



Rebuilding the Profit Structure and aiming for Future Growth

Q

What is the status of the 10-Year Corporate Vision?

A

The 10-Year Corporate Vision we launched in fiscal 2006 sets a clear growth target of ¥1 trillion in net sales as the hallmark of our global presence as a specialty chemical company.

The worldwide economic crisis that materialized in the latter half of fiscal 2008 will undoubtedly delay the

achievement of our quantitative goal. However, the economic conditions have no effect on our core values and determination to realize sustainable growth centered on quality. We are taking steps to quickly reconstruct the Company's profit structure to regain our momentum toward attaining ¥1 trillion in net sales.



Why ¥1 trillion in net sales?



The target was set as an easily identifiable feature of a chemical company with a global presence.

The distinctive features of Kuraray's businesses put us in a unique position for addressing environmental issues and other needs of society. The challenge to become a ¥1 trillion corporation is a manifestation of our desire to broaden the contribution we can make to society through our operations.

The ¥1 trillion figure is a vision for our Company as we would like it to be in the future and is not a growth target to be achieved solely by our current business segments. We intend to attain this goal primarily by expanding our core business globally and developing new business themes. We anticipate market growth overseas as newly emerging economies fill out their growth potential which will lessen the domestic percentage of our overall business while our operations expand in the North, Central and South America and across Asia.

Since Kuraray's inception, our corporate culture has centered on "contributing to the world and individual well-being through actions that others are unable to produce." We are seeking to achieve sustainable growth into the long-term by applying our innovative technologies to provide effective solutions for the environmental issues facing our planet today, such as global warming, the depletion of natural resources, water and food shortages, and environmental pollution, and to realize harmony between the environment and society in all business activities.

Each of the new business fields we are focusing on—new energy, water treatment, and environmentally friendly materials—focuses on specific aspects of these global issues. We aim to exercise our accumulated technical and market-related knowledge and maximize our value-creating potential to amplify our growth capabilities and fulfill our objective of becoming a trillion-yen corporation.



What are the main strategies of the "GS-Twins" medium-term action plan?



The primary objectives of the "GS-Twins" plan are to reestablish the Company's profit structure, which eroded severely during the economic crisis, to set us back on track toward the targets set in the "GS-21" and to lay the essential groundwork for the key elements in Company's further growth: the development and expansion of new businesses and acceleration of the global strategies for the core business.

The key initiatives are the following.

1. Improve the Profit Structure

We are focusing on five key areas for improving the profit structure.

a) Improve the business portfolio (reduction of and withdrawal from less profitable business fields)

Each product field is under review, and we intend to eliminate any product field that does not show future promise. We are also examining whether products would be able to survive in shrinking markets.

b) Make effective investments in facilities (selection of investment projects)

We are applying zero-base budgeting to our capital investments and reviewing scrutinizing each investment in terms of necessity and urgency. We also plan to review our existing facilities and equipment in light of the market trends and will scale down our

equipment inventories by retiring or disposing of equipment that will not be beneficial as our business evolves.

c) Improve cash flow (reduction of inventory)

A deteriorating balance sheet during a serious economic crisis is a sign that the company's sustainability is in danger. Rising inventories become a threat to bloat working capital and erode the financial position. Kuraray's inventories are currently in the ¥70~80 billion range. Reducing this amount by 25% would secure roughly ¥20 billion in cash. We are coordinating our production and sales activities to reduce inventories as much as possible. At the same time, we are maintaining strict control of inventories by closely monitoring sales trends and appropriately adjusting production activities.

d) Improve break-even point through thorough reduction of expenses and costs (particularly reduction of the fixed cost)

The plummet in demand has intensified market product competition. To remain competitive, we must radically reduce our overall business costs in all areas, including capital investment, personnel, and expenses. While taking steps to lower fixed costs, we are also aggressively implementing strategies to maximize profitability, such as reducing raw material and fuel costs and maintaining our product prices, with the aim of improving the break-even point ratio.

e) Downsize its organization and optimize its personnel

Although varying by business, our overall average utilization rates decreased by 50% in the fourth quarter of fiscal 2008. The sharp erosion in the break-even point ratio and the need to achieve profit from just 80% of sales requires that we act swiftly to optimize our human resources and apply the same intense scrutiny as with our equipment inventories.

