

## **Establishment and Launch of the GS-Twins Medium-term Action Plan**

Kuraray has launched the GS-Twins medium-term action plan with a primary objective of swiftly reestablishing the Company's profit structure in response to the severe changes in the operating environment during the current worldwide economic crisis. The following is an introduction to achievements under the previous GS-21 three-year action plan and the chief elements and objectives of the new GS-Twins three-year action plan for fiscal years 2009 to 2011.

### **1. Review of the GS-21 medium-term management plan**

In fiscal 2006, the Company presented its 10-year Corporate Vision setting a course for the Group's long-term development and launched the GS-21 medium-term management plan effective for the three-year period of fiscal years 2006 to 2008.

During that period, the Company implemented numerous initiatives to advance four core management strategies designed to strengthen the Group's corporate standing.

- (1) Qualitative improvement of competitiveness and global expansion of core material businesses

The Company established a business base for Poval resin in Asia (making a joint venture manufacturing company its wholly-owned subsidiary by acquiring shares in the joint venture); expanded the PVB business and sought the group synergy effect (reinforcement of facilities of a manufacturing base in Europe, acquisition of intellectual property rights from other companies, and new establishment of the PVB division); and reinforced the facilities and increased production of Optical-use Poval films (for liquid crystal displays) and vinylon fiber (cement reinforcing agent to be used as an asbestos substitute).

- (2) Investment of management resources concentrating on the expansion of new growth fields

The Company established the Environmental Business Development and Promotion Division in anticipation of the global expansion of water treatment business; incorporated a joint venture engaging in water treatment; expanded

the market of heat-resistant engineering plastics and reinforced facilities therefor; expanded the global basis of the dental materials business; developed and commercialized new processes for man made leather and bonded fabric; and developed raw materials for new energy (solar power generation and fuel batteries, etc.).

(3) Restructuring of non-competitive businesses

The Company withdrew from the rear projection TV screen and aroma chemicals (linalool) businesses; shut down the domestic production of acrylic and cast sheet business; and spun off the dialyzer business.

(4) Establishment of global corporation management system

The Company reinforced corporate governance through appointment of two (2) independent directors; appointed the presidents of overseas subsidiaries as executive officer of the Company; installed the CTO (Chief Technology Officer) who supervises development and technology in an integrated manner; established a local supervising company by integrating bases in Europe; established a new subsidiary in India and Northern Europe; and introduced the global personnel education program.

The Company aimed to establish a profit structure, through the above-mentioned measures, that achieves sales of 450 billion yen, an operating income of 50 billion yen, a return on assets (ROA) of 9% and a return on equity (ROE) of 7%, in the fiscal year 2008, the last year of the GS-21. In the fiscal year 2007, the second year of the GS-21, the Company achieved the targeted ROA and ROE index one year earlier than expected. Therefore, the Company almost achieved the expected profit structure in the fiscal year 2007. However, the Company could not achieve the targeted management index due to the global economic crisis in and after the second half of fiscal year 2008.

(Billions of yen)					(%)
Fiscal Year	Net Sales	Operating Income	ROA	ROE	
2006 (actual)	385.3	40.2	8.1	6.4	
2007 (actual)	417.6	48.1	9.6	7.3	
2008 (actual)	376.8	29.3	6.1	3.9	
GS-21 Target	450.0	50.0	9.0	7.0	

During the three years of the GS-21 plan, the Company targeted a dividend payout ratio of 30% or more of consolidated net income and sought to raise capital efficiency by targeting a 70% shareholder return ratio (defined as the sum of dividends paid and share buybacks as a percentage of consolidated net income). The actual results for the three-year period were a 36% dividend payout ratio and 86% shareholder return ratio.

Although the Company succeeded in improving earnings through the measures set forth in the GS-21, the Company needs further drastic efforts to restore and enhance profitability in order to overcome the present economic crisis.

## 2. Reaffirming the 10-Year Corporate Vision

The 10-Year Corporate Vision framed in fiscal 2006 presented a clear image for growth with the goal of achieving ¥1 trillion in net sales in fiscal 2015 as a cornerstone for establishing Kuraray's global presence as a specialty chemical company.

