

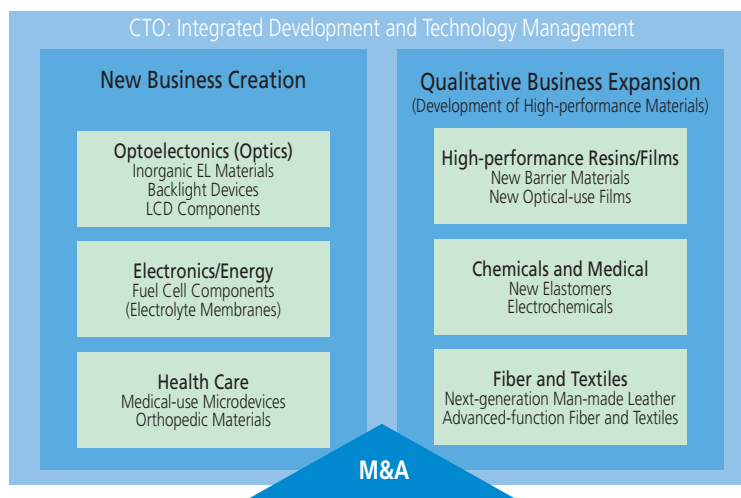
Research and Development

The GS-21 Medium-term Business Plan for fiscal years 2006 to 2008 aims to “shift R&D emphasis from quantity to quality to transform Kuraray into a specialty chemicals company capable of sustainable growth.” The Kuraray Group continues to focus on the promising growth fields of optics, electrical and electronics, automobiles, environmental products, energy, and health care. At the same time, we are activating our progressive refinement concept in the business development in accordance with for of highly processed, high-performance materials and components.

Kuraray Group’s R&D activities encompass corporate research undertaken primarily by the New Business Development Division; divisional R&D conducted by in-house companies and affiliates; and manufacturing technology development led by the Technology Division. Development and technology activities in fiscal year 2007 emphasized “selectivity” and “focus” with the aim of enhancing R&D efficiency and effectiveness. We implemented several programs, including “integrating the administration of technology and management resources” and “allocating R&D resources to advance key business themes” designed to accelerate commercialization of business creation projects.

The Corporate R&D division administers operations of the Kurashiki Research Laboratories, Tsukuba Research Laboratories, and Kuraray Research and Technical Center (USA). Divisional R&D activities are headed by R&D departments located on-site at each in-house company, division, and consolidated subsidiary. The Kuraray Group’s (Kuraray and consolidated subsidiaries) R&D operations employ 784 researchers and engineers.

The New Business Development Division Structure



To augment management resources and accelerate development

Accelerating New Business Creation

The New Business Development Division of the Corporate R&D division is tasked with accelerating commercialization of business creation projects and identifying next-generation businesses.

R&D in the optics field focuses on cultivating next-generation products. In the energy field, R&D concentrates on new materials and components for high-performance electrolyte membranes and other components essential to fuel cell batteries for which the market is expected to develop in the next few years. R&D in the health care field is advancing the development of innovative orthopedic materials and other products with the aim of creating new businesses in medical-related fields.

In March 2006, Kuraray and T. CHATANI & CO., LTD. established K·C Luminas Co., Ltd. to commercialize T. CHATANI & CO., LTD.'s revolutionary ultra-bright long-lasting inorganic EL material. In April 2007, Kuraray acquired a larger stake in the joint company and changed the name to Kuraray Luminas Co., Ltd. Under Kuraray's leadership, the company implemented a program to fortify its production technology development and industrialization.

Fortifying and Expanding Existing Businesses

Corporate research is tightly coordinated among our divisional R&D activities enabling close collaboration between the manufacturing technology development departments and the R&D departments of in-house companies and our affiliate companies. Vinyl acetate chain related products are our core business generating approximately one-third of group revenues, and the group accordingly gives the highest priority to corporate investment in vinyl acetate related R&D. These activities include researching and developing applications for polyvinyl butyral (PVB), which is a new material that offers different applications from our existing products. We believe our R&D of PVB will lead to new products and new markets for the company.