

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 (FY2006-FY2008) is a commitment to clearly defined three-year 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 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 the world and individual well-being through actions that others are unable to produce, 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 (Actual) | FY2008 (Forecast) | FY2008 (Commitment Target) |
| Net Sales | 375.1 | 385.3 | 417.6 | 450.0 | 450.0 |
| Operating Income | 38.3 | 40.2 | 48.1 | 51.0 | 50.0 |
| ROE | 6.5% | 6.4% | 7.3% | — | 7.0% |
| ROA | 8.2% | 8.1% | 9.6% | — | 9.0% |

Notes: Return on equity (ROE)=Net income / Average shareholders' equity x 100(%)
Return on assets (ROA)=Operating income / Average total assets x 100(%)

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 the G-21 Medium-term Business

Plan (FY2001-FY2005), 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 (FY2001-FY2005), 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 Medium-term Business 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.