The worldwide economic crisis presents a formidable obstacle to achieving the vision. Although we may not accomplish our goal as early as we had envisioned, we are unwavering in our commitment to the philosophy that quality is the fundamental component for realizing sustainable growth. We will work to rapidly reform and reestablish the Company's profit structure and continue to progress toward fulfilling our corporate vision.

Kuraray believes its technological innovations can provide unique and effective contributions for resolving issues threatening our planet and living environment, including global warming, limited natural resources, insufficient water and food supplies, and environmental pollution. The Company also works to achieve a harmony with all of its corporate activities and the environment and society. We believe that these perspectives on our role and the contributions we can make to society are what will make it possible for Kuraray to achieve long-term sustainable growth. Each of the new fields in which the Company's is concentrating—the new energy-related business, the aqua business, and the environmentally friendly materials business—is related to the above global issues. We plan to maximize our growth capabilities by leveraging our cultivated technical and market knowledge and harness the value creation potential of the entire Group as we seek to achieve our net sales target of ¥1 trillion in 2018.

### **3. Overview of the GS-Twins Medium-term Action Plan (Fiscal 2009 to Fiscal 2011)**

GS-Twins is an action plan in order to restore the profitability materially hurt by the global economic crisis within this 3 year period and to become a specialty chemical company with a presence as set forth in the "10-Year Corporate Vision."

#### **Key Initiatives**

##### **(1) Improve profit structure**

The Company will continue to;

- i) improve the business portfolio (reduction of and withdrawal from less profitable business fields);
- ii) make effective investments in facilities (selection of investment projects);
- iii) improve cash flow (reduction of inventory);
- iv) improve break-even point through thorough reduction of expenses and costs (particularly reduction of the fixed cost); and
- v) downsize its organization and optimize its personnel.

##### **(2) Creation and expansion of new business**

The Company will invest its management resources into the highlighted fields in which its technological potential is maximized and create an environmental-oriented business.

- i) In environmental areas:  
water treatment business – sewage treatment and recycling, recovery of valuable resources in the sludge

- ii) In energy areas:
  - new energy – solar energy (an encapsulation element of solar panels, etc.)
  - hydrogen energy (element of fuel batteries, etc.)
- iii) In optical and electronic business areas:
  - illumination parts and transparent conductive films etc.

**(3) Acceleration of global strategy for core businesses**

In the internationally competitive core material businesses, such as the vinyl acetate business, the Company will regionally further expand its business by mergers and acquisitions, accelerating development in the emerging economic market and attacking the existing markets that the Company has not already exploited

Kuraray's policy on the distribution of profit to shareholders is to maintain a dividend payout ratio of 30% or more of consolidated net income.

The Company will, through the 3-year execution of the above-mentioned measures, return to the profit structure envisioned under the GS-21 measures, and prepare for sustainable growth as set forth in the "10-Year Corporate Vision."

**[Reference] Core Business Strategies of the GS-Twins Action Plan**

**Chemicals and Resins**

Poval	-As the world's leading supplier, formulate a resilient and comprehensive operation encompassing manufacturing, marketing, and development. -Expand sales and establish the quality of PVB films for photovoltaic solar cells. -Further enhance optical-use Poval film quality and product differentiation.
<i>EVAL</i>	-Expand business content via new business development (new business areas). -Develop new environmental applications to build on gasoline tank usage.
Chemicals	-Increase competitiveness by developing new products (acrylic elastomers, etc.) and developing new applications for proprietary products.

**Fibers and Textiles**

Vinylon <i>KURALON</i>	-Expand new markets (in emerging economic markets) for fiber-reinforced cement (FRC) applications. -Expand and differentiate the engineered cementitious concrete (ECC) products.
<i>CLARINO</i>	-Rapidly enhance the competitiveness of the <i>TIRRENINA</i> series and accelerate production shift of current products to China.
Non-woven fabrics <i>KURAFLEX</i>	-Expand "Steam-jet type non-woven fabric" applications and sales.

**High-Performance Materials, Medical Products, and Others**

Medical	-Increase dental material sales in Europe and the United States. -Raise competitiveness of new products (bone filling material business)
<i>GENESTAR</i>	-Develop new applications and new markets to maintain product volumes and expand sales.
New businesses	-Grow the aqua and energy-related businesses.