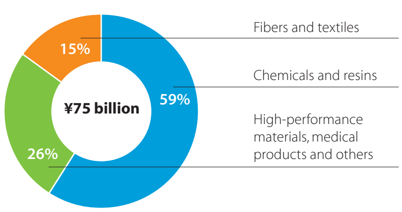
New Medium-Term Business Plan GS-21

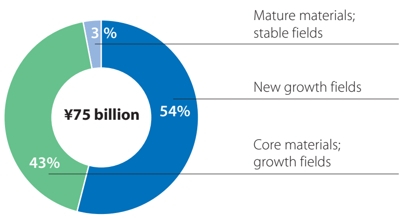
The new GS-21 Medium-Term Business Plan sets out strategies over three years. In the GS-21, we place considerable importance on concrete action plans that will enable us to reach commitment targets. Moreover, the plan sets out more ambitious targets, which assume the successful pursuit of new businesses, M&A, and individual strategic projects.

Breakdown of Sales Targets

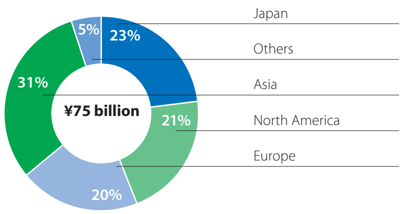
Business Segments



Market Domains



Geographical Segments



PERFORMANCE OUTLOOK

Billions of Yen

FY 2005 Actual

Net Sales	¥375.1
Operating Income	38.3
ROA	8.2%
ROE	6.5%

FY 2008 Commitment Target

Net Sales	¥450.0
Operating Income	50.0
ROA	9.0%
ROE	7.0%

FY 2008 Stretch Target

Net Sales	¥550.0
Operating Income	60.0
ROA	10.0%
ROE	8.0%

Create new businesses, expand operations through M&A (¥100 billion in net sales and ¥10 billion in operating income)

NET SALES AND OPERATING INCOME PLAN BY BUSINESS SEGMENT (COMMITMENT)

Billions of Yen

		FY 2005	FY 2008	Increase / Decrease
Chemicals and Resins	Net Sales	¥190.8	¥235.0	+44.2
	Operating Income	31.9	42.0	+10.1
Fibers and Textiles	Net Sales	109.1	120.0	+10.9
	Operating Income	9.5	12.0	+2.5
High-Performance Materials, Medical Products and Others	Net Sales	75.2	95.0	+19.8
	Operating Income	8.5	9.0	+0.5
Eliminated on Consolidation and Corporate	Operating Income	−11.5	−13.0	−1.5
Total	Net Sales	375.1	450.0	+74.9
	Operating Income	38.3	50.0	+11.7

STRATEGIES BY SEGMENT

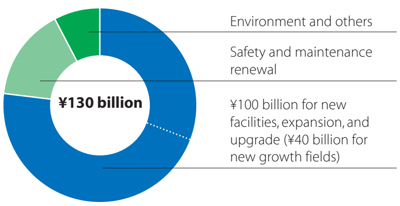
Chemicals and Resins

- Raise profit growth through priority investments outlined in G-21

Underpinned by Kuraray's proprietary technology, poval, *EVAL*, and isoprene boast international competitiveness. While maintaining competitive advantages 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.

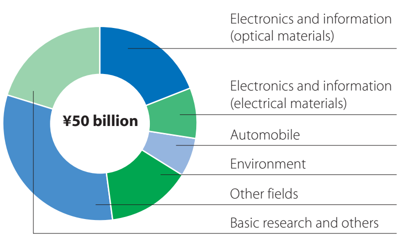
Resource Allocation

① Capital Expenditure



Major Capital Expenditure (Acceptance basis)	Start of Operation
EVAL (4th line in USA+24,000 t)	Second half of FY 2006
SEPTON (USA+6,000 t)	Second half of FY 2006
Inorganic EL manufacturing and testing machines	Second half of FY 2006
PVA film for LCDs (+30 million m^2)	First half of FY 2007
TIRRENINA new man-made leather (+5 million m^2)	First half of FY 2008
GENESTAR (+6,000 t)	Second half of FY 2008

② Business Development Strategies



③ Financial Strategies

¥ Billions

G-21 FY 2001–FY 2005

Income		Expenditure	
Net income	65	Dividends and buy back	31
Depreciation and amortization	103	Capital expenditure	185
Others	50		
Decrease in cash	35	Working capital and others	37

GS-21 FY 2006–FY 2008

Income		Expenditure	
Net income	78	Dividends	20
Depreciation and amortization	96	Capital expenditure	130
		Working capital and others	11
		Increase in cash	13

GS-21 Next 3–5 years

Income		Expenditure	
Funding		New business projects and M&A	200

In the methacrylic resin business, Kuraray will establish a stable earnings structure by launching such new products 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 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 its platform for growth.

The Kuraray Group will reinforce its earnings structure in the mature domestic markets 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 that reflects customer needs to establish competitive advantages in new growth fields. Furthermore, Kuraray will expand 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.

FINANCIAL STRATEGIES

Kuraray will continue to invest actively, implementing capital expenditure of ¥130 billion over three years. Of the ¥100 billion for investment in facilities enhancement, we have earmarked 40% for such growth fields as optics, automobiles, and energy. Further, we will concentrate investment on the strengthening of our facilities control systems and the securing of safe operations. The top left table shows our main capital expenditure. However, we are considering separate strategic investment of ¥200 billion for new businesses and M&A in the next three to five years.

Over the three-year period, we will invest ¥50 billion in R&D. Previously, we tended to overly disperse resources by investing in wide-ranging peripheral operations and diverse areas. Under GS-21, our strategy is to concentrate resources on the development of highly processed components in such strong-growth fields as optics, automobiles, and energy.

In G-21, including the acquisition of businesses, we undertook capital investments that were higher than net cash and cash equivalents provided by operating activities. Under GS-21, we plan to cover capital needs with net cash and cash equivalents provided by operating activities. However, we must raise funds externally for new business projects under the GS-21 and strategic investment capital for M&A. Targeting a payout ratio of between 25% and 30%, we aim to enhance the dividends-on-equity ratio through continued dividend increases based on higher ROE.