

Corporate Social Responsibility Report

Kuraray CSR Report 2007



kuraray

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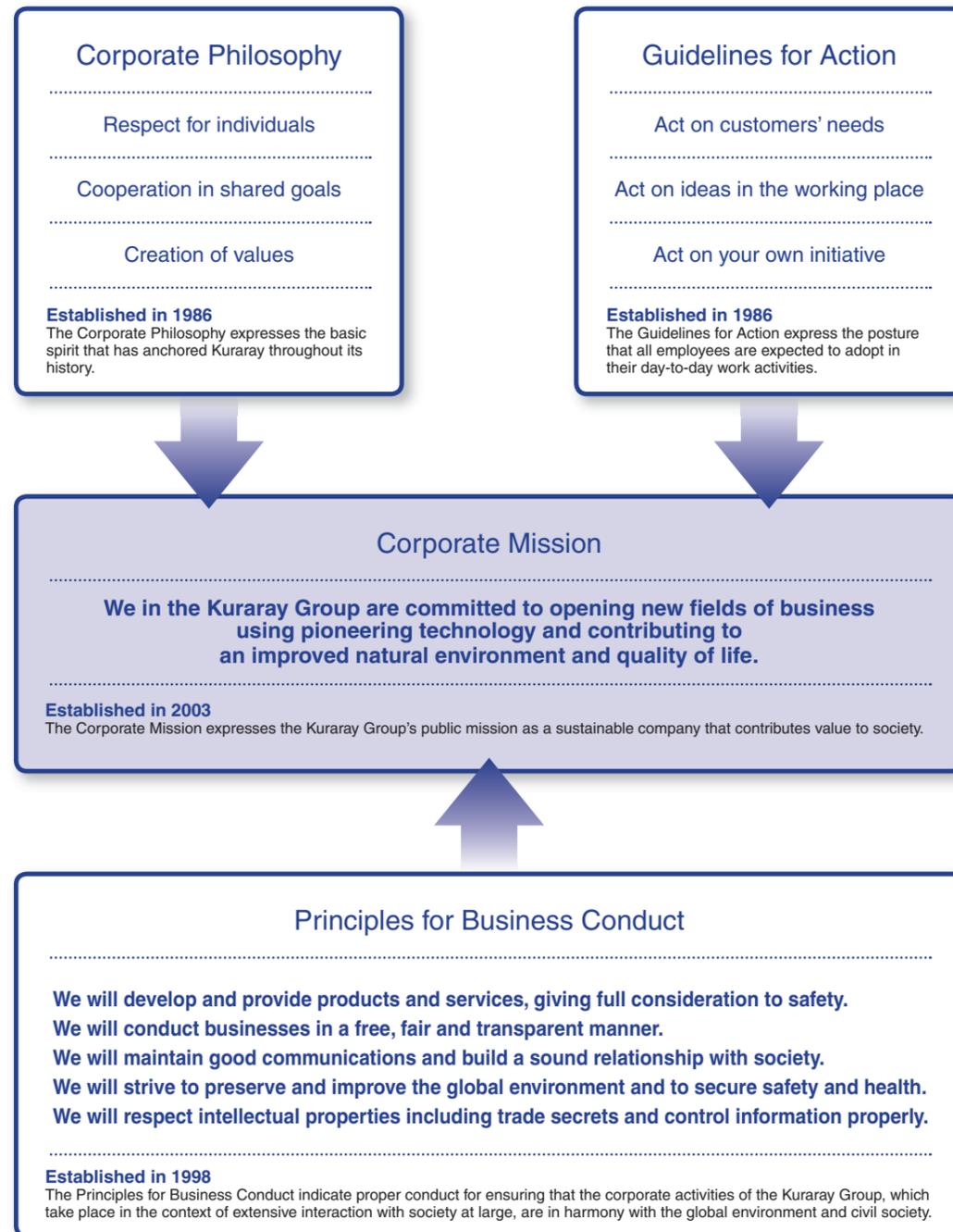
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Management Philosophy

The Management Philosophy of the Kuraray Group

For the Kuraray Group, corporate social responsibility means activities to fulfill our Corporate Mission, which is to discharge our responsibility to society by engaging in business activities that conform to our Principles for Business Conduct, ensuring that all employees ground their attitudes and behaviors in the Corporate Philosophy and Guidelines for Action.



Editorial Policy

During initial stages of publication, Kuraray issued the Kuraray Environmental Activities Report, which focused on environmental preservation and disaster prevention activities. In 2004 the CSR Committee assumed editorial responsibility for the report and issued the first Kuraray CSR Report, which covers all corporate social responsibility (CSR) activities.

Past Publications

1998 to 2002	Kuraray Environmental Activities Report
2003	Kuraray Environmental and Social Report
2004 to present	Kuraray CSR Report

In preparing this report, we referred to the Ministry of Environment's Environmental Report Guidelines (2003 Edition) and the GRI Sustainability Reporting Guideline 2006 (tentative version of Japanese translation).

The reporting period is from April 1, 2006 to March 31, 2007. (In some cases, activities conducted on and after April 1, 2007 are included.)

All italicized product names in this report are trademarks of the Kuraray Group.

In this report, the terms 'Kuraray,' 'Kuraray Group,' and 'Domestic Kuraray Group companies' refer to the following companies.

Kuraray	Kuraray Co., Ltd. (the 'Company') and its 12 affiliated companies occupying the same premises, 13 companies in total
Kuraray Group	Kuraray Co., Ltd. and its 30 principal affiliated companies, 31 companies in total
Domestic Kuraray Group companies	Kuraray Group companies other than the overseas subsidiary companies, 24 companies in total

The Kuraray Group (●Affiliated companies occupying Kuraray premises)

Kuraray Co., Ltd.	Kuraray Fastening Co., Ltd.	Kuraray America, Inc.
Kuraray Medical Inc.●	Kuraray Business Service Co., Ltd.●	Eval Company of America
Kuraray Engineering Co., Ltd.●	Kuraray Travel Service Corporation	SEPTON Company of America
Kuraray Chemical Co., Ltd.	Kuraray Family Products Co., Ltd.	Kuraray Europe GmbH
Kuraray Trading Co., Ltd.	Kuraray Kiko Co., Ltd.●	EVAL Europe N.V.
Kuraray Plastics Co., Ltd.	Kuraray Niigata Kasei Co., Ltd.●	Kuraray Specialities Europe GmbH*
Ibuki Kosan Co., Ltd.	Kyosei Chemical Co., Ltd.●	Kuraray Specialities Asia Pte., Ltd.
Kuraray Fudosan Co., Ltd.	Kuraray Saijo Co., Ltd.●	
Kuraray Living Co., Ltd.	Kuraray Tamashima Co., Ltd.●	
Kuraray Techno Co., Ltd.●	Kuraray Okayama Spinning Co., Ltd.●	
Techno Soft Co., Ltd.	Kuraray Kuraflex Co., Ltd.●	
Kuraray Interior Co., Ltd.	Nihonkai Acetylene Co., Ltd.●	

* In September 2006 Kuraray Specialities Europe GmbH was merged into Kuraray Europe GmbH.

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SPECIAL TALK

CSR is like a long-distance race.

What is CSR distinctive and unique to Kuraray?

President Yasuaki Wakui zeroes in on the heart of the matter in a dialog with Olympic medallist Yuko Arimori.

Although at first glance business activities and sports may appear to be altogether dissimilar undertakings, in fact they share a number of common traits as pursuits that influence society at large. Surely it is the desire for and practice of the resolute pursuit of universal value that will further enrich people, communities, and society.

President and Representative Director, Kuraray Co., Ltd.

Yasuaki Wakui

Those who can, do what they can.

Arimori Thinking back, my first encounter with Kuraray was the red *CLARINO* school bag I used back when I was in elementary school.

Wakui It was in 1964 that Kuraray developed *CLARINO* man-made leather based on research into a material lighter and more durable than natural leather. We could say that you are a customer from the dawning of the *CLARINO* era, couldn't we?

Arimori Yes. The school bag certainly was light and durable. I remember that it lasted a lot longer than my older brother's bag.

Wakui Thank you. *CLARINO* is an example of a consistent pattern of product creation at Kuraray by which we develop products with the aim of assisting consumers at that particular moment in time to lead fulfilling, comfortable lives. Other examples are Vinylon, which we commercialized in the 1950s as a cotton substitute, and in recent years, *EVAL* a plastic that offers the highest level of gas barrier properties (used in wide-ranging applications such as food packaging and gasoline tanks).



Profile

Born in Okayama Prefecture in 1966. Won a silver medal in the women's marathon at the Barcelona Olympics and a bronze medal at the Atlanta Olympics before retiring from competition in 2007. Established a non-profit organization to donate prosthetic limbs to land mine victims in Cambodia in 1998. Currently active in wide-ranging pursuits, including serving as a goodwill ambassador for the United Nations Population Fund, a special member of the Women's Committee of the Japan Association of Athletics Federations, and a member of the IAAF (International Association of Athletics Federations) Women's Committee.

Yuko Arimori

I would like to deeply inculcate in each employee at Kuraray today the concept "Contributing to the world and individual well-being through actions that others are unable to produce," which has been handed down as an unbroken tradition from the times of Kuraray founder Magosaburo Ohara and his successor Soichiro Ohara. That desire prompted the formulation in 2003 of the Corporate Mission (see P.2). Of course, this applies not only to product development, but also to overall business activities and corporate citizenship activities as well.

Arimori It was Magosaburo Ohara who founded Ohara Museum of Art in Kurashiki, which I love, wasn't it? I've heard that he invested his own money in art not merely out of personal satisfaction as a collector of Western art such as the works of El Greco, Monet, Cezanne, etc., but also out of the desire to expose young Japanese artists to real works of art. Also, as an athlete I felt deep affinity with the saying "Contributing to the world and individual well-being..." that you spoke of.

Wakui And you yourself have moved from your athletic achievements as a two-time Olympic medallist into socially beneficial activities, haven't you?



**“Those who can, do what they can.”
I want to steadily persevere
with even small activities.**

Arimori I do a simple thing “Those who can, do what they can.” I want to steadily persevere with even small activities such as starting an NPO and holding a charity marathon or holding sports camps for elementary school children.

Wakui I think that’s a wonderful thing. Although our situations are different, there is no difference with respect to asking ourselves “What can I do” and steadily persevering with what we can do for society in our respective areas of expertise. And this is not affectation, but a long, patient enterprise like marathon running.

Fostering Enduring, Powerful Bonds

Arimori I agree. Persevering with a single objective and seeing it through to the end is important, isn’t it?

Wakui When Kuraray, as a manufacturer, considers what stance it should maintain, it is not sufficient to be satisfied with our products sell well. Rather, we want to maintain as our gold standard whether or not our products are socially beneficial.

Although people often talk about meeting consumer needs, if that entails causing harm to people’s lives the courage to absolutely refuse to enter or to withdraw from a business is necessary. By contrast, if something is beneficial, it is necessary to disregard a certain amount of risk. I spoke earlier of Vinylon. It is precisely because Vinylon was made using water and limestone, resources available in Japan in the post-war period of scarcity, that at the time Kuraray bet the company’s future on its commercialization.

Arimori I’m a Kuraray user, going back to the time of my CLARINO school bag. I think that a powerful sense of purposefulness such as you describe is necessary for

fostering enduring, powerful bonds with the many people involved with Kuraray.

Wakui The cornerstone of Kuraray is the concept expressed in a line from Soichiro Ohara, Kuraray’s second president, that I love: “Company earnings must be profit commensurate with contributions to society and the national economy.” That is to say, Soichiro expressed as far back as 1962 the notion that profit exists only as a reward for business activities that benefit society. As a matter of fact, I myself am one of many at Kuraray who joined the company out of sympathy with this thinking. Today, broadly speaking, Kuraray is supported by four groups of stakeholders: customers and suppliers; shareholders; employees; and local communities and society at large. Among these stakeholders, it is our customers and suppliers with whom we seek to work together to deliver value to society and with whom we seek to earn profits. Also, I desire to appropriately return the profits Kuraray has received from society to our shareholders. This type of profit cannot be earned without a long relationship of trust with customers, suppliers, and shareholders. Kuraray wishes to remain a company that can reward that trust.

Arimori How does that thinking apply to Kuraray employees?

Wakui In addition to protecting employment and cultivating a better working environment, I want to devote my full energies to creating an organization, culture, and systems that make people proud to have joined a great company. We are working to create a democratic corporate culture in which people respect individuals and, for instance, call one another Mr. or Ms. rather than using job titles.

Arimori I myself have had increased opportunities to



**“Company earnings must be profit
commensurate with contributions to
society and the national economy.”**

experience the creation of workplaces in which people can take pride in leading NPOs and other organizations.

Wakui You often say in the media, “Be a person first, then an athlete.” Although companies are undeniably nothing more or less than players in pursuit of profits, we would like first of all to be a good corporate citizen. I believe beyond any doubt that it is the pride and motivation of each employee that is the driving force behind the organization. This is because without respect for “individuals” a company can’t expect to run a full marathon: that is, it can’t expect the employees to continue to put forth their best.

Similarly, local communities and society at large are essential partners in Kuraray’s long-distance race. As we are partners, it is necessary to actively build relationships of trust. In particular, we will engage in proactive information disclosure to the residents of communities near our plants. At the same time, we will rigorously engage in disaster prevention activities. We are also working at energy conservation, conversion to clean fuels, the introduction of new forms of energy, and other CO₂ emissions reduction measures.