2. Create and Expand New Businesses

We are applying management resources to key areas with high market growth and potential applications for the company's technologies with the aim of creating and developing the next generation of environment-related businesses.

In the environment sector, we are focusing on and specializing in sewage treatment and recycling and the recovery of

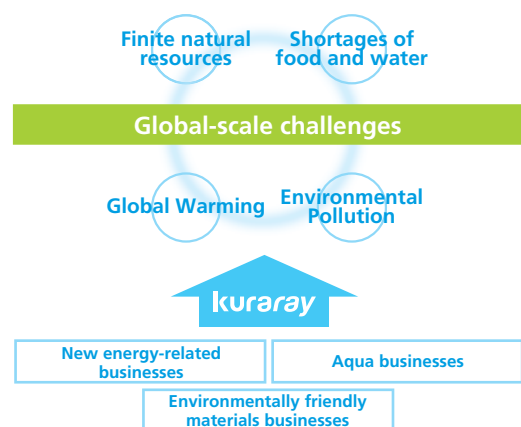
valuable materials. In the energy sector, we are concentrating on new energies, particularly solar energy (solar cell panel encapsulant, etc.) and hydrogen energy (fuel cell materials, etc.). Our focus in new optical and electronic materials is on lighting components, transparent conductive film, and other materials that we are aiming to rapidly bring to market.

We anticipate rapid growth in each of these important market sectors and are forming concrete strategies to expand our presence and develop the associated businesses into key Company operations. To this end, we are concentrating management resources and gathering the Group's strengths around these fields.

3. Accelerate the Global Core Businesses Strategies

We aim to expand our regional businesses for our vinyl acetate-related products and other globally competitive core materials by further cultivating our presence in currently existing markets and through M&A and accelerated business development in emerging markets.

In the vinyl acetate-related businesses, for example, we currently have no production base for polyvinyl alcohol (PVA)



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Year 2011 Restore the highly profitable structure emphasized in "GS-21"
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resin in the United States, and we have not yet established production bases for *EVAL* ethylene vinyl alcohol (EVOH) resin to supply the vast markets of India and China. At the same time, one of our specific objectives is to establish full-fledged production bases for Polyvinyl butyral (PVB) in Asia, North America, and Japan, since PVB is only produced in Europe.

In addition, we are highlighting “Safety” in our operations and have signified this priority with the S in the title of our

GS-Twins medium-term action plan. Accidents and injuries are detrimental to the individual and the company and ultimately lead to a great loss. From now, such irregular activities as the subsequent reduction in output, redevelopment, production test and others are expected to increase. For the safety of our employees, we are placing special emphasis on verifying and reverifying the safety of all out operations.

Q What are the financial, capital, and shareholder return policies under GS-Twins?

A Improving capital and asset efficiency remain as important issues. Amid the current worldwide economic climate, our top priority is elevating operating income to the ¥50 billion level that was the objective of the previous GS-21 plan. Regaining this level of income will improve other indicators of capital and asset efficiency, indicated by ROE*¹ and ROA*².

We are also endeavoring to improve the balance sheet. Under the present economic conditions, we believe this can be best done by securing cash. Our financial standing is one of the Company’s strong points and is such that we can maintain a healthy 50% equity ratio even if we were to procure as much as ¥200 billion through loans and other debt. We plan to leverage our strong financial position to conduct opportune and carefully selected investment, including M&A, to expand our business.

The GS-21 plan set specific targets of providing a dividend payout ratio of 30% or more and maintaining a 70% shareholder return ratio (combining dividends paid and share buybacks). The newly adopted GS-Twins plan reiterates our commitment to maintaining our 30% or more dividend payout ratio. In the current economic conditions, however, we believe it prudent to judiciously examine the financial situation when considering buying back Company shares. While giving full consideration will be given to our business performance, cash status, and other factors, we are concerning to maintain a suitable dividend amount as we recover from the recent plummet in business results and reestablish a growth trajectory for the Company.

Notes:

1. Return on equity (ROE) = Net income / Average shareholders’ equity X 100 (%)
2. Return on assets (ROA) = Operating income / Average total assets X 100 (%)