

Corporate Governance, Internal Control

Corporate Governance

Basic Philosophy on Corporate Governance

Kuraray believes that the maintenance of appropriate relationships with various stakeholders including shareholders and the fulfillment of social responsibilities are consistent with Kuraray's objective of achieving long-term improvement in business results and sustainable growth as a global company. Kuraray believes it is a fundamental and important obligation to fulfill its social responsibilities by enhancing corporate governance and establishing highly transparent and fair corporate management.

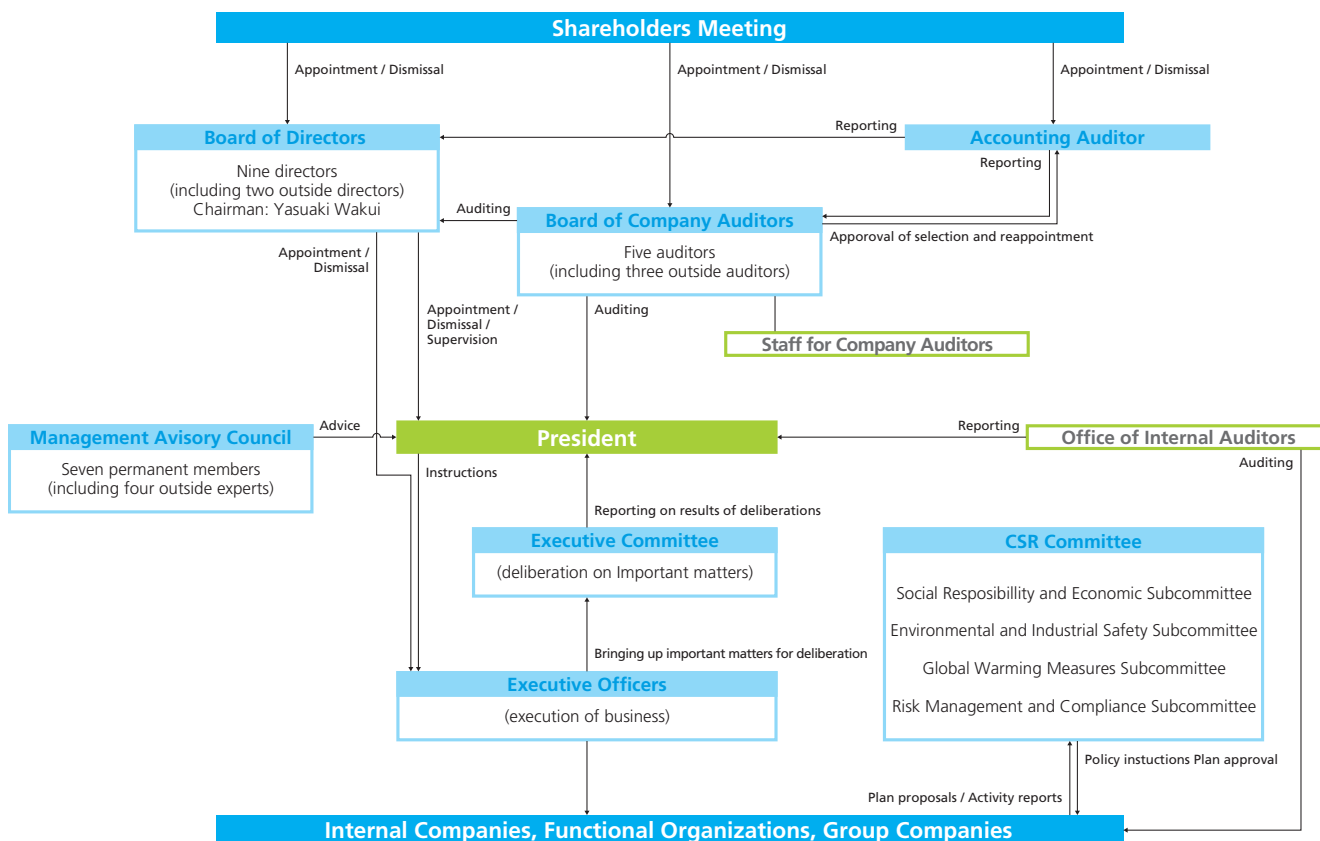
As a company with a Board of Company Auditors, Kuraray has established a corporate governance system centered on its board of directors and board of auditors to improve the effectiveness of supervisory and monitoring functions while maintaining management efficiency and to provide guidance for issues including management compensation, selection of new company officials, internal controls, and risk management.