In the area of social contributions as well, I want to build a true partnership with society by emphasizing continuous rather than transitory activities and doing what we can do because we are Kuraray.

Praise oneself for the first time

Arimori I thought the term “CSR” referred to something new and original, but from what you have said today I strongly feel that it’s really about a more steady, down-to-earth, human-centric way of thinking. The purpose and strength of each individual person

who shapes a company enlivens the company and invigorates society. Even though the ways this is expressed in sports and in business activities may differ, the roots are the same. I would like to keep that thought in mind as I continue my involvement with society at large.

Wakui That’s right. Although every employee is different, when a single universal policy permeates the entire organization a company becomes invigorated. In other words, CSR at Kuraray comes about only when two conditions co-occur: the first is the obligations of a manufacturer with respect to compliance, environmental preservation, and the stable supply of products and the second is contribution in the form of the provision of products that benefit society and the environment by means of technical development. To ensure that Kuraray perpetually discharges that social responsibility, I would like to further deepen relationships between the company and stakeholders. Above all, without cheerful, vital relationships between employees the long-distance race of corporate activities cannot be run.

By the way, Ms. Arimori, I love the words you spoke when you won your second Olympic medal: “I feel like praising myself for the first time,” especially the part “for the first time.” I imagine that heretofore you have put forth great efforts and endured hardships behind the scenes and think that those are words that only someone who has unwaveringly followed such a difficult path could say. Those of us who work at companies would be truly happy if we could say that after reaching a number of milestones in our own vocations. You have enabled me renew my desire to make Kuraray that type of company. Thank you for your time today.

Arimori Thank you.

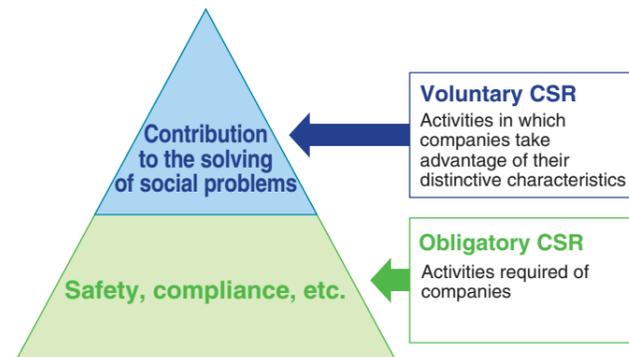
Corporate Social Responsibility in the Kuraray Group

The business of providing products and services that deliver value recognized by society offers the advantage of high sustainability. However, the sustainability of a business and the sustainability of the company that engages in that business are not necessarily the same. The Kuraray Group actively engages in CSR activities to enhance corporate sustainability.

The CSR Concept

The scope of corporate social responsibility is extensive, and closely connected with many different activities in which companies engage. It can be said to be corporate activities themselves. Meeting the challenges of CSR is a necessary condition for a company to endure, and active engagement in CSR is a prerequisite for corporate growth.

The Kuraray Group regards CSR as an active undertaking. We steadily engage in safety, compliance and risk management and other CSR activities as an obligation to society. In the coming years, on the basis of the concept "Contributing to the world and individual well-being through actions that others are unable to produce," we will engage in voluntary CSR activities that take advantage of the distinctive characteristics of the Kuraray Group and provide value to society unobtainable elsewhere, such as the development of products and services that contribute to solving social problems.



CSR Through Products and Services

The Kuraray Group regards contributing to society through the products and services we provide to be of primary importance in CSR. To benefit society through the provision of products and services, we are developing new technologies and products in accordance with the principles described below. Furthermore, we strive to ensure the stable, continuous supply of products and services.

The Kuraray Group aims for the following in the products and services we provide:

- Provide things truly necessary for society.
- Pursue value that only the Kuraray Group can provide.
- Actively engage in things others cannot do.

Also, when engaging in socially beneficial activities and other initiatives directed at local communities and society at large, we place importance on relevance to our business.

Stakeholder Relationships

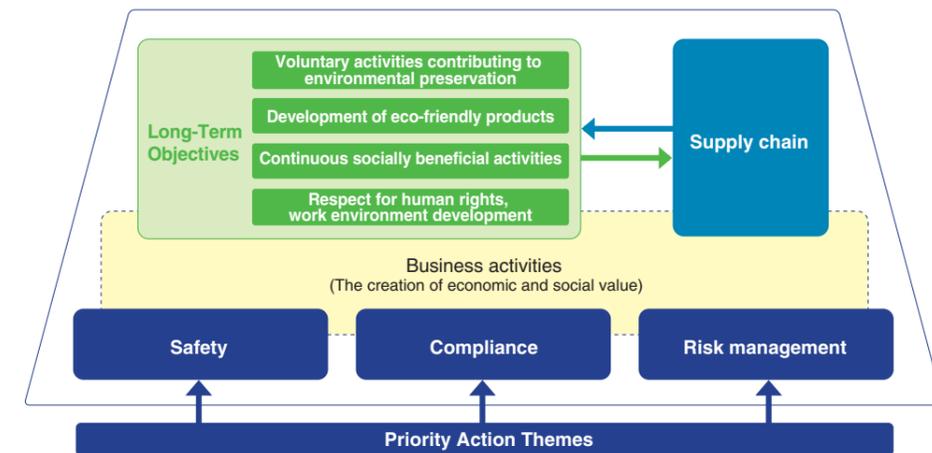
The Kuraray Group desires to build the stakeholder relationships described below.

- **Customers and suppliers** Mutually beneficial, enduring business relationships forged through the provision of truly beneficial products and services
- **Shareholders** A relationship by which shareholders can contribute capital on a long-term basis in the expectation of stable, sound earnings and appropriate returns
- **Employees** A relationship by which employees can derive pride and satisfaction from work and gratification from working with other Kuraray employees
- **Local communities and society at large** Relationships by which Kuraray as a good corporate citizen wins public understanding and support through appropriate information provision and proactive communication

The Scope of CSR Activities

What is required of companies in society today? The Kuraray Group constantly ponders this question and seeks to understand its own social role. On that basis, we will engage in steady, sound CSR activities, placing priority on what we consider most important in light of the Group's history, the basic principles of management, and the characteristics of our businesses.

- Kuraray has positioned safety, compliance, and risk management—the basis of the continued existence of a company—as Priority Action Themes and steadily lays the groundwork for excellence in these areas.
- Kuraray engages in voluntary environmental and social activities from a broad perspective as Long-Term Objectives with the aim of contributing to the realization of a sustainable society.



CSR Promotion Structure

The CSR Committee, established in 2003, plays a central role in implementing the Kuraray Group's CSR activities. The scope of the social responsibility required of companies continues to expand and the required commitment increases, necessitating a response across the entire organization. The CSR Committee is a management-level special committee that decides group-wide policies, objectives, and action plans and puts into practice wide-ranging CSR programs with the cooperation of other Group organizations.

The CSR Committee maintains the Social Responsibility and Economic Subcommittee, the Environmental and Industrial Safety Subcommittee, and the Risk Management and Compliance Subcommittee. The subcommittees maintain theme-specific working teams that focus on implementing concrete activities and ascertaining and evaluating results.



Corporate Governance

Kuraray believes that the maintenance of appropriate relationships with shareholders and other stakeholders and the fulfillment of environmental and social responsibilities are consistent with Kuraray's objective of achieving long-term improvement in business results and sustainable growth as a company that does business globally. Kuraray seeks to fulfill its responsibilities as an enterprise open to society by enhancing the corporate governance function and establishing highly transparent and fair management.

Corporate Governance System

Kuraray is establishing a corporate governance system to increase the effectiveness of supervision and monitoring functions, as well as to ensure management efficiency.

The Board of Directors and organizations responsible for business execution

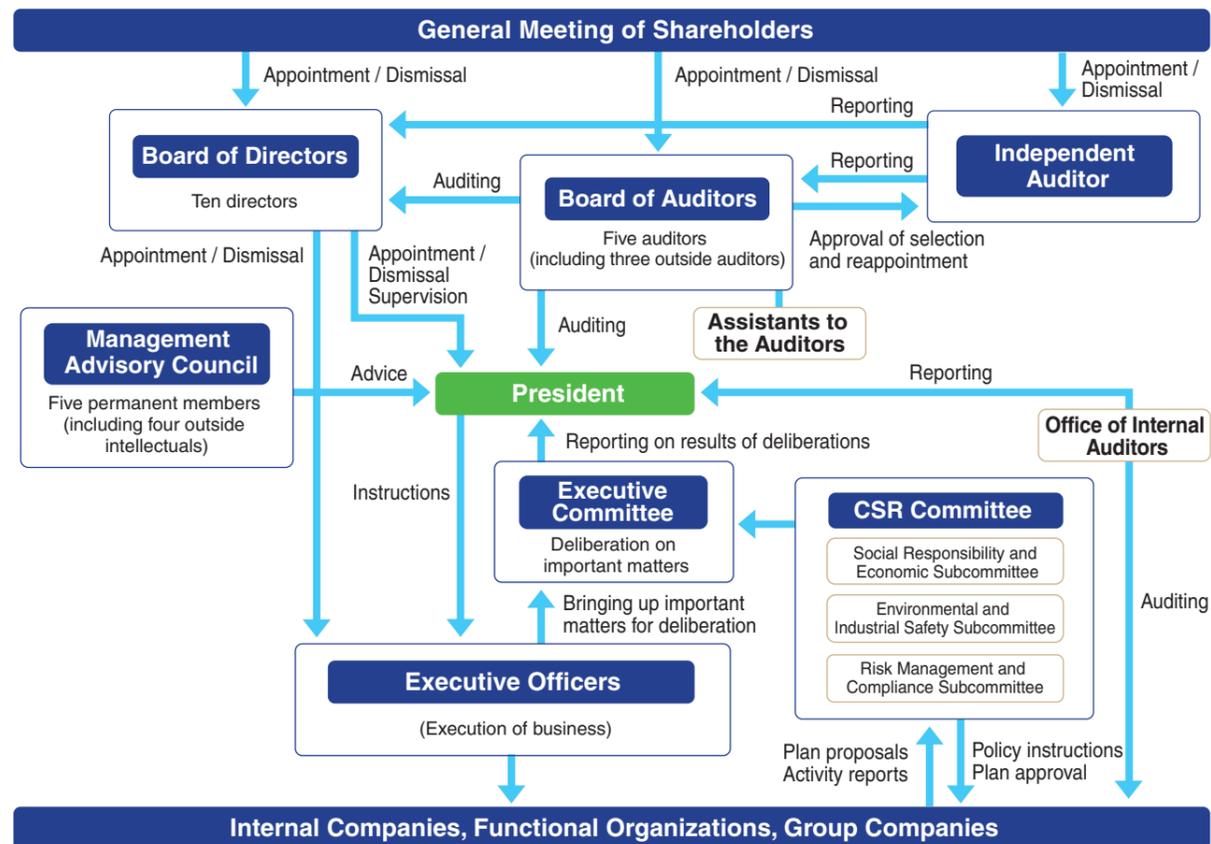
- The Board of Directors establishes the Board of Directors Regulations, deliberates on and decides important management matters including legal matters, and supervises the execution of business. The maximum number of directors is ten, and the term of office is one year.
- As the chief executive responsible for business execution, the president exercises control over the execution of business in the Kuraray Group.
- Executive Officers (one-year term of office) selected by the Board of Directors are responsible for business execution in the various organizations of the Kuraray Group. As the heads of in-house companies, divisions, and major functional organizations, the executive officers bear operational responsibility and profit responsibility.
- The president establishes the Executive Committee and other various councils and committees to deliberate and report on important matters concerning the Group's management policies and business execution.

Management Advisory Council

- Kuraray 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, which consists of five permanent members, four of whom are intellectuals from outside the Group who have a wealth of experience in corporate management or corporate legal affairs, advises the president on issues such as important management policies and issues, succession of the president, successor candidates, and compensation.

Board of Auditors

- The Board of Auditors consists of five corporate auditors, including three outside auditors from outside the Kuraray Group. The corporate 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. Kuraray appoints dedicated Assistants to the Auditors to assist the auditors in the performance of their duties.



Internal Control

The Kuraray Group recognizes that the establishment and implementation of internal controls is an important management task and is engaged in putting in place an internal control system based on the Basic Policy for Establishing Internal Controls decided by the Board of Directors.

- The CSR Committee administers the establishment and operation of the Group's integrated compliance and risk management systems. The CSR and Communications Division serves as the CSR Committee's secretariat, administering the Committee's business and working to inculcate compliance within the Group.
- The Office of Internal Auditors, an internal audit organization that reports directly to the president, cooperates with corporate auditors and independent auditor to audit the legality, appropriateness, and effectiveness of business operations in each organization.
- Group rules and regulations are set, and information systems established, to ensure the reliability of financial reporting.
- To enhance these systems, Kuraray has established the Internal Controls Reform Team, which inspects and promotes establishment of group-wide internal controls.

Compliance

To ensure transparency and fairness in business activities, in addition to putting in place an effective corporate governance system, it is necessary to build an organizational culture to encourage individual employees to act appropriately on the basis of a highly developed sense of ethics. For this reason, Kuraray engages in systematic activities to strengthen compliance. In fiscal 2006 Kuraray revised the Antimonopoly Act Compliance Guidelines, distributed them to Group employees in Japan (managers and sales representatives), and held courses conducted by an attorney who specializes in Antimonopoly Act. We also prepared the Compliance Handbook (U.S. Version), a publication that covers U.S. laws and regulations (see P.31 for our internal reporting system).

