

Interview with the President

Toward Achieving the Targets of Medium-term Business Plan GS-21 (Fiscal 2006–2008)



What measures were initiated in the first year of GS-21?

The Medium-term Business Plan GS-21 has four objectives: 1) accelerate development of new businesses and new growth fields (optics, automobiles, and energy materials etc.), 2) fortify our human resources, 3) establish an efficient global management structure and speed up management processes, and 4) improve the Group's environmental performance and corporate sustainability.

Fortifying human resources is vital because our employees are the driving force behind our business growth. The Kuraray Group generates 43% of its total sales overseas and the number of Kuraray factories is already higher overseas than in Japan. As we continue to globalize operations, managing business operations strictly from our home base in Japan would hinder our growth potential. We are continuing to cultivate the international management skills of our executives while also developing our young employees into world-class resources through training programs and by providing more opportunities for direct experience working overseas beginning early in their careers.

Effective and efficient management will also be increasingly important as we increase the number of our overseas business bases. To this end, we are integrating and reorganizing our local entities overseas. In December 2006, we merged two of our companies in Germany, Kuraray Europe and Kuraray Specialities Europe. We also plan to merge three of our subsidiaries in the United States in January 2008, Kuraray America, Eval Company of America, and SEPTON Company of America.

We are also implementing various measures to improve the Group's environmental performance and corporate sustainability. Kuraray is deeply dedicated to environmental issues, and the "S" in GS-21, which stands for "sustainability", symbolizes our dedication. To further improve our environmental performance, we are focusing on developing environmentally friendly and high value-added products. We have also implemented measures to evolve out of resource-intensive operations. Our progress in these areas is ongoing, and the results are gradu-

ally beginning to appear.

The high oil prices experienced during the past year has made it unavoidable to raise product prices in order to recoup some of the increased product cost. However, a straight one-to-one price increase is not an effective business policy. While it is inevitable that we must raise prices, we are also providing our customers with added value by enhancing product quality and offering products that provide increased advantages to users.

I believe our progress and performance during the past year has produced a foundation that sets us solidly on track to achieve the three-year targets of the GS-21 plan.

Please explain what you mean by “progressive refinement”?

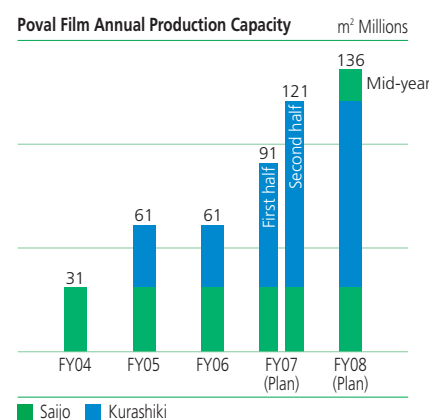
Kuraray’s development of *EVAL* (ethylene-vinyl alcohol) from *Poval* (PVA, polyvinyl alcohol) resin is perhaps the clearest example of progressive refinement. *EVAL* resin is highly resistant to gas permeation and has become an indispensable wrapping material for food products. Progressive refinement means developing high quality and high value-added businesses and providing a timely supply of convenient, useful and advanced-function products.

Progressive refinement also means avoiding excess resource consumption and the negative impact on the environment associated with it. In addition, businesses that require a large number of facilities can have a major impact on the economic environment and can have difficulty in keeping pace with the current high-pace evolution of products. Ultimately, facilities inevitably become obsolete and must be disposed of. This perspective further reinforces my belief in the importance of maintaining a flexible and adaptable management style.

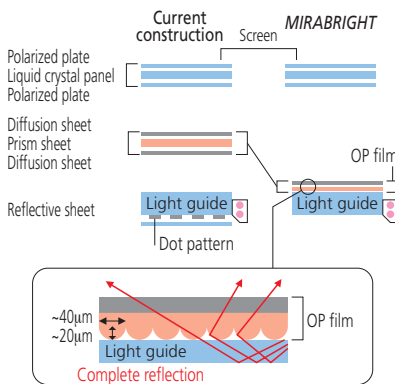
Progressive refinement is therefore not directly aimed at quantitative expansion but to improve the quality of our products and management. Quality attracts customers and as the quality of our products is recognized, our sales will naturally grow.

Poval film for liquid crystal displays is a main driver in Kuraray growth. Please describe Kuraray’s plans to increase production of poval. Also, is Kuraray developing any other promising products for LCD-related applications?

Poval film is an indispensable base film used on the polarized plate in liquid crystal displays (LCDs), and demand has been growing steadily each year. In fiscal 2007, we are expanding our annual production capacity for poval to 121 million square meters, roughly double the volume of fiscal 2006. This rapid expansion is in anticipation of a strong increase in demand from consumer conversion from analog to digital TV technology ahead of Japan’s planned adoption of exclusive



MIRABRIGHT Construction



digital broadcasting in 2011 and from the accelerating demand for large-screen digital display screens.