Corporate Governance Systems

1. Board of Directors and Executive Organization

The Board of Directors establishes the Board of Directors' Regulations, deliberates and decides important management matters, including legal matters, and supervises the execution of business. The maximum number of directors is 10, and the term of office is one year. There are currently nine board members, including two outside directors. No personal, capital, transactional or other type of relationship that would present a conflict of interest exists between the company and outside directors.

Kuraray has entered into an agreement with each outside director, limiting their responsibility for damage compensation in accordance with Article 1, Paragraph 427 and Article 1, Paragraph 423 of the Japanese Company Act. Such agreement limits the liability to an amount provided by law. However, the limits on liability are only approved when the applicable outside director executed the duties that caused the liability without knowledge and gross negligence. As the chief executive responsible for business execution, the president appointed by the Board of Directors exercises control



over the execution of business in the Kuraray Group. Executive officers (one-year term of office) appointed by the Board of Directors are responsible for business execution in the various organizations of the Kuraray Group. As the heads of internal companies, divisions, and major functional organizations, the executive officers bear responsibility for operations and profit. Some Directors hold concurrent positions as executive officers.

The president establishes the Executive Committee (in principle, held twice a month) and other various councils and committees to deliberate and report on important matters concerning the Group's management policies and business execution.

2. Board of Company Auditors

The Board of Company Auditors consists of five company auditors, including a majority of three outside auditors independent from Kuraray Group. No personal, capital, transactional or other type of relationship that would present a conflict of interest exists between the company and the outside auditors. The company auditors attend meetings of the Board of Directors and other important meetings, and monitor the directors' performance of duties through inquiries conducted by such means as the examination of important documents and requests for explanations of the state of business affairs. In principle, the Board of Company Auditors convenes monthly. The company auditors regularly convene with accounting auditor, PricewaterhouseCoopers Aarata, and the Office of Internal Auditors (consisting of 12 members), which conducts internal audits. At these meetings, they receive reports on audit content and share information concerning audit planning, implementation, and related matters. The company auditors also serve as company auditors of core subsidiary companies to ensure subsidiary audits are performed appropriately and attend periodic Group Auditor Liaison Meetings consisting of the subsidiary auditors to deepen their understanding of each company.

Kuraray has entered into an agreement with each outside auditor, limiting their responsibility for damage compensation in accordance with Article 1, Paragraph 427 and Article 1, Paragraph 423 of the Japanese Corporate Law. Such agreement limits the liability to an amount provided by law. However, the limits on liability are only approved when the applicable outside auditor executed the duties that caused the liability without knowledge and gross negligence. Kuraray appoints staffs for company auditors (3 members) to assist the auditors in the performance of their duties.

3. Management Advisory Council

The company has established the Management Advisory Council to serve as a consultative body to the president from the perspectives of compliance, the protection of shareholder rights, and management transparency. The Council consists of five permanent members, consisting of one former president and four outside experts with wealth of experience in corporate management or corporate legal affairs. The Council convenes regularly to advise the president on such issues as important management policies and issues, succession of the president, selection of successor candidates, and compensation for the president.

4. Status of Accounting Auditor

No special interests exist between the Company and accounting auditor, PricewaterhouseCoopers Aarata, or the engagement partners of such auditing firm who audits Kuraray. In addition, such auditing firm voluntarily take steps to ensure the engagement partners are not involved in audits of the Company for longer than a prescribed period of time.

Internal Control

Basic Philosophy on Internal Control

The Kuraray Group recognizes that maintaining and implementing internal controls is an important management task. The Board of Directors implements internal controls under the following five categories based on the Basic Policy for Establishing Internal Controls as determined by the Board of Directors.

1. Systems for risk management and to ensure compliance with laws and regulations by directors and employees
2. Systems to ensure efficient execution of duties by the directors and the storage and management of information regarding such execution
3. Systems to ensure appropriate work practices of the corporate group
4. Systems to ensure effective application of the auditor duties
5. The internal control maintenance and operation is administered such that the Office of Internal Auditors conducts internal audits of the Kuraray Group and the corporate auditors conduct audit and oversight of the execution of duties by directors