Compliance Declaration

On behalf of the Kuraray Group, the President of Kuraray Co., Ltd. publicly announced the Compliance Declaration, making compliance and the practice of corporate ethics the most important corporate activity at Kuraray.

- 1 We will comply with the law and the Principles for Business Conduct.
- 2 We will give precedence to laws and regulations, and to the Principles for Business Conduct, over corporate profits.
- 3 We will strive to prevent any act that goes against laws and regulations or the Principles for Business Conduct, or that betrays the trust that society has placed in us.

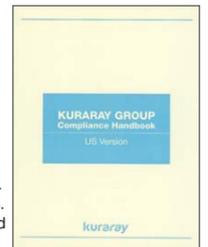


Antimonopoly Act Compliance Guidelines

This is an easy-to-understand instructional guide that provides concrete examples that illustrate matters concerning the Antimonopoly Act to be considered in the course of day-to-day business.

Compliance Handbook (U.S. Version)

This is an English-language legal compliance instructional guide for Kuraray Group employees in the U.S. that covers U.S. laws and regulations. The U.S. Version was prepared based on the Japanese-language version.



VOICE Compliance in the United States

The Kuraray Group in the United States has developed a compliance program as part of risk management system construction. The Compliance Handbook (U.S. Version) is a tool prepared in accordance with this program to deepen understanding of laws, regulations, and codes of conduct closely connected with business activities and has been distributed to all employees of the Kuraray Group in the United States. I have requested that all employees read and understand the contents of the handbook and constantly compare their own conduct against the guidance provided therein. The consensus among employees seems to be that the handbook is easy to understand.



Shuichi Takemoto
President, Kuraray America

Risk Management

The functional organizations have engaged in continuous risk management for the Kuraray Group, with the CSR and Communications Division playing a central role. However, to respond to new demands such as the diversification of risk factors and the establishment of a Business Continuity Plan (BCP), in April 2007 Kuraray established a dedicated risk management department and is developing management systems. In times of serious emergency, Kuraray puts into operation an Emergency Response Headquarters directed by the president and launches a rapid response that musters the resources of the entire organization.

Interesting Facts About Kuraray

Kuraray was established in 1926 for the purpose of commercializing the chemical fiber rayon. In 1950, soon after the Second World War, Kuraray became the first company in the world to successfully commercialize the synthetic fiber vinylon which was invented in Japan. Kuraray has always maintained a basic management stance of contributing to society through product development grounded in creative technological innovation.

Embodying this stance are the many products the Kuraray Group provides worldwide that are world firsts, unique, or global market share leaders. These products, even those whose production volume or sales are small, provide value essential to people's lives and to industry.

The Kuraray business concept is to earn fair profits through business activities and benefit shareholders and other stakeholders while investing resources in the search for and development and provision of technologies that spawn products that offer greater social value and reduce environmental load. We believe that this is the path to fulfillment of the Kuraray corporate mission: "We in the Kuraray Group are committed to opening new fields of business using pioneering technology and contributing to an improved natural environment and quality of life." We also believe that this enables us to fulfill our corporate responsibilities through our business activities.

Corporate Profile

Company name	Kuraray Co., Ltd.	Head offices	Tokyo, Osaka
Date of establishment	June 1926	Plants and laboratories	Kurashiki, Okayama, Niigata, Kashima, Tsukuba
Capitalization	89 billion yen (as of March 31, 2007)	Group companies	34 consolidated subsidiaries, 8 equity method affiliates
Net sales (consolidated)	385.3 billion yen (fiscal 2006)	Overseas operations	USA, Germany, Belgium, China, Singapore
Number of employees (consolidated)	6,812 (as of March 31, 2007)		

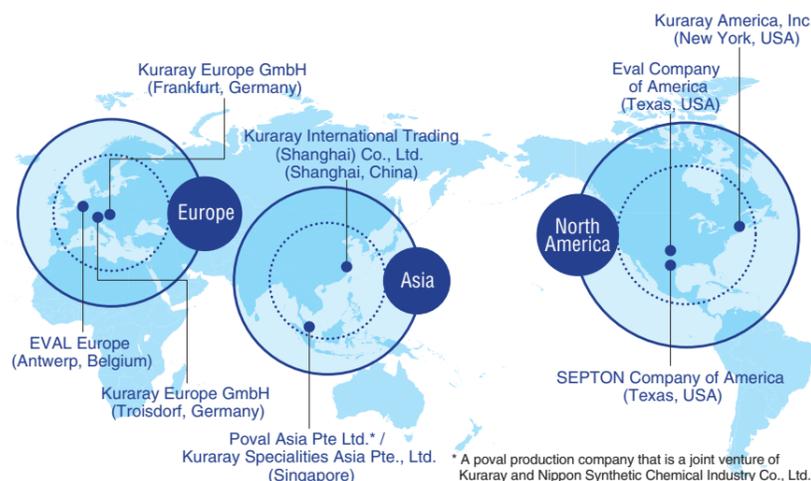
Global Rankings of Kuraray Group Products

No. 1 in Global Market Share	● Poval (polyvinyl alcohol resin)	● Vinylon (polyvinyl alcohol fiber)
	● Poval film (polarizing film materials for liquidcrystal displays)	● CLARINO (micro fiber man-made leather)
	● EVAL (EVOH gas barrier resin)	
Unique in the World	● GENESTAR (highly heat-resistant polyamide resin)	
	● VECTRAN (high-strength polyarylate fiber)	

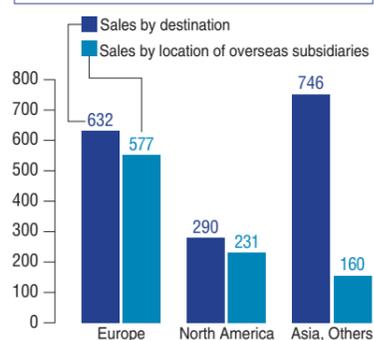
(Based on a Kuraray study)

Overseas Operations

The Kuraray Group's sphere of activities extends to North America, Europe, and Asia. Kuraray maintains business operations located near growth markets in order to engage in development, production, and marketing closely attuned to customer requirements.



Overseas Sales Fiscal 2006 (100 million yen)



Change in Contribution of Overseas Sales to Total Sales (%)

Fiscal Year	FY2002	FY2003	FY2004	FY2005	FY2006
Contribution (%)	38.4	41.3	42.3	43.5	43.3

The GS-21 Medium-Term Business Plan

The Kuraray Group has announced the 10-Year Corporate Vision, which begins in fiscal 2006, and has launched the GS-21 three-year medium-term business plan with the aim of achieving the corporate vision.

The 10-Year Corporate Vision

Vision Toward Exciting Innovation and Outstanding Earnings Recognized throughout the World, To Make Kuraray Group a Sustainably Growing Diversified Specialty Chemical Company

—Company to Contributing to the World and Individual Wellbeing through Actions that Others are unable to Produce—

- We aim to be a company with sales of 1 trillion yen in fiscal 2015.
- To realize this vision, we have declared five basic policies.



The GS-21 Medium-Term Business Plan

The Kuraray Group has formulated a concrete management strategy from 2006 to 2008 in order to achieve the 10-Year Corporate Vision.

	Fiscal 2005 actual results	Fiscal 2008	
		Commitment	Stretch target
Net sales	375.1 billion yen	450.0 billion yen	550.0 billion yen
Operating income	38.3 billion yen	50.0 billion yen	60.0 billion yen
ROA	8.2%	9.0%	10.0%
ROE	6.5%	7.0%	8.0%

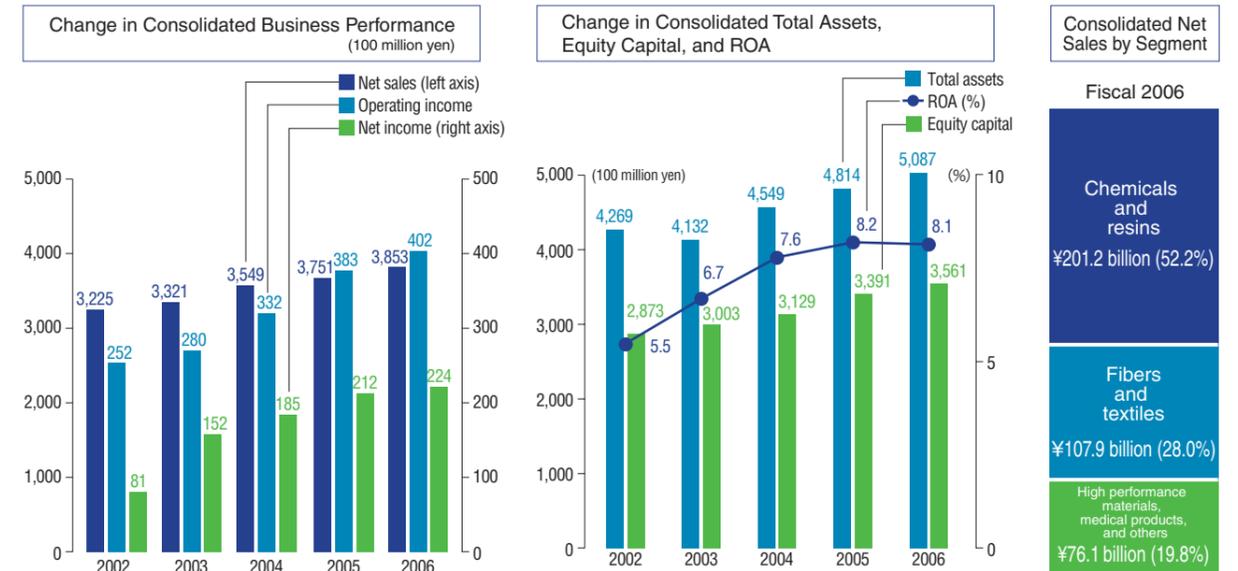
Stretch targets

Targets that factor in business expansion from the creation of new businesses and M&A activities

Priority Tasks

- Accelerate the development of new businesses and product in new growth fields.
- Pursue globally effective, rapid management.
- Nurture and strengthen human resources, the driving force for growth.
- Contribute to the sustainability of the global environment and corporate growth.

Financial Highlights



The Desire to Benefit Society Through Products

The value required by society constantly changes because of changes in the environment and people's values. To accurately ascertain the needs of society and provide beneficial value to society at different times, the Kuraray Group continues to develop new products, improve products, and develop new applications. On the basis of the motto "Contributing to the world and individual well-being through actions that others are unable to produce," we seek to provide value unique to the Kuraray Group, receive the approbation of the public, and become an essential member of society.

a product of Kuraray group

Poval Film

The liquid crystal displays (LCDs) used in flat-screen televisions, personal computers, mobile phones, and a number of home appliances all contain Poval film. Kuraray has supplied Poval film to this market sector since the time LCDs were first introduced, and over the years we have provided critical support for the popularization of LCDs and market expansion by improving materials and developing production technologies in response to requirements for quality improvements as LCD screens become ever larger and brighter and by continuing to expand production facilities to ensure that supply isn't disrupted.



An LCD television containing Poval film

a product of Kuraray group

Vynlon

Vynlon, a material commercialized by Kuraray in 1950, was developed as a cotton substitute. It won a position in the market as an inexpensive, high-quality clothing material, attracting attention at one time as the material of choice for student uniforms. Today vynlon is used as an asbestos substitute and a construction material, industrial applications that take advantage of its high strength. Vynlon is an example of the stance Kuraray has maintained ever since its founding of engaging in new product development to meet the needs of the times.



A building in which vynlon is used as a cement reinforcing agent

a product of Kuraray group

EVAL

In 1972 Kuraray became the first company in the world to commercialize the resin *EVAL*, taking advantage of the substance's gas barrier properties by using it in food packaging applications. We increased the ease of use of the containers used for products such as catsup and edible oil by converting them from glass bottles to lightweight, shatter-resistant plastic packaging. In recent years the use of plastic in automotive parts has increased, *EVAL* is now used in gasoline tanks. The use of *EVAL* prevents evaporated gasoline from diffusing into the atmosphere, contributing to automobile weight reduction without increasing environmental load.



Food containers using *EVAL*

a product of Kuraray group

Environmental Businesses

With the aim of contributing to a healthy global environment and the creation of a sustainable society, the Kuraray Group has developed and provided products that can actively contribute to environmental preservation. Here we provide a few examples of Kuraray's environmental businesses.

ECOTALK Recycle

ECOTALK Recycle is a system for recovering and recycling discarded textile products (chemical recycling) that been certified under the Ministry of the Environment's recycling certification system. Recovered products are thermally decomposed in a furnace, reconstituted as useful chemical materials, and reused.



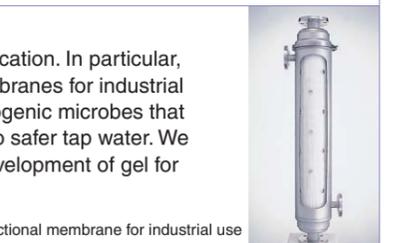
Activated Carbon

At water purification plants, activated carbon improves the flavor of tap water by removing odors and impurities without removing beneficial minerals. Activated carbon provides benefits in wide-ranging market sectors: for instance, it is used in air conditioning filters and in the electrodes of capacitors.



Functional Membrane for Industrial Use and PVA gel

Kuraray has developed functional membranes for water purification. In particular, we possess proprietary technologies for large-diameter membranes for industrial use. By effectively removing cryptosporidium and other pathogenic microbes that cannot be treated using chlorine, these products contribute to safer tap water. We also contribute to environmental preservation through the development of gel for wastewater treatment at activated sludge treatment facilities.



