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Risk Management and Compliance Promotion Structure

To strengthen the risk management and compliance promotion structure, Kuraray separated the Risk Compliance Committee from the CSR Committee in fiscal 2017 to have the Risk Compliance Committee report directly to the Board of Directors. With the Risk Compliance Committee placed at the core, the Kuraray Group will conduct activities to realize the implementation of priority countermeasures on critical risks, strict compliance of laws and regulations and corporate ethics, and fair business practices.

Risk Management

The Kuraray Group has the President direct basic policies and annual themes on risk management to the organization every year, allowing each to make flexible and prompt responses to changes in the risk environment while maintaining the long-term continuous basic approach in risk response.

Specifically, the head of each organization identifies, self-assesses, and appropriately responds to the risks in its own organization. From these risks, the Risk Compliance Committee then extracts critical risks which need to be managed on a company management level, reports to the management and the Board of Directors, and designates an executive in charge to proceed with the prioritized measures.

Kuraray Group Risk Management Policy

The Kuraray Group's risk management policy which was conveyed by the President to the entire organization consists of two parts, namely, a long-term and continuous "basic policy" embracing the overall Group risk management and "annual themes" that are dealt with in each fiscal year in light of social situations and trends of the Kuraray Group and other companies. This system allows flexible and prompt actions to be taken against changes in the risk environment while maintaining the basic approach to responding to risks. The management policy for fiscal 2018

Kuraray Group Risk Management Policy for Fiscal 2018

Basic Policy

- (1) We will prevent illegal, unfair or improper practices which betray confidence of society.
- (2) We will prevent all accidents which threaten health and security of our employees, local communities, customers and business partners, including occupational incidents, process accidents, environmental pollution and product accidents.
- (3) In case of an event which causes serious negative impacts on our business or society, we will take actions to ensure confidence of society and health and safety, and to continue or quickly restore our normal business operation.
(We will give priority to ensuring confidence of society and health and safety, and then take measures to continue or restore our business operation.)

Annual Tasks

- (1) Reexamining risks of material violation of laws and regulations, including the Anti-Monopoly Act, and strengthening measures.
- (2) Implementing mitigation measures against risks caused by natural disasters.
- (3) Strengthening measures for quality.

Risk Management

The Kuraray Group's risk management is characterized by a two-tier approach, such as "vertical" and "horizontal" risk managements. In the vertical risk management, the business units, divisions, offices, plants and affiliates identify risks facing their individual organizations, evaluate such risks by themselves and appropriately devise and implement actions and measures to be taken. In the horizontal risk management, the corporate staff departments evaluates and conducts the cross-sectional management of pure risks such as natural disasters and infringement of laws and regulations that cause only negative impacts when such risks take place. Among these risks, the Risk Management and Compliance Committee discusses, selects, and reports to the Board of Directors critical risks that need to be managed at the company management level, while assigning an officer in charge and taking measures on a priority basis.

Compliance

Group Compliance

“Our Commitment” states the principles of our conduct which we should observe in doing our business. The “Kuraray Group Code of Conduct” serves as guidelines to implement the commitment in performing day-to-day work. Top executive of Kuraray Group has declared that we will comply with laws and regulations and “Our Commitment” under any circumstances. To share these principles and commitments among all Kuraray Group personnel throughout the world, Compliance Handbook has been compiled containing the foregoing declaration by the top executive and explanations of the “Kuraray Group Code of Conduct.” To disseminate these principles and commitments among all Kuraray Group employees, a compliance handbook written in eight languages, Japanese, English, German, Chinese, Hangul, Russian, Flemish and Czech has been distributed to the Group employees throughout the world.



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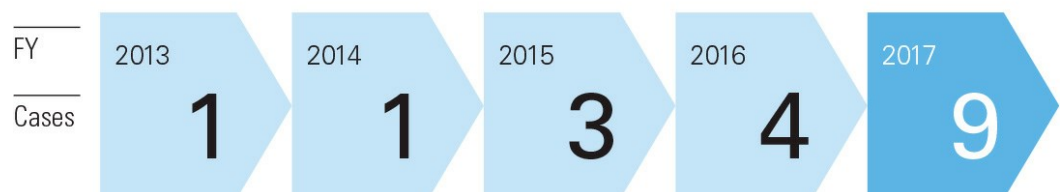
In addition, we have appointed compliance officers at plants, offices and laboratories of Kuraray and Group companies, and have organized a compliance committee by region. The regional committee is working effectively to implement not only company-wide themes decided by the Risk Management and Compliance Subcommittee but also region-specific themes.

Whistleblower System

As a whistleblower system to prevent, identify and troubleshoot any compliance violation at an early stage, the Kuraray Group Employee Counseling Room has been set up for all employees of the Kuraray groups in Japan, including contract employees, dispatched staff and part-time employees. Whistleblower contact windows are also provided at major subsidiaries in Europe and North America.

In recent years, as globalization of the Kuraray Group has accelerated rapidly through M&A and other activities, the Group has built a system at subsidiaries that did not yet have such contact windows, and made it possible to access the contact window, except for certain European bases in fiscal 2017.

Number of Consultations at the Kuraray Group Employee Counseling Room in Japan



Thorough Compliance Measures

In March 2016, the Fair Trade Commission of Japan made an on-the-spot inspection of Kuraray,

involving competitive bidding on textile products purchased by the Acquisition, Technology and Logistics Agency, Defense Ministry. Subsequently, in March 2017, the commission ruled that Kuraray had violated the Anti-Monopoly Law and issued a cease-and-desist order.

After the on-the-spot inspection, the top executive issued a message to all officers and employees of the Kuraray Group instructing strict compliance with the Antimonopoly Act. Outside experts were also invited to hold seminars relating to the Antimonopoly Act for sales personnel and all managerial personnel in the Tokyo and Osaka Head Offices. At the same time, each division checked its transactions thoroughly in light of violations and other cases. Furthermore, revision of employment rules with an emphasis on compliance with laws and regulations and the setting of new rules of contact with other companies in the same industry were made.

Nevertheless, in February 2017 the Fair Trade Commission of Japan made an on-the-spot inspection again at Kuraray on the manufacture and sale of activated carbon used in water purification facilities, waste incinerators and other facilities. We take this series of events seriously and sincerely and will implement all necessary measures to ensure that such incidents do not recur. We are cooperating fully with the inspection by the commission and will clarify the points that should be improved in the following respects and reinforce countermeasures.

Message from Top Executive

The President again issued a message to all officers and employees of the Kuraray Group instructing strict compliance with the Antimonopoly Act and a recheck of business operations. Instructions to thoroughly implement preventive countermeasures relating to the Antimonopoly Act were given via video message to members of business related divisions in particular.

Compliance Enhancement Months

The compliance Enhancement Months, from August 2017 to October 2017, were set and the following measures were implemented:

(1) Antimonopoly Act Seminar

The seminars were held for all members of business related divisions including group companies in Japan where cases were reviewed by small groups' discussion. The difference between each understanding and legal standards was checked by comparing the results with comments provided by a lawyer to increase awareness of violation of the Antimonopoly Act. A written pledge to comply with the Antimonopoly Act has also been obtained from all the participants.

(2) Compliance Seminar

The seminars were held for all employees (including part-time employees, contract employees, and dispatched staff) including group companies in Japan to allow all members of the relevant division to reflect on the division's potential compliance risks.

(3) Thorough Check on Transactions

Divisions and affiliated companies rechecked their transactions thoroughly after the Antimonopoly Act Seminar was held.

A system which constantly monitors contacts with other companies in the same industry was established and began operation.

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