Kuraray commands roughly 80% of the market for poval film, and we are expanding our facilities with meticulous care to ensure we continue to fulfill our responsibility to supply the highest quality products.

Another promising LCD-related product we developed and are advancing is the *MIRABRIGHT* backlighting device. *MIRABRIGHT* is a single-layer Optical Patterned film plate that brightens LCD screens via the three functions of a light guide passing light uniformly from the light source to the LCD panel, a diffusion sheet diffusing the light from the light-guide plate, and a prism sheet concentrating the light rays from the light guide plate into a uniform direction. Standard LCD backlight devices are constructed of components from several makers. *MIRABRIGHT* combines these three functions into a single component thereby enabling thinner backlighting devices, a simplified manufacturing process for the display maker, and lower cost. In addition, *MIRABRIGHT*'s microlens architecture provides improved light utilization efficiency, which enables users to enhance the quality of their products.

What are Kuraray's approaches for developing business in the new growth fields (optics, automobiles, energy materials) presented in GS-21?

Optoelectronics Field

In the optoelectronics field, in addition to poval film and *MIRABRIGHT*, we are also developing inorganic electroluminescence (EL) materials. Inorganic EL utilizes an inorganic (carbon-free) compound as a material which illuminates via electrical current. Inorganic EL is a promising LCD backlight material for its long life span because its performance quality does not degrade over time, even against heat, and for its potential to be a key element in realizing the upcoming generation of folding display screens.

We joined forces with T. CHATANI & CO., LTD. the inventor of the inorganic EL technology, and established the Kuraray Luminas Co., Ltd. (90% held by Kuraray and 10% by T. CHATANI & CO., LTD.) to develop the material for commercialization. We plan to continue strengthening our development capabilities and are making rapid progress toward bringing this revolutionary technology to market.

Automobile Industry

The automobile industry is considered a mature industry in leading industrialized countries, but on a global scale, notably in China and India, it is still very much a growth industry even as it faces new challenges to comply with stringent environment regulations. To keep ahead of the pace of change in the automobile industry, we established the Automotive Materials Promotion Group, an inter-organization committee focusing on strategic planning for timely product development to meet the industry's rapidly evolving needs.

We are aggressively promoting several materials for automotive applications. *EVAL* offers optimal features for use in plastic fuel tanks as a barrier layer protecting against leakage of harmful hydrocarbons emitted from gasoline and for reducing vehicle weight. A triple-layer construction of two polyethylene layers with *EVAL* in between produces a light yet sturdy tank that contributes to energy conservation. *EVAL*'s malleability also allows automakers greater freedom in fuel tank shape and positioning, which affords them more flexibility in their automobile designs.

The Kuraray Group's polyvinyl butyral (PVB) film has attracted strong demand as a window security device and for windows used on high-rise buildings for its ability to reinforce glass strength and prevent shattering. These features of PVB-laminated glass are also ideally suited to automobile windshields as they contribute to passenger safety, and we are expanding our sales channels to the automotive industry.

GENESTAR is a highly malleable, heat and abrasion resistant polyamide resin developed by Kuraray that is attracting growing demand for use in connectors and other electronic devices. *GENESTAR*'s heat-resistant properties are ideal for use in automotive materials, and we are eagerly developing its automotive applications.

Several other of our materials are also prime candidates for automotive applications. The man-made leather *CLARINO* can be used in automobile seats, the high transparency of methacrylic resin (polyethylene terephthalate; PET resin) make it an effective coating for automobile headlights, and the thermoplastic elastomer *SEPTON* is an effective heat-resistant substitute for vulcanized rubber. These and other materials offer valuable features for automotive applications, and we are developing new markets for these products in the automobile industry.

Energy Field

We continue to make research advances for several of our proprietary elastomers toward applications in the energy field. Two promising materials are our high-performance hydrocarbon polymer electrolyte membranes for fuel cell batteries and large-capacitance capacitors.

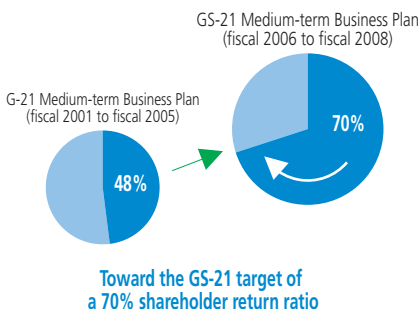


Please discuss your approach to less profitable businesses.