Functional membrane for industrial use

a product of Kuraray group

Dental Materials (Adhesive Filling Materials)

In the past, when metal was used as the filling material after drilling in the treatment of cavities, the difference in color between the metal and the tooth enamel was an unmistakable sign of treatment. In 1978 Kuraray developed a resin-based dental material that closely resembled the natural color of tooth enamel and subsequently promoted the adoption of resin-based dental materials. In addition to making fillings less conspicuous, the use of resin-based materials also reduces the amount of tooth removed in treatment and prevents cavities by reducing the accumulation of food between teeth. Today nearly all of the filling materials used worldwide in dentistry are resin-based.



Dental filler used in cavity treatment

Harmonious Coexistence in Society

The Kuraray Group desires to cultivate long-term relations with stakeholders based on relationships of trust. To earn that trust, we will continue to endeavor to appropriately meet the expectations of all our stakeholders.

Quality Management System Certification

1 ISO 9001

- Kuraray Niigata Plant ● Kuraray Okayama Plant ● Kuraray Kashima Plant ● Kuraray Kurashiki Plant (Membrane Production and Development Dept.)
- Kuraray Saijo Co., Ltd. ● Kuraray Tamashima Co., Ltd. (Ester and Film plant) ● Kuraray Chemical Co., Ltd. (Tsurumi Plant)
- Kuraray Plastics Co., Ltd. (Ibuki Plant) ● Kuraray Fastening Co., Ltd. (Production & Development Division) ● Kuraray Engineering Co., Ltd.
- Kuraray Trading Co., Ltd. (Kuraray Trading Processing Division) ● Kuraray Techno Co., Ltd. (Kurashiki Area Dept., Building Maintenance Service Division)
- Eval Company of America ● SEPTON Company of America ● EVAL Europe N.V. ● Kuraray Europe GmbH (PVA/PVB Division, Trosifol Division)

Note: The following affiliated companies occupying the same premises as Kuraray plants are included.
Kuraray Kuraflex Co., Ltd., Kuraray Okayama Spinning Co., Ltd., Kuraray Techno Co., Ltd.

2 ISO 13485 (Medical devices)

- Kuraray Medical Inc.

3 ISO/TS 16949 (Automobile manufacturing)

- EVAL Europe N.V. ● Kuraray Europe GmbH (Trosifol Division) ● OOO TROSIFOL

Product Safety

- 1 To ensure product safety throughout product lifecycles from development to commercialization, when creating products we carefully consider their impact on the environment, safety, and health at every lifecycle stage from R&D to final disposal. When a problem is anticipated in the safety assessment process, we ensure product safety by changing materials or production processes.
- 2 We have established the Material Safety Data Sheet Management Guidelines to ensure the proper use of material safety data sheets (MSDS) and have compiled a database so that employees can search for and access MSDS using personal computers. We also publish MSDS for principal Kuraray products on our website.
- 3 In the event that a product liability-related incident (a product liability incident or a complaint or quality problem that could lead to a product liability incident) occurs in the Kuraray Group, we take rapid and appropriate action in accordance with the Kuraray Group Product Liability-Related Accident Response Regulations.

Material Safety Data Sheet (MSDS)

The MSDS is a document that contains information necessary for the safe handling of chemical products, including substance name, physical and chemical properties, hazards and toxicity, and cautions on substance handling.

Product Complaints

The Kuraray Group has established regulations for responding to customer complaints adapted to the characteristics of our individual businesses and strives to rapidly and reliably respond to customer complaints in connection with product quality. The Quality and PL Team and its subordinate organizations strive to reduce the number of quality complaints by providing departments in the Company with support for activities to prevent complaints and avoid their reoccurrence.

Action Points

Kuraray will work to increase employee awareness of quality and product liability and to develop key personnel whose role is to product quality. We also aim to improve quality management at contract manufacturers and processors.

Ensuring Safe Delivery (Logistics Safety)

Policies

Kuraray has established as logistics safety measures Distribution Safety Management Standards, Guidelines for the Control of Yellow Cards, and the Response Policy at the Time of Major Logistics Accidents Outside Plants. By means of these measures we strive to rigorously ensure safety management during the transport, storage, and loading and unloading of hazardous or toxic products and liquid products.

Activities

- 1 Kuraray periodically holds Logistics Safety Conferences at its headquarters and plants and strives for sustained improvement of logistics safety management systems implemented jointly with contract distribution companies.
- 2 We conducted safety inspections to confirm the safety of loading and unloading sites within our plants and of vehicle routes and investigated and improved problem areas.
- 3 We conducted accident response training using actual vehicles, equipment, and materials to ensure that we appropriately report and respond should a major accident occur outside our plants.

Action Points

Public interest and concern about logistics safety is increasing as a result of a spate of major accidents involving trucks. Kuraray will continue to mount a united effort involving all concerned parties to rigorously ensure safety management in all logistics activities, not only the handling of hazardous or toxic chemical substances. We will place particular emphasis on field-based activities such as safety inspections and accident response training.

Ensuring Customer Peace of Mind (Quality Assurance and Product Safety)

Policies

The Kuraray Group has established the Basic Policy on Product Safety and Action Guidelines for Product Safety and strives to ensure product safety. We are obtaining certifications in ISO 9001 and other quality management systems and engaging in customer-centered quality assurance activities, the basis for product safety.

Basic Policy on Product Safety

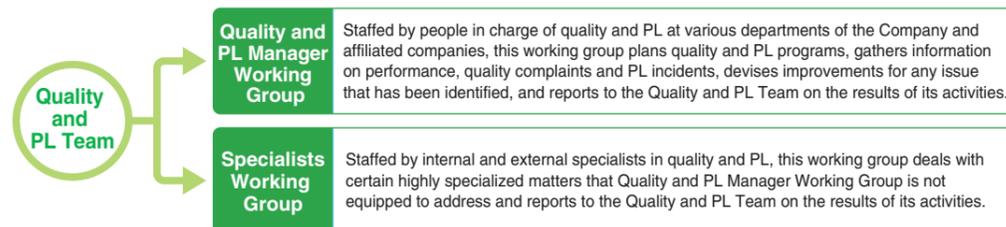
The Kuraray Group endeavors to contribute to creating an affluent, comfortable society by meeting customer needs through the supply of safe and reliable products.

Action Guidelines for Product Safety

- 1 Supply products that meet the level of safety expected by society in compliance with safety-related laws and regulations and on the basis of the latest technologies.
- 2 Minimize any anticipated risk associated with the products we supply.
- 3 Maintain an appropriate quality management system to ensure that all products meet requisite quality and safety standards.
- 4 Provide accurate product information to customers and end users to prevent accidents due to inappropriate use or handling.
- 5 Strive to develop safer products and improve product safety technologies.
- 6 Strive to strengthen information gathering and internal and external cooperative frameworks to ensure and improve product safety and quickly respond to accidents.
- 7 Strive to raise product safety awareness among all employees and develop product safety specialists.

Implementation Structure

Kuraray maintains the Quality and PL Team under the Environmental and Industrial Safety Subcommittee of the CSR Committee. The Quality and PL Team ascertains the state of quality and product liability (PL) management based on information received from its working groups (such as the Quality and PL Manager Working Group and Specialists Working Group) and from company departments. When the team discovers an issue that it believes should be taken up from a company-wide perspective, it discusses countermeasures and submits a proposal to the Environmental and Industrial Safety Subcommittee.



Quality Assurance

The Kuraray Group is acquiring certifications in the ISO 9001 international quality management system and engages in quality assurance activities based on a PDCA cycle. We have established regulations covering the collection and evaluation of customer information. While strictly protecting customer personal information, we ascertain customer requirements for Kuraray products and customer satisfaction and strive to reflect the results of this research in product quality.

CSR Procurement

Policies

Kuraray has engaged in green procurement since fiscal 2001. In response to heightened social requirements for corporate social responsibility, in fiscal 2005, Kuraray established the CSR Procurement Policy. The policy sets forth eleven items in three areas based on the ten principles of the United Nations Global Compact, an internationally accepted statement of universal principles. Kuraray is engaging in more comprehensive CSR activities by announcing the CSR Procurement Policy to principal suppliers and requesting their cooperation.

CSR Procurement Policy

- **Respect for human rights**
 - ① Respect for human rights and individuality
 - ② Observance of the International Labor Organization's core labor standards
 - Guarantee of freedom of association and the right of collective bargaining
 - Prohibition of compulsory labor
 - Prohibition of child labor
- **Compliance**
 - Compliance policy
 - Compliance systems
 - Compliance education program
- **Promotion of green procurement**
 - Preparation of environmental policies and environmental reports
 - Green procurement implementation plan and implementation apparatus
 - ISO14001 certification
 - Education and awareness campaign for green procurement

Activities

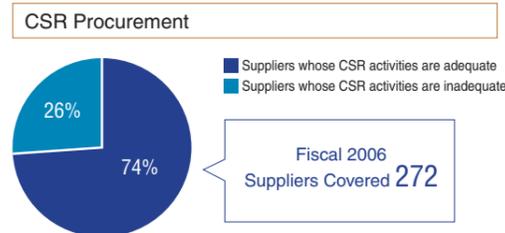
Continuing with the approach taken last year, in fiscal 2006 Kuraray communicated the CSR Procurement Policy to 29 suppliers whose CSR activities were found to be inadequate in last year's survey and 243 suppliers newly included in the survey attendant on expansion of survey coverage to suppliers accounting for 90% of purchase value. We ascertained the status of CSR activities at those suppliers and requested

Criterion for determining adequacy of CSR activities:
Implementation of eight or more items from the eleven items set forth in the CSR Procurement Policy

Green Purchasing

With the aim of enhancing CSR procurement activities, Kuraray seeks to purchase eco-friendly products (green products) on the basis of its Green Purchasing Guidelines. To mark the 80th anniversary of the founding of Kuraray, in fiscal 2006 we updated the work clothes worn by plant employees and the uniforms worn by women

their cooperation in continuing to actively engage in CSR activities. We will continue to request cooperation of suppliers whose CSR activities are inadequate.



employees at the headquarters. We reduced environmental load by adopting new work clothes that consist of more than 50% recycled PET resin and implementing a system to recover the resin and dyes from discarded women's uniforms and recycle them as chemical raw materials (see P.15 for ECOTALK Recycle).

Status of Green Purchasing

Area	Item	Purchase value (million yen)	Green purchasing rate	
			Fiscal 2005	Fiscal 2006
1 Paper (recycle)	5 items Copier paper, forms, printing paper, sanitary paper, business cards	65	100%	100%
2 Stationery (recycle)	47 items Mechanical pencils, ballpoint pens, markers, pencils, others	6	99%	99%
3 Furnishings (reuse)	items Chairs, desks, shelving, cabinets, low partitions, bulletin boards, chalkboards, whiteboards	13	100%	100%
4 Office equipment (energy conservation)	4 items PCs, printers, copiers, facsimile machines	137 (leasing fees)	100%	100%
5 Appliances (energy conservation)	4 items Refrigerators, air conditioners, televisions, video tape recorders	4	%	100%
6 Lighting (energy conservation)	2 items Fluorescent light fixtures, fluorescent tubes	13	100%	100%
7 Automobiles (pollutant reduction)	1 item Automobiles	44 (leasing fees)	100%	100%
Uniforms and work clothes (recycle)	2 items Uniforms, work clothes	1 2	-	100%
9 Work gloves (recycle)	1 item Work gloves	1	50%	50%

Action Points

After once again communicating the import of the CSR Procurement Policy to the 72 suppliers (26% of the total) whose CSR activities were found to be inadequate in the survey of principal suppliers, Kuraray will strive to increase supplier awareness of CSR and enhance CSR procurement activities.

For a Better Understanding of Kuraray

Policies

Kuraray strives to be a company that enjoys the trust of its diverse stakeholders and believes that deepening our dialog with society through candid communications activities leads to enhancement of trust and confidence. For this reason, we place importance on contact with our host communities and work to reinforce dissemination of a broad spectrum of information inside and outside the Kuraray Group.

Activities

Kuraray Group Disclosure Policy

In May 2007 the Kuraray Group established the Kuraray Group Disclosure Policy for the purpose of developing information disclosure systems that maximize corporate value. By implementing this

policy, we will engage in information disclosure sufficient to discharge accountability to society and promote two-way communication with the public.

Information Dissemination and Exchanges Targeting Shareholders and Investors

Kuraray regards the ordinary general meeting of shareholders held in June of each year as a venue for dialog and interaction with shareholders and obtains shareholder understanding of the current state of affairs at Kuraray by providing an explanation of business results. We hold a reception following the meeting to display Kuraray Group products and enable shareholders to converse with Kuraray executive officers. Kuraray also employs various means to explain financial information and management vision to investors in Japan and overseas.

We have established an Investor Information section on our website in which we post financial information,

Our website: <http://www.kuraray.co.jp/>

videos of results briefings, and other useful information to inform shareholder and investor situation analysis and investment decisions.



Reception desk at the general meeting of shareholders

Dissemination of Business Information and Consumer Information

The Kuraray Group actively publishes news on the latest business trends, new product development, and other matters of interest and engages in publicity activities to ensure on-time communication of the current situation at Kuraray. We also conduct

questionnaire surveys on original topics such as "The Modern Businessman and Art" and make public the survey results in press releases and on the Kuraray website.

