sales	375.1	385.3	415.0	450.0	550.0
Operating Income	38.3	40.2	45.0	50.0	60.0
ROA	8.2%	8.1%	—	9.0%	10.0%
ROE	6.5%	6.4%	—	7.0%	8.0%

Policies to Ensure Attaining the GS-21 Final Year Targets

The core business strategies are as follows.

- (1) Through diversified technological innovation including processing techniques, enhance competitive quality in our internationally competitive core material businesses, such as vinyl acetate, isoprene, and man-made leather developed by Kuraray's unique technologies. 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.

Under the G-21 medium-term business plan, Kuraray established the following priority issues and policies.

1. Respond to the sharp rise in natural resource prices.

Raw materials prices have skyrocketed in the past two years and cannot be expected to return to their previous levels. While anticipating raw materials prices to remain high, we will strengthen our cost competitiveness and create a new product pricing structure integrating a reasonable amount of the higher raw materials prices.

2. Realize capital investment effects

Kuraray is implementing an aggressive capital investment program aimed at expanding our business. We will endeavor to make these investments contribute to sales and profits as early as possible.

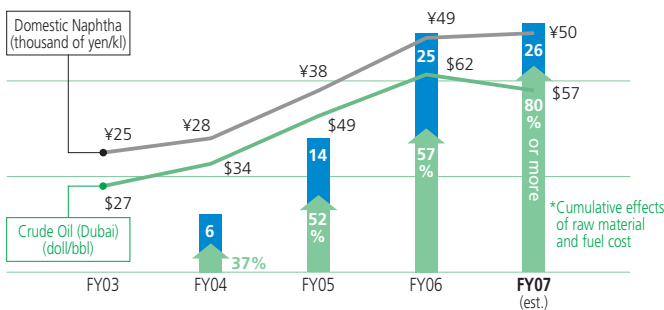
3. Strengthen development capabilities and accelerate development themes with profit contribution potential

The GS-21 plan emphasizes focusing development resources into growth fields. Our development activities will center on incorporating and accelerating development themes taking customer needs, cost, and competition into account, and focus on aggressive development of product applications and demand cultivation to provide value to customers.

4. Raise management efficiency

We will conduct sweeping cost cutting in headquarters functions and minimize inventories.

The Effects of Raw Material and Fuel Costs and Measures for Dealing with them Billions of yen



*The cumulative monetary effect of raw material and fuel costs in overall costs (in units of 1.0 billion yen), and cumulative transference of increased costs to customers from FY2004

Expansion Plans for Major Materials-EVAL Thousands of tons