Keeping pace with the rapid changes in the market structure is a difficult challenge and it is inevitable that some businesses become untenable. When a business is struggling, recognizing the right time to step away is crucial. For example, sales and profits for rear-projection TV screens peaked in 2002, but subsequent changes in the market structure made it very difficult to continue securing profits, and we ultimately pulled out of the business in 2006. That same year, we also transferred our contact lens and health food businesses. We will continue investing management resources in products that are strong and carry growth potential, and when objective analysis determines that a product or business does not offer sustainable profitability, it is crucial to gracefully divest our interest.

Shareholder Return Ratio

Shareholder Return Ratio (%)
= (dividends + repurchased share value) / consolidated net income X 100



Please explain Kuraray's shareholder return policy including the recent decision to buy back stock.

Kuraray is always attentive to the best timing to act on the investment necessary to position the company for new growth. With the aim of improving capital efficiency and enhancing shareholder return, this year we introduced a target of maintaining a dividend payout ratio at 30% or more of consolidated net income and raised the annual per-share dividend payment by ¥3.5 to ¥18.5. In addition, during the three years of our GS-21 medium-term business plan (fiscal 2006–2008), we plan to implement dividend distributions and share buyback programs to continue raising the shareholder ratio from the 48% level of the past five years to 70% in the GS-21 term.

Several factors contributed to our decision to set these aggressive targets. First, our success generating strong earnings has made it necessary to improve ROE, which is a key indicator of shareholder return, as our equity ratio approaches 70%. Second, our stable financial position gives us sufficient standing to conduct fund procurement to finance new business projects and M&A activities. Finally, we believe our earnings outlook warrants setting a dividend payout ratio level comparable to the 30–40% customarily provided by European and US companies. In addition, we consider the reacquired stock as an asset that can be used in the event we engage in M&A activity.

Kuraray is advancing aggressive M&A activity, but can you please describe the reason for the countermeasures implemented to protect against a hostile takeover?

All of the M&A pursued by Kuraray is premised on friendly and cooperative relationships. However, we cannot deny that we ourselves might be a target of a takeover move. Our view is that maintaining a stable and sustainable enterprise value is the top priority because it is in the common interest of both the company and its shareholders.

We believe taking precaution against a hostile takeover means preestablishing countermeasures to protect the currently existing common interest of our shareholders. This entails setting inbuilt processes to initiate when there is threat of an effort to purchase a majority of shares without consultation or consent, or when there is doubt that the takeover party has a genuine interest in raising enterprise value.

Kuraray Group products developed with proprietary technology command top share in the global market, and the steady cash flow provided by these products has elevated the group's market valuation to over ¥500 billion. We believe this makes us an attractive target for acquisition.

Determining whether an acquisition proposal would be advantageous to raising the company's enterprise value over the long term requires full information exchange from both the buyer and acquired company and detailed discussion

about strategy to enhance enterprise value. We maintain a strong relationship of trust with our stakeholders, who are the very source of our enterprise value, and any takeover proposal would require their full understanding and consent. If a takeover proposition fully met these strict criteria, it would not be necessary to initiate the takeover countermeasures.

How do you see the relation between CSR and raising enterprise value?

Kuraray's corporate culture is rooted in the simple tenet "Contributing to the World and Individual Well-being through Actions that Others are Unable to Produce." Our corporate conduct arises from a fundamental motivation to contribute to global society by using our proprietary technology to supply high value-added products and services and to apply the profits derived from these to continue to develop more such products. Of course, the forces that underpin a market economy challenge this ideal. Market economies do not operate merely on a product's inherent added value, rather they are driven by profits; it is a simple fact that profitable companies survive and unprofitable companies perish.

While this is an undeniable challenge, Kuraray has no intention of setting aside its ideals merely for the sake of profit. We trust the wisdom of our stakeholders will recognize the value in gradually expanding product lines that fully embody our obligation to society. If we maintain a fair profit level, we believe the Kuraray brand will be valued as dependable and with a promising future. This in turn will enable us to attract the most talented staff and, in the long term, attract a growing number of investors that also believe in our future.

For six consecutive years, Kuraray has been selected as a constituent in the globally recognized FTSE4Good Index Series*, developed by FTSE as a benchmark index for socially responsible investment. The company has also been recognized for three straight years as one of the Global 100 Most Sustainable Corporations in the World**. To continue earning distinctions like these, the Kuraray Group will focus on its integrity while raising its enterprise value. This integrity means developing the products and services that our stakeholders need while fostering our corporate culture emphasizing the natural compatibility of contributing to society and raising enterprise value.

* FTSE, an independent company owned by The Financial Times and the London Stock Exchange, created the FTSE4Good Index Series as an index for socially responsible investment. Selection criteria focus on active engagement of internationally accepted environmental, social and ethical standards of corporate social responsibility.

** The Global 100 Most Sustainable Corporations in the World are selected from some 1,800 listed companies worldwide by Corporate Knights Inc., of Canada, based on research and analysis by Innovest Strategic Value Advisors, of the United States.



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