Eco-Products 2006

In addition to devoting effort to the development of eco-friendly products, the Kuraray Group engages in communication activities to ensure their adoption. Following successful participation in 2005, Kuraray exhibited at Eco-Products 2006, Japan's largest environmental exhibition, which is open to the general public, we obtained understanding of the environmental activities we undertake through our business activities.

Our theme this year was Kuraray Eco-materials in People's Lives. We introduced representative

examples of the Kuraray Group's environmentally conscious products used in three living situations: at home, around town, and at work or school.



Held December 14 to 16, 2006 at Tokyo Big Sight

● Community Dialog in the JRCC Northern Niigata District

Kuraray is a member of the Japan Responsible Care Council (JRCC, see P.36) and undertakes to foster greater public understanding of Kuraray and its businesses through environmental and safety activities. Public disclosure of results and dialog with society are important responsible care activities, and to promote cooperation and mutual understanding with local communities JRCC member companies periodically hold community dialogs to which they invite local residents, representatives of non-profit organizations, government officials, and other concerned parties.

On March 17, 2007 four JRCC member companies active in the Northern Niigata District (Mitsubishi Gas Chemical, Hokko Chemical Industry, Mizusawa Industrial Chemicals, and Kuraray) held their second community dialog in Niigata City. More than 130 people participated in a highly successful dialog that featured presentations on each company's activities, a keynote speech by a university professor, and a question-and-answer session. Participants indicated that they came away from the dialog greater

understanding of and confidence in the environmental and safety activities of the four companies.

Kuraray will continue to undertake dialog activities aimed at instilling confidence and peace of mind concerning our business activities in our host communities.



● Plant Tours

To foster better understanding of their operations, the Kuraray Group's plants hold tours and briefing sessions for local schools and residents' associations to provide an overview of their operations, showcase production activities, and explain the environmental

effects of their business activities and environmental protection measures. The plants prepare their own environmental reports for use in communication with host communities.

Number of Visitors						
	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006
Local residents	2,013	2,075	1,618	1,551	1,303	1,589
Others	926	904	1,256	1,214	1,321	1,368

Figures from fiscal 2004 onward include Kuraray Plastics Co., Ltd. and Kuraray Chemical Co., Ltd.

● Communication at Overseas Plants

SEPTON Company of America and Eval Company of America (Texas, U.S.A.) engage in periodic dialogs with area residents to promote mutual understanding with their host community. Also, together with other plants located in their industrial complex, they invite area high school students for dialogs.

Eval Europe N.V. (Antwerp, Belgium) holds periodic plant tours together with other plants located in its industrial complex to promote dialog with host community residents. It also invites area residents onto the plant grounds for an open house held once every five years, an event that always draws a large number of visitors.

Interchange Activities

The plants of Kuraray Co., Ltd., Kuraray Plastics Co., Ltd., and Kuraray Chemical Co., Ltd. hold various events to foster better communication with host community residents.

● Celebrity Lecture

The Okayama Plant invited Olympic medallist Ms. Yuko Arimori to conduct a lecture at its gymnasium for employees and their families, former employees, and area residents. In a lecture titled "Transforming Joy into Power," Ms. Arimori spoke of her initiation into track and field competition, her time in high school and university, and her experiences in business organizations. The highly successful event

drew an enthusiastic audience of more than 700.

Yuko Arimori captivates the audience.



● Exhibition of Works of Students of School for the Deaf, University of Tsukuba

Since 1999 Kuraray has held at the Kuraray Tokyo headquarters an exhibition of the works of students in the Arts and Crafts Course of School for the Deaf, University of Tsukuba and conducted a company tour for the students. In 2006 we once again displayed the students' creations on the reception floor for viewing by Kuraray employees and visitors. To enable the students to experience the atmosphere at actual workplaces, we conducted a company tour and

arranged gatherings with employees. We intend to continue holding this long-standing event each year and to further enhance the program.

Exhibition of the works of students of School for the Deaf, University of Tsukuba



● Sports Meets

Kuraray's plants open their gymnasiums and grounds to the public for a number of popular annual sports meets. 2006 marked the 16th holding of the Niigata Plant's Kuraray Cup Junior High School Soft Tennis Tournament, regarded by local residents as a gateway to tennis success for area junior high school students. The Grand Golf Tournament and the Gateball Tournament at Kuraray Saijo Co., Ltd. drew a total of about 450 participants.



The soft tennis tournament at the Niigata Plant

● Other Community Events

Kuraray Saijo Co., Ltd., which has more than 80 cherry trees on its premises, each year invites local residents to visit the plant to enjoy the cherry blossoms at a Cherry Blossom Viewing Party held each spring since 1992. The Niigata Plant also invited area residents to view the cherry blossoms on the grounds of its employee welfare facilities.

The Kurashiki Plant held its Christmas Fantasy event, illuminating a splendidly decorated giant

Himalayan cedar (15m-high) standing at the plant entrance. Following a hiatus, the plant resumed the annual event three years ago in response to the enthusiastic requests of local residents.

Cherry Blossom Viewing Party



Action Points

In addition to strengthening its information provision capabilities in Japan and overseas, Kuraray will solicit comments from a wide range of stakeholders and promote two-way communication to improve business management.

Ensuring Safety and Peace of Mind (Security and Disaster Prevention)

Policies

In accordance with the Basic Responsible Care Policies, the Kuraray Group strives to prevent explosions, fires, toxic substance leaks, and other forms of disaster that have a detrimental affect on society and implement rapid, appropriate measures to minimize damage in the event a disaster occurs.

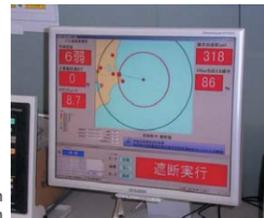
Activities

We engage in numerous safety assurance and disaster prevention activities, including the conduct of safety reviews and implementation of change management when facilities are newly installed or rebuilt or when there is a major change in operating conditions, the application of plant security and

disaster prevention risk assessment (such as HAZOP), earthquake countermeasures at structures and plants, the upgrading of facilities management, the upkeep and improvement of high-pressure gas facilities security control systems, and disaster prevention training.

● The Use of Earthquake Early Warning Information to Trigger Emergency Shutoff

To mitigate the risk of large-scale leakage of inflammable gas in the event of a major earthquake, we have begun test operation at the Kashima Plant of a system that triggers an emergency plant shutdown before major tremors occur.



An earthquake information output screen

Emergency Shutdown System

The Earthquake Early Warning System makes it possible to immediately ascertain the magnitude and epicenter of an earthquake from preliminary tremor (P wave) information and to learn the magnitude and arrival time from a few seconds to a few dozen seconds before strong motions (S waves) begin. This system is already in use as an emergency shutdown system for Shinkansen trains, and it may be beneficial in damage mitigation and the prevention of secondary disasters at chemical plants if can also be used to automatically control plant facilities before shaking occurs. Kuraray participates in a chemical plant emergency shutdown development project, and the Kashima Plant has become the first chemical plant in Japan to introduce this system for use in the emergency shutoff of high-pressure gas storage tanks.

● Open Disaster Prevention Drill at the Niigata Plant

The Niigata Plant planned an open drill for the purpose of showcasing its disaster prevention activities for residents of nearby communities. The mayor and other government officials and area residents watched the drill, which simulated the occurrence of an earthquake, the outbreak of fire at the plant, and the rescue of an injured person left behind at the scene of the fire. In addition to two emergency vehicles from the plant's independent fire brigade, one ladder truck and one ambulance from

the city fire department were dispatched. The drill evoked a sense of urgency that of an actual fire, and observers highly rated the experience with comments including, "I'm glad I came to watch," "I understood Kuraray's enthusiasm," and "As someone who lives nearby, I was reassured."



Rescue activities using a ladder truck

Action Points

Steady, continuous effort is a requirement in safety assurance and disaster prevention. This year we will endeavor to upgrade the activities conducted last year, devoting particular attention to the implementation of risk assessment (occurrence prevention of new risks and mitigation of existing risks), building and structure earthquake resistance diagnosis and earthquake countermeasures, enhancement of facilities management, and high-pressure gas facilities safety inspection certification.

Relocation of the Kurashiki Plant

Efficient operation was an issue at the Kurashiki Plant, located on the site where Kuraray was founded, due to the dispersion of facilities within the site. In consideration of this and the advancing urbanization of the plant vicinity, Kuraray decided to undertake a reorganization and development project involving relocation of the facility to the adjoining Tamashima area. Having completed the relocation, we have started the operation of the new system in May 2007.

Policies

Benefiting Host Communities and Society at Large

As set forth in the Corporate Mission, the Kuraray Group's primary mission is to create new businesses by means of pioneering technology and to benefit society through superb products and services. At the same time, as a good corporate citizen, we devote effort to wide-ranging interaction with society and socially beneficial activities, especially in the host communities with which we are closely involved through our business activities. We engage in steady, community-based initiatives in the areas of education, healthcare, and social services, placing importance on activities that take advantage of the imagination and ingenuity of our employees, activities in which everyone can participate on their own initiative, and activities that can be continued over time.

● 80th Anniversary Commemorative Exhibition

To commemorate the 80th anniversary of the founding of the Kuraray Group, Kuraray held the following three exhibitions featuring the collection of Ohara Museum of Art. The exhibitions met with a tremendous public reception and drew a total of about 300,000 visitors.



The Rare Works of Shiko Munakata Exhibition (photo courtesy of the Mainichi Shimbun)

Rare Works of Shiko Munakata Exhibition

The works of the prominent woodblock artist Shiko Munakata were introduced from the perspective of the artist's close interaction with the Ohara family. The exhibition featured not only works from the museum collection, but also works passed down to the Ohara family and Kuraray that aren't ordinarily open to the public.

Modern Paradise Exhibition

This exhibition was a collaborative project of two major museums comprising a superb sampling of famous works from the National Museum of Modern Art, Tokyo and Ohara Museum of Art.

Impact Exhibition

This exhibition provided a perspective on the rich cultural interchange between Japan and the West through the prism of Japanese and Western works from the collection of Ohara Museum of Art, including works exhibited to the public for the first time.

● Ohara Museum of Art

Ohara Museum of Art is a privately owned art museum that Kuraray founder Magosaburo Ohara, who engaged in wide-ranging activities in Kurashiki, founded in 1930 in memory of painter Torajiro Kojima. The museum's collection prominently features early examples of Western-influenced art by Japanese artists.

● Sending School Bags Across the Sea

Inaugurated in 2004, the Sending School Bags Across the Sea campaign is an activity by which Kuraray collects disused school bags and sends them to children in Afghanistan and Mongolia, where school supplies and other commodities are in short supply. Thanks to the cooperation of everyone involved, we once again conducted the campaign in 2006 and donated to Afghanistan and Mongolia about 10,000 school bags collected from all over Japan.



Chemistry Classes for Boys and Girls

Since 1992 Kuraray has conducted the Chemistry Classes for Boys and Girls program with the goal of enabling children in the upper grades of elementary school to experience the fun of chemistry through experiments by themselves. Young Kuraray employees volunteer to serve as instructors or assistants to conduct classes at special classrooms on plant premises and at local elementary schools and public facilities. Over the years, more than 5,000 students have participated in the program.

In 2006 Kuraray again participated in the Dream Chemistry-21 event held by the Japan Chemical Industry Association (with cooperation from the Tsukuba Research Laboratories). Kuraray, with cooperation from local university students, participated in the Fun Chemistry Stall Science Exhibition 2006 event held at the Sendai Science Museum. We will continue to provide venues to enable as many children as possible to encounter and experience the fun of chemistry.



Children conducting an experiment to make colored water clear

Sponsor	Class name	No. of classes to date	No. of participants to date
Kurashiki Plant	Fun Chemistry House	50	1,497
Kuraray Saijo	Exciting Chemistry Class	42	1,218
Niigata Plant	Wondrous Laboratory	31	949
Kashima Plant	Fun Chemistry Class	5	382
Okayama Plant	Fun Chemistry Class	26	969
Total		154	5,015

Kenaf Diplomas

Each year sixth-year students from a nearby elementary school seed, raise, and harvest kenaf on the grounds of Kuraray Saijo Co., Ltd. and receive diplomas made from kenaf they themselves planted and harvested. This year 108 graduating students were the proud recipients of kenaf diplomas.



Children harvesting kenaf

Volunteer Activities in the United States

At SEPTON Company of America (Texas, U.S.A.), employees volunteer to visit nearby elementary schools to assist children with their studies and provide counseling. In addition to this activity, each year the company sponsors especial events; for instance, employees give Christmas presents to families with children who cannot receive presents due to economic circumstances.



Employees and family members with gifts they have wrapped

Contributing to Society Through Social and Medical Services

The Kuraray Group contributes to society through social and medical services. To help solve nursing care problems facing host communities, we utilize employee welfare facilities at our plants to operate communal assisted-living facilities and geriatric nursing facilities such as Tulip-en and Fruits-no-ie. With regard to medical services, we provide support for Kurashiki Central Hospital (Okayama Prefecture), Aizenbashi Hospital (Osaka City), and Saijo Central Hospital (Ehime Prefecture), hospitals with which

the Kuraray Group has historically maintained close ties.

Since September 2001 employees of the Osaka headquarters have volunteered their time to visit a special elderly nursing home adjacent to Aizenbashi Hospital on the second Wednesday of each month to enable residents to enjoy the atmosphere of a Japanese-style pub.

Kurashiki Central Hospital (Okayama Prefecture)

This hospital was established in 1923 as a company clinic of Kurabo Industries, Ltd. and subsequently also served as a company clinic for Kuraray predecessor Kurashiki Kenshoku Co. The hospital later came under independent management as a community medical care facility.

Ishii Memorial Aizen-en Aizenbashi Hospital (Osaka City)

Kuraray founder Magosaburo Ohara, influenced by the philosophy of social welfare pioneer Juji Ishii of Okayama, established this hospital in 1937.

Healthcare Corporation Doshin-kai Saijo Central Hospital (Ehime Prefecture)

Soichiro Ohara, the second president of Kuraray, established this hospital in 1954 as a branch of Kurashiki Central Hospital.

Nursing Care Facilities Operated or Supported by the Kuraray Group	
Tulip-en (Tainai City, Niigata Prefecture)	Communal assisted-living facility for people with senile dementia (capacity for 18) Small-scale multifunctional in-home care and day care facility (contract capacity for 25) In-home care support center
Fruits-no-ie (Saijo City, Ehime Prefecture)	Group home (capacity for 41) Day-care service (capacity for 10) Home visit care and nursing In-home care support
Mori-no-ie (Saijo City, Ehime Prefecture)	Group home (capacity for 18)



Employees assisting at Aizen Japanese pub

Employment of Disabled People at the Niigata Plant

In response to a request from a local social welfare facility, in 1997 the Niigata plant created the Kuraray Workshop to employ people with intellectual disabilities. Thanks to the cooperation of the local government and the welfare facility and the enthusiastic guidance of counselors, the Kuraray Workshop has operated successfully, the employees have experienced the pride and joy of gainful employment, and the workshop has been favorably received by the local community. This success has

prompted other companies to open similar facilities, and other Kuraray plants are considering similar initiatives.



Work being performed at the Kuraray Workshop

Kuraray Fureai Fund Raising (Matching Gift)

Since 1992 Kuraray has continuously engaged in a matching gift program by which employees donate a small fraction of their pay to benefit community social services and the company matches the amount.

Once again in fiscal 2006, these funds were donated to elementary schools and social welfare and nursing care facilities for use in purchasing books and nursing care articles.

Action Points

Kuraray makes the application of its distinctive capabilities and characteristics and employee participation the basis of its social service activities. A good example of this is the Chemistry Classes for Boys and Girls program. Even as we continue our grassroots activities in the local communities with which we maintain close ties through our business activities, we intend to consider ways of making contributions that extend beyond local communities and actively work to achieve this.

Creating Rewarding Workplaces

Pickup Voice

01 >> Childcare and Nursing Care Support



Accounting Department
Kuraray Co., Ltd.

Shintaro Ichiryu

“I experienced being a father thanks to childcare leave.”

I took childcare leave in 2006 when my first son was born. Although as you might expect I wasn't able to take the place of a mother, I was able to provide support for my wife after a fashion and experienced the appeal and difficulties of childrearing. Although it is not yet commonplace for men to take childcare leave, it's a once-in-a-lifetime opportunity to face the challenges of childrearing head on. I'm very grateful to have obtained the indispensable cooperation of my manager and colleagues, and hope that Kuraray will become a company where even more employees who wish to take childcare leave, men and women alike, can unhesitatingly request leave.

More detail

The Next Generation Support Certification Mark (Informally Called the Kurumin Mark)

Employers who prepare and implement action plans for childcare support in accordance with The Next Generation Education and Support Promotion Act and who achieve their plan objectives can obtain certification.

Support for Nurturing the Next Generation

In 2005 Kuraray prepared its first action plan in accordance with the Next Generation Education and Support Promotion Act. By March 2007 we achieved the objectives established in the plan, including the introduction of a childcare leave system that exceeds legal requirements and the conduct of the Chemistry Classes for Boys and Girls program at the plants. As a result of achievement of the plan objectives, on April 27, 2007 Kuraray was certified by the Minister of Health, Labour, and Welfare as having implemented an employment environment that provides support for the nurturing of the next generation. In 2007 we will prepare a second action plan and endeavor to achieve the objectives set forth in the new plan by March 2010.



The Next Generation Support Certification mark

The Kuraray Group Global HR Policy

The Kuraray Group Global HR Policy is the cornerstone on which all HR measures in the Kuraray Group are formulated and implemented.

The Responsibility and Objective of the H.R. Division

We create people-oriented HR policies and systems that enable everyone who works for the Kuraray Group to contribute to corporate growth and pursue personal happiness through work.

- ① We respect the human rights of individuals.
- ② We prohibit discrimination and respect diversity.
- ③ We implement HR policies that comply with the laws.
- ④ We aim for a fair, impartial, and transparent HR system.
- ⑤ We strive for improvement in the work environment.
- ⑥ We strive to employ human resources that can contribute to the development of the Kuraray Group.
- ⑦ We assign people to appropriate positions.
- ⑧ We engage in highly satisfactory employee evaluations and treatment.
- ⑨ We support skills development.
- ⑩ We strive to promote appropriate information disclosure and communication.

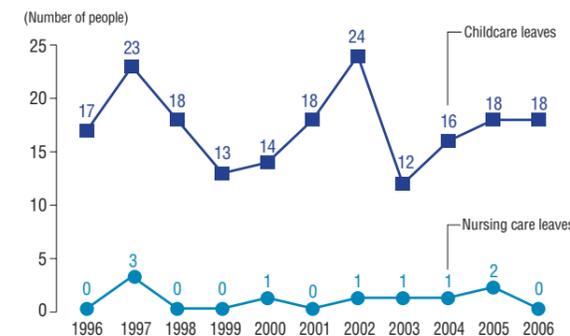
Support for Childcare and Nursing Care

Kuraray provides support for childcare and nursing care in the interest of supporting the nurturing of future generations. We maintain systems that do not merely meet legal requirements, but that exceed them in the following respects, and promote the use of these systems by employees.

- According to circumstances, we permit a maximum childcare leave period that extends until the child reaches 18 months of age or until the April 30 following the date on which the child reaches 1 year of age, whichever is longer.
- Employees can take consecutive or non-consecutive nursing care leave of up to 365 days in total for each qualifying family member.
- We permit childcare reduced working hours until the time a child enters elementary school.

Furthermore, to ensure that employees can productively take leave, we do not merely provide these systems, but rather create a working environment that makes it easy for people to utilize the systems and publicize their availability to the employees.

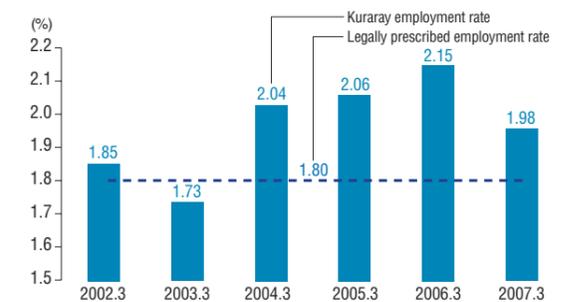
Childcare Leaves and Nursing Care Leaves at Kuraray



Diversity and Equal Opportunity

Kuraray respects human rights, has a policy of employing and promoting diverse human resources and placing importance on ability without discrimination according to race, nationality, gender, or other personal attributes, and clearly stipulates the policy in the collective labor agreement. We actively engage in the employment of people with disabilities and rehiring of the elderly. As of March 2007, the rate of employment of people with disabilities was 1.98% and the number of elderly people reemployed was 65.

Employment of Disabled People at Kuraray



Flexible Employment Systems

To realize efficient labor at a time when work is diversifying, Kuraray responds flexibly to employee requirements. We have introduced in our employment systems Discretionary Work System, De-Facto Working Hours System and the Staggered Commuting System. We post manuals concerning these systems on the Kuraray intranet and work to familiarize employees with them. In fiscal 2006, Kuraray did not receive guidance from the Labor Standards Inspection office.

Fair and Impartial Recruitment

The Kuraray Group strives to ensure fair, impartial, and transparent recruitment. Kuraray's collective labor agreement stipulates that hiring be decided by means of fair judgment.

A Fair, Impartial, Transparent HR System

Kuraray believes that designing a remuneration system that rewards people in proportion to their efforts increases employees' motivation and leads to improvement in business results. Kuraray has eliminated seniority and personal attributes as criteria and introduced a merit-based remuneration system.

In the operation of this HR system, with the aim of promoting employee growth and development we have introduced a Management By Objectives system and mandated supervisor-employee interviews to ensure mutual understanding and consent. Each year we conduct evaluator training for managers to improve interviewing skills. We will continue to consider ways of incorporating results-based approaches into the remuneration system in order to further optimize personnel assignment and provide fair remuneration.

The Growth of Each Individual Is the Cornerstone of a Corporation

Pickup Voice

02

>> Internal Commendation System



Osaka Living Materials Dept.
Kuraray Trading Co., Ltd.

Jiro Morino

“The rigorous pursuit of quality led to receipt of the Special President’s Award.”

In June 2006 I was honored to receive the Special President’s Award for contribution to business performance by increasing sales of medical fibers and textiles. I have been involved with this work since my second year with the company. Owing to the nature of medical fiber applications, the construction of a quality control system has been an important task. Although the customer’s quality requirements were rigorous, we were able to win the customer’s trust through a united effort with suppliers to effort to strengthen the quality control system and developed the business to the point that the customer built a dedicated plant. I owe this award to cooperation with the customer and our suppliers. I intend to do my utmost to pass along to younger colleagues the achievements of my senior colleagues, who have continuously implemented such quality initiatives.

More detail

Commendation System at Kuraray

The Kuraray Group has a system for publicly recognizing and honoring each year on the anniversary of Kuraray’s founding employees who have made great contributions to business performance or performed extraordinary service. As a way of promoting social contributions on the part of employees, Kuraray includes community volunteer and social service activities among the qualifications for commendations.

Commendation and Award Programs at Kuraray

- President’s Award
- Special President’s Award
- Outstanding Achievement Award
- Plant Innovation Contribution Award
- Social Contribution Award
- Distinguished Service Award
- Length of Service Award

HR Development

The Kuraray Group attaches high value to assigning employees to appropriate jobs and skills development. We place importance on the ability of employees to develop their competence and skills through work and provide appropriate support to that end. From the perspective of employee abilities and knowledge, aptitude, and skills development, we strive to ensure that the right people are in the right jobs with the aim of maximizing employee contribution to business performance and job satisfaction.

Domestic Kuraray Group companies adopt the training scheme depicted below, which combines training for the purpose of acquiring knowledge and skills required for work with training that support employees’ independent career development. Not only regular employees, but also casual workers, part-time employees, and contract employees can participate in training as necessary. Kuraray also offers financial incentives for employees who successfully obtain certain public qualifications on their own self-development initiative.

Training Scheme



Global Human Resources Development Program

To develop the human resources to drive the global development of Kuraray’s businesses, we are implementing a greatly enhanced HR training program that covers the entire Kuraray Group, including overseas operations. The principal aim of the program is to instill in employees the management knowledge necessary for global management by selecting tomorrow’s global talent for participation in well-established training programs internally and externally. At the same time, we seek to foster interaction between Kuraray Group employees in Japan and overseas and shared commitment to the Corporate Mission.

Global Human Resources Development Program

- Kuraray Global Forum
- Enrollment in Executive MBA programs at European and North American universities
- Kuraray Global Team Training
- Participation in external global management training programs
- Overseas traineeships

Patent Incentive System

Kuraray acquires from employees the patents to service inventions and provides compensation payment. Kuraray not only pays compensation at the time patents are applied for and registered, but also ranks patents according to importance and provides compensation in accordance with profits generated for the duration of the patent term. Kuraray provides additional compensation at the time of patent application for noteworthy inventions.

Independent Education Systems at Plants

In addition to its group-wide training system, the Kuraray Group maintains independent training systems at its plants. The Okayama Plant, for instance, conducts training for workplace leaders by which it seeks to develop individual skills and increase long-term organizational strength by promoting knowledge and understanding of company systems and enabling participants to discover areas for improvement in their plant sections through opinion and information exchange with people from other sections.

The Creation of Workplaces Where Dialog is Valued

Pickup Voice

03 >> Nature Conservation Activities



Planning and Administration Department
Specialty Resin and Film Company
Kuraray Co., Ltd.

Emiko Teshima

“I discovered a wealth of nature near the city.”

When I first set foot in the conservation area, I was astonished that such an oasis existed in Tokyo. Working up healthy sweat from work such as cutting weeds in a marsh and hauling felled trees made the bowl of homemade pork miso soup I was served afterward seem all the more delicious. As I strolled through the verdant hills under the clear blue sky observing the rare plants and insects, I keenly felt the importance of working together to protect nature. Be sure not to miss the opportunity to participate in soul-cleansing nature conservation activities while enjoying the invigoratingly clean air.

Dialog with Executive Management

To communicate the Kuraray Group's business strategy and the thinking of executive management, Kuraray creates opportunities for direct dialog between management and employees through the Kuraray Times, at company-wide gatherings, and during employee training and plant visits. Also, the President Room, a president's page, has been opened on the Kuraray intranet as a mechanism for employees and the president to directly exchange opinions and engage in question and answer and for other employees to join in discussion.



New employees conversing with management

Employee Values and Attitudes Survey

To ascertain how the employees feel about their day-to-day work and work life and their desires, in September 2006 Kuraray conducted an anonymous employee values and attitudes survey. We are feeding back the survey findings to management, employees, and the labor union, who will make use of them as information for creating better systems and workplaces. We plan to conduct this survey on a periodic basis.

Dialog with the Labor Union

The Kuraray Group has the Kuraray Labor Union, which is made up of employees, and the Kuraray Group Federations of Labor Unions. Through occasions such as Labor-Management Committee meetings, the Company elicits employees' opinions expressed at periodic union meetings and workplace committee meetings. Labor and management seriously discuss internal issues and cooperate in problem solving.

Points of Contact for Employee Counseling

●Kuraray Employee Counseling Room
To uncover any problems in the Kuraray Group, the Company maintains an internal reporting system that applies to domestic Kuraray Group companies. Kuraray has engaged the services of attorneys and specialist consultants at the Employee Counseling Room, putting in place a structure by which individual employees can, in complete confidence, not only directly report wrongdoing and consult on compliance issues, but also seek advice on a wide range of issues that are difficult to solve in the workplace. In fiscal 2006, one consultation has occurred, but it was not related to compliance violation.

●Sexual Harassment Consultation Contact
Kuraray maintains the Sexual Harassment Consultation Contact to provide consultation and hear complaints from employees concerning sexual harassment.

The Rules of Employment clearly stipulate that the Company will not unfairly treat employees who have sought consultation or reported grievances to either point of contact.

Internal Communication

To ensure a rich flow of internal communication, the Kuraray Group publishes the Kuraray Times, a monthly newsletter for Japanese employees, and the Kuraray News Letter, a quarterly publication for overseas employees. We strive for two-way internal communication by means of employee questionnaire surveys and solicitation of contributions from readers.

Support for Socially Beneficial Activities

Kuraray supports a variety of employee contribution activities by providing a system that enables employees to take special leave and leave for the purpose of socially beneficial activities in addition to annual paid holiday. In fiscal 2006, 23 employees took special leave for socially beneficial activities to participate in activities such as volunteering to assist in the operation of NPO international conferences and volunteering for natural preservation activities.

More detail

Conservation of Nature

The Kuraray Group provides opportunities for employees to engage in nature conservation activities in order to foster a spirit of volunteerism and promote environmental education. With regard to new activities in fiscal 2006, employees participated in Tokyo Greenship Action community forest preservation activities conducted on weekends in suburbs (sponsored by the Tokyo Metropolitan Government) and conducted Mt. Fuji Tree Planting Activities, a three-day event that enabled volunteers to deepen interaction with each other while engaging in nature conservation. In the coming years we will expand the scope of these activities to enable a greater number of employees to voluntarily engage in nature conservation activities.



Forest preservation activities (Kodaira City in Tokyo)

VOICE Comments from the Values and Attitudes Survey Office

We conducted the employee values and attitudes survey targeting all employees working at Kuraray and at a portion of domestic Group companies, including casual and part-time employees and temporary staff. From the extremely high valid response rate of 99.8%, we sensed strong desire for workplace improvement among employees.

Based on the findings of the survey, the survey office intend to provide support so that all employees can endeavor to apply the experiences gained in their individual positions and rolls to the creation of rewarding, dynamic workplaces.

Safety is the Cornerstone of Everything We Do

In response to several serious accidents—the explosion at the Okayama plant and a fatal accident at the Niigata plant in 2005—the president of Kuraray issued the emergency proclamation Safety Is the Cornerstone of Everything We Do in January 2006. In accordance with the emergency proclamation, 2006 was designated as the “Year of Reestablishment of Safety and Trust,” and the whole Kuraray Group implemented special activities which were referred to as the Kuraray Safety Activities.

Kuraray Safety Activities

Through these activities, various measures have been taken based on the following three basic policies.

- 1 Management related to ensuring safety**
Allocate management resources (human resources and funds) to measures to ensure safety in a planned manner
- 2 A new awareness of ensuring safety**
Thoroughly renew awareness among all employees of the principle that safety is the cornerstone of a company's continued existence
- 3 Reform of behavior related to ensuring safety**
Analyze safety risk factors and devise radical countermeasures in an urgent and focused way

The progress of activities are checked through the Special Safety Promotion Committee, headed by the president of Kuraray, and Site Safety Inspections at each workplace, which are headed by the manager of the particular site.

Therefore, although results are still insufficient, efforts related to safety awareness and safety itself at each plant and division have been improved, and it has been possible to reach the goal of creating a foundation for Kuraray Group activities aimed at zero accidents.



Special Safety Promotion Committee

Kuraray will improve the usefulness and effectiveness of these activities rooted in Kuraray Safety Activities and will work to firmly establish a corporate culture in which Safety is the Cornerstone of Everything We Do.

In Response to the Explosion at the Okayama Plant

A New Awareness of Ensuring Safety (Creating Awareness that Safety is the Greatest Priority)

With the goal of eliminating human error, one of the causes of accidents, activities focusing on employee's thoroughly awareness of change management, education, and training have been implemented as the priority issue of establishing a new awareness of ensuring safety. In addition, efforts have been made on various fronts, starting with adhering to the 5S's, the foundation of production activities, and extending to determining and providing guidance related to dangerous locations and unsafe behavior based on workplace inspections by managers and supervisors, increasing safety awareness through training to detect dangers with the goal of strengthening workplace's ability to do so, and increasing sensitivity to danger through education using sensory teaching materials.

Reform of Behavior Related to Ensuring Safety

In order to maintain process safety and facility soundness, Kuraray has determined potential and actual risk factors at plants and implemented measures related to both software and hardware. As for determining risk factors, the HAZOP and risk assessment methods were used, and efforts were taken to determine and evaluate the risks quantitatively and without exception. As for risk factors that need to be resolved with new equipment, measures will be implemented in a deliberate manner.

Policies

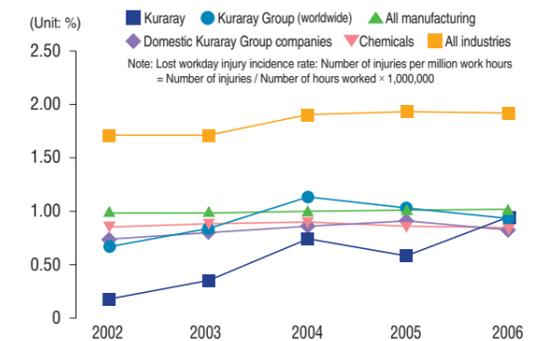
In keeping with the Principles for Business Conduct, the Kuraray Group recognizes that ensuring the safety and health of employees is the basis of a company's business activity and engages in occupational safety and health activities. We are constructing an occupational safety and health system with the aim of reducing risks to health and safety and providing safe, healthy workplaces.

Activities

Safety Efforts

In fiscal 2005, there was a fatal accident. Recognizing that Kuraray faces the most serious crisis since its founding, the president issued the emergency proclamation Safety Is the Cornerstone of Everything We Do. Having designated the period between January through December 2006 as the “Year of Reestablishment of Safety and Trust,” the Group implemented safety measures and worked to increase its level of safety. In addition, with the goal of spurring on safety and health activities, regulations on safety activity management were established, and PDCA management of safety activities was strengthened.

Change in Occupational Safety Performance (Lost Workday Injury Incidence Rate)



Kuraray Group RC Convention

Kuraray is working to improve the level of its responsible care (RC) throughout the company by holding conferences that all employees attend and sharing advanced case examples related to RC at these conventions. At these conventions and under the slogan of “a safety culture aiming to reduce risk through the participation of all employees,” there are presentations on previous examples that stress basic safety measures, mainly related to

occupational safety, disaster prevention, and the human approach. The convention also provides opportunities to once again spread and confirm awareness of the safety first attitude.



Kuraray Group RC Convention

Registration as a Workplace Pledging to Promote the Zero-accident Everyone Participation Campaign (Established by the Japan Industrial Safety and Health Association in January 2006)

Registration of the five major plants was completed with the goal of invigorating zero accident activities that bring plants and affiliated companies together.

Safety Message

At the Eval Company of America (Texas, USA), the employee responsible for environmental safety provides a daily Safety Message for all employees. This message not only includes safety-related warnings and instructions but also introduces environment-related topics and, at times, home safety issues.

A safety message sent via e-mail



Always Considering the Environment

The Kuraray Group uses substantial quantities of energy, chemical substances, and water resources in its business activities. Because these business activities consequently exert various effects on the environment, Kuraray steadily works to minimize their environmental load.

Health-related Efforts

One of the Kuraray Group Global HR policies is striving to establish a workplace environment where it is possible to work in both a physically and mentally safe and healthy manner. Based on the Basic Policy on Occupational Health, Kuraray is continuing its occupational safety activities, maintaining and increasing employee health, and promoting the creation of a pleasant workplace environment.

Basic Policy on Occupational Health

In keeping with the Principles for Business Conduct, the Kuraray Group recognizes that ensuring the safety and health of employees and other stakeholders is the basis of a company's business activity. Kuraray maintains workplaces where people can work in health and safety and engages in health promotion activities.

Augmenting Mental Health Care

Kuraray devotes effort to mental health care activities to prevent stress-related illnesses, which have been on the increase in Japan in recent years.

Development Activities

A pamphlet on mental health has been published and distributed to all Kuraray Group employees within Japan.

Establishing a Preventive System

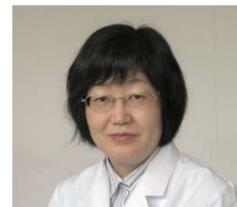
A system was created with the goal of fostering awareness that employees themselves, workplace leaders, and personnel staff are all responsible for mental health and promoting continuing preventive activities centered on each one.

Mental Health Counseling Office

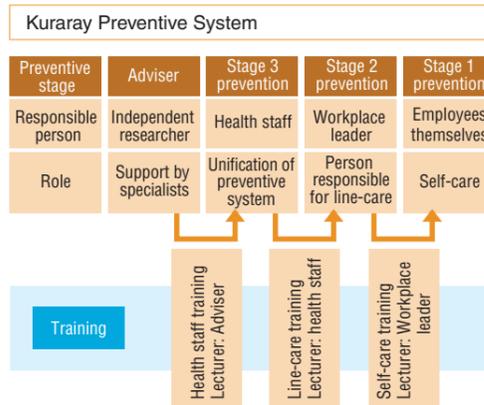
At Kuraray, there are counseling offices both inside and outside the company. The Company has established a system that makes it possible to easily receive counseling over the phone and through face-to-face meetings.

VOICE

Recently there has been an increase in mental health problems, including depression due to factors such as relationships with new people and an inability to adapt at work, which may be the result of changes in the employee's work. Although signs can often be detected in one-to-one situations such as questioning during medical examinations, there are, unfortunately, situations when the problem is not found until the employee must take leave from work. Employees with problems such as an inability to get to sleep, waking up in the middle of the night, easily becoming fatigued or angry, are able to easily receive counseling from various people including Industrial physicians, health officials, or person responsible for health at the workplace.



Mieko Miyake
Industrial physician
at the Okayama plant



Development of Health Measures

Medical Examinations

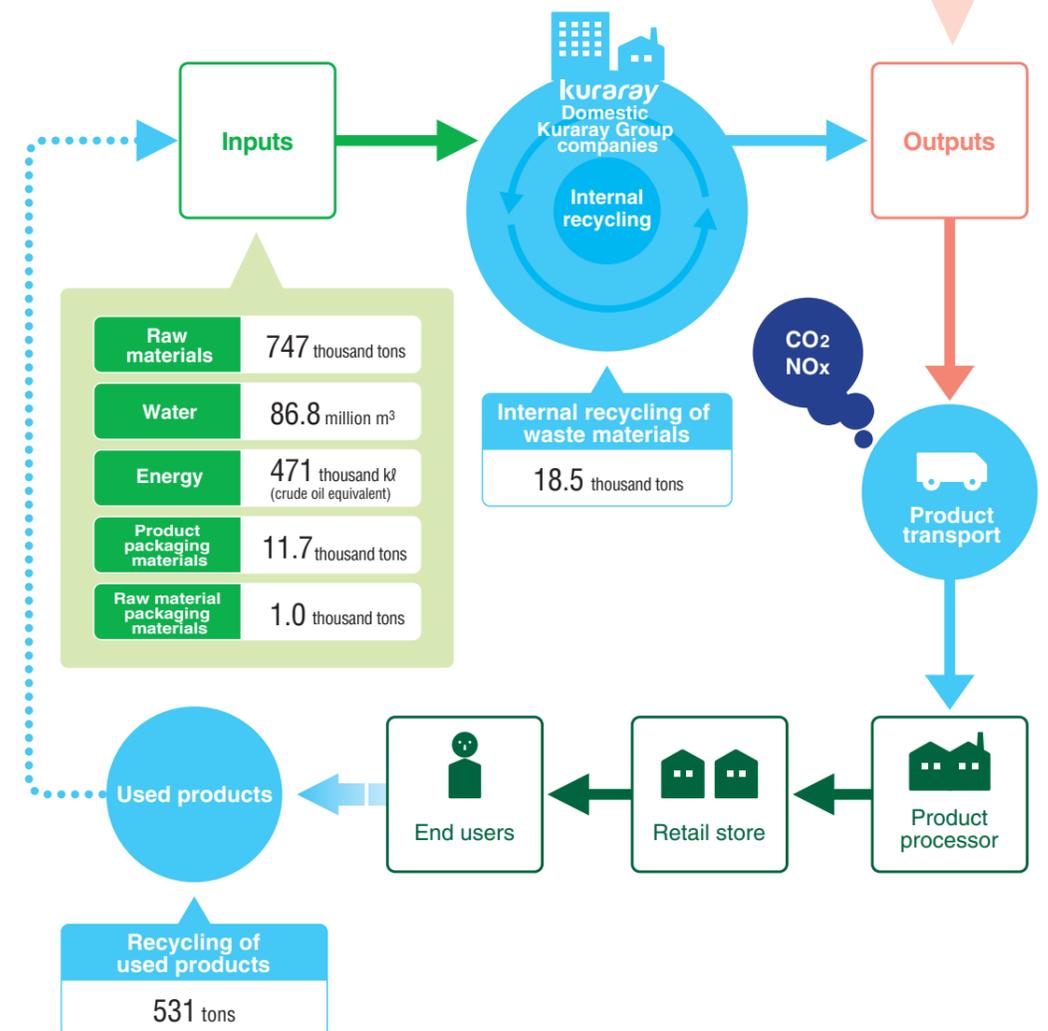
In addition to periodic medical examinations and special medical examinations stipulated in the Occupational Health and Safety Law, Kuraray conducts supplemental examinations not prescribed by law and implements measures to combat lifestyle-related diseases.

Health and Exercise Guidance

At each office, the Group has developed health and exercise guidance activities that correspond to the actual conditions at the particular workplace and are centered on the Safety and Health Committee.

Materials Flow in the Kuraray Group Fiscal 2006

Products	424 thousand tons	Greenhouse gas	1,425 thousand tons	Wastewater	78.6 million m ³
Byproducts	157 thousand tons	NOx	1.7 thousand tons	COD load	747 tons
Chemical substances	1.9 thousand tons	SOx	0.6 thousand tons	External recycling of waste materials	55.5 thousand tons
Product packaging materials	11.7 thousand tons	Particulates	56 tons	External disposal of waste materials	1.5 thousand tons



Action Points

Kuraray will strengthen its efforts to ensure safety and expand its mental health measures in order to improve safety and health activities.

Environmental and Safety Policies

● Basic Policy on Promoting Responsible Care

This is Kuraray's most basic philosophy to promote environmental protection and safety activities, which are comprised of the following three items and are in accordance with the Principles of Corporate Conduct (see P.2).

● Basic Policy Concerning Global Environmental Problems

The Kuraray Group will fulfill its responsibilities to future generations through business activities that are in harmony with the global environment and local communities.

● Basic Policy on Disaster Prevention and Occupational Safety

The Kuraray Group implements radical, group-wide measures to prevent damage to society from explosion, fire, leakage of toxic substances, or other disasters and to contain damage when a disaster occurs.

● Basic Policy on Product Safety

The Kuraray Group endeavors to contribute to creating an affluent, comfortable society by meeting customer needs through the supply of safe and reliable products.

● Kuraray Group Action Guidelines for the Global Environment

In line with the three basic responsible care policies, these guidelines set forth specific guideposts for actions to preserve the global environment.

Basic Policy

The Kuraray Group will fulfill its responsibilities to future generations through business activities that are in harmony with the global environment and local communities. Kuraray puts this basic policy into practice by engaging in the following activities.

- | | |
|--|--|
| <ol style="list-style-type: none"> 1 Business activities that place the highest priority on the environment and safety 2 Permanent global environmental improvement activities 3 The development of technologies and products that contribute to improving the global environment | <p>Principles of conduct</p> <ol style="list-style-type: none"> 1 Continuous reduction of emissions of designated chemical substances into the environment 2 Reduction in emissions of greenhouse gases and greater energy efficiency to contribute to the prevention of global warming 3 Promotion of resource conservation, reuse, and recycling 4 Development and provision of technologies for improving the environment and low-environmental-load products 5 Use of environmentally friendly products 6 Public disclosure of environmental information and dialog with the community 7 Raising the level of environmental consciousness and environmental management 8 Working together with stakeholders |
|--|--|

● Responsible Care Activities

Responsible Care (RC) activities are those where corporations that handle chemical substances maintain the environment, safety, and health by taking responsibilities at all stages from development to production, use, and disposal of chemical substances, and disclose the content of these activities. Kuraray has taken part in the Japan Responsible Care Council since its foundation in 1995 and has worked to implement RC activities.

Since CSR responsibilities cover a wide range of activities, they overlap with RC activities. Therefore, Kuraray works on environment, safety, and health

issues that chemical manufacturers must pay special attention to, and while making use of its existing structure, such as the RC Activities Verification Meeting, the core of the Group's RC activities, the Group also works on CSR activities.



Environmental Management

Policies

To ensure harmony with the natural environment in business operations and product supply, the Kuraray Group operates PDCA cycle-based environmental management systems such as ISO14001 and Responsible Care (RC) and engages in environmental preservation activities from a medium-term and long-term perspective.

Activities

Kuraray is working to strengthen its overall Responsible Care activities, beginning with environment management through numerous bodies such as its Responsible Care Activities Verification Meeting and the Kuraray Group Responsible Care Convention. Within the RC Activities Verification Meeting, common themes are selected from among "environment preservation," "disaster prevention," "occupational safety and health," "logistics safety," "chemical and product safety," or "dialogue with society," and through a discussion between headquarters staff and the plant members, each plant selects a topic and targets its activities to this topic. At the same time, efforts are made to check progress in implementing the activities. Each plant works to steadily resolve the selected issue by creating individual action plans.

In FY2006, the main theme was "environment preservation," and inspections were conducted at six sites, including Kuraray Fastening Co., Ltd, to determine the progress made in achieving medium-term goals.



Safety inspection activities at the Okayama plant

Action Points

Through the RC Activities Verification Meeting, which was launched in FY2001, awareness of the aim of RC activities was further spread throughout the Group, and various RC-related topics have been selected, and improvements made. Efforts will be made to further enliven these activities by taking a new perspective.

Environmental Management System (ISO 14001) Certification

- Kuraray Niigata Plant ● Kuraray Okayama Plant ● Kuraray Kashima Plant
- Kuraray Kurashiki Plant (including the Kurashiki Research Laboratories) ● Kuraray Tsukuba Research Laboratories
- Kuraray Saijo Co., Ltd. ● Kuraray Chemical Co., Ltd. (Tsurumi Plant) ● Kuraray Plastics Co., Ltd. (Ibuki Plant)
- Kuraray Fastening Co., Ltd. (Production & Development Division) ● Kuraray Trading Co., Ltd. (Headquarters Osaka, Tokyo)
- Eval Company of America ● SEPTON Company of America ● EVAL Europe N.V.
- Kuraray Europe GmbH (PVA/PVB Division, Trosifol Division) ● OOO TROSIFOL

Note: The following affiliated companies occupying the same premises as Kuraray plants are included.
 Kuraray Kuraflex Co., Ltd., Kuraray Okayama Spinning Co., Ltd., Kuraray Medical Inc., Kuraray Tamashima Co., Ltd.,
 Kuraray Engineering Co., Ltd., Kuraray Techno Co., Ltd., Kyosei Chemical Co., Ltd., Nihonkai Acetylene Co., Ltd.

Medium-Term Environmental Activities

Policies

As for environmental issues, the Kuraray Group has promoted environment preservation by establishing concrete numerical targets in its Medium-Term Environmental Plan. In addition, revisions are made in response to progress and changes in the legal system.

The following are the major numerical targets (Comparisons are to the environmental issues in the previous Medium-Term Business Plan (G-21)).

- ① Reduce greenhouse gas emissions in fiscal 2010 by 10% compared to fiscal 1990 levels. Until now, focus has been on reducing carbon dioxide emissions, which are substantial, on a per unit output basis, but at the same time that the focus will shift to overall greenhouses gases starting in fiscal 2007 (refer to P.39), the focus of reduction targets will shift from per unit output to overall emissions.
- ② Reduce emissions of chemical substances in fiscal 2007 designated by the PRTR system (refer to P.41) by 90% compared to fiscal 1999 levels.
- ③ Reduce VOC emissions in fiscal 2010 by 80% compared to fiscal 2004 levels. (Note: reduction of 85% compared to fiscal 2000 levels) While the national target is to reduce emissions in fiscal 2010 by 30% compared to fiscal 2000 levels through a combination of legal regulations and voluntary efforts, for the domestic Kuraray Group companies, efforts are targeting an 80% reduction.

VOC

An abbreviation for Volatile Organic Compounds, these are gaseous organic compounds discharged or dispersed into the atmosphere (this, however, does not include suspended particulate matter and substances that do not cause the formation of oxidants stipulated separately by a government ordinance). In fiscal 2006, volatile organic compounds (VOC) regulations come into force in accordance with the provisions of the Air Pollution Control Law.

Activities

- ① Promoting the shift to natural gas as a fuel for boilers (Okayama plant, see P.39)
- ② Introduction of equipment to recover methanol generated during the production of resins (Niigata and Okayama plants)
- ③ Promotion of the effective use of pulverized carbon generated during the production of activated carbon (Kuraray Chemical Co., Ltd.)
- ④ Change to the use of water for solvents used in the manufacturing process (Kuraray Plastics Co., Ltd.)

Target	Unit	Reference year/benchmark	Actual results in Fiscal 2006	Medium-term target					
				Fiscal year	Target				
Greenhouse gases	Equivalent carbon dioxide emissions	Kuraray	10,000 tons	Fiscal 1990	136(100%)	131(96%)	Fiscal 2010	10% reduction 123(90%)	
Waste material	Effective waste utilization rate	Kuraray	%	Fiscal 1999	63	90	Fiscal 2006	30 percentage point improvement 90	
		Domestic affiliates	16	87					
		Total	60	90					
Atmosphere	Emissions of chemical substances designated by JCIA's PRTR (excluding volume of transfers)	Kuraray	All substances	tons	Fiscal 1999	3,545(100%)	1,672(47%)	Fiscal 2007	90% reduction 354(10%)
			PRTR-designated substances	1,361	535	136			
		Domestic affiliates	All substances	tons	889(100%)	253(28%)	89(10%)		
			PRTR-designated substances	475	4	48 (reach target)			
		Total	All substances	tons	4,434(100%)	1,925(43%)	90% reduction 443(10%)		
			PRTR-designated substances	1,836	539	184			
VOC emissions	Kuraray Group	tons	Fiscal 2004	2,283(100%)	1,459(64%)	Fiscal 2010	80% reduction 457(20%)		

Action Points

As for improvement in the effective waste utilization rate, Kuraray met its initial goal of an effective waste utilization rate of 80% in fiscal 2005 but aggressively moved forward on various fronts including activities to increase the effective use at the domestic affiliates by setting a target of 90% for fiscal 2006 (a 30 percentage point improvement compared to fiscal 1999 levels), which was ultimately met. In addition to using waste material as fuel, Kuraray is working to limit the actual volume of waste material produced. (see P.40) Moving on to the reduction of emission of PRTR-designated substances, while Kuraray reduced emissions 45% in fiscal 2005, there was only a 12 percentage point improvement in fiscal 2006; therefore Kuraray did not meet its goals. The Company has not given up on the goal of 90% reductions, and will continue its efforts, which included examining new methods to reduce emissions (see P.41).

Implementing Measures to Prevent Global Warming

Policies

Greenhouse gases

Carbon dioxide (CO₂), methane (CH₄), dinitrogen monoxide (N₂O), and CFC substitute (HFC, PFC, SF₆)

Activities

Regarding the emission of greenhouse gases, Kuraray is working to reduce emissions and has set a goal of reducing emissions in fiscal 2010 by 10% compared to the fiscal 1990 level. While carbon dioxide was the only gas initially targeted for reduction, there have been revisions to the targets on account of global trends and revisions to pertinent laws, and the new target is to reduce total emissions of greenhouse gases.

Kuraray has formed plans to reduce greenhouse gases in order to achieve the goal of reducing emissions by 10%, and these plans are centered on ① promoting

Launch of Operation of the Solar Electric Power System at the Kurashiki Plant

As one part of Kuraray's efforts to introduce of new sources of energy, with the improvement of the research laboratories at the Kurashiki plant, an 87kW solar electric system was installed at the newly created Manufacturing Technology Development Center, and operation of the system was launched in December 2006. This will reduce carbon dioxide emissions by 100 tons of CO₂ per year.

energy conservation, ② converting to clean fuels, and ③ introducing new energy sources, which have steadily generated results.

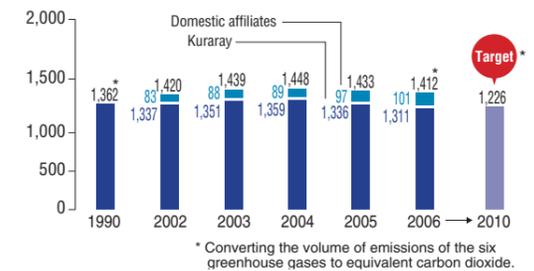


Solar electric power system at Kurashiki plant

Conversion of Heavy Oil Boiler to Natural Gas

At the Okayama plant, Kuraray is moving forward with efforts to introduce natural gas, a clean form of energy, and the conversion of two heavy oil boilers to natural gas was completed in January 2007, which will reduce carbon dioxide emissions by 19,000 tons of CO₂ per year.

Greenhouse Gas Emissions (1,000 tons/CO₂)



Working to Reduce the Environmental Burden During Transportation

Policies

The Group is implementing measures to reduce energy consumption, such as promoting a modal shift and increasing transportation efficiency, with the goal of making effective use of energy resources and contributing to the prevention of global warming from the distribution side.

Activities

Kuraray is implementing various measures with the goal of reducing unit energy consumption by 1%, the target stipulated by the Revised Law Concerning the Rational Use of Energy.

- ① Substantial increase of 168% compared to the previous year in the use of coastal feeder service for maritime containers for exports

- ② Promotion of measures to increase efficiency such as expanding use of JR containers/RORO ships (ships where trailers are driven onto the ship) and greater loading ratios

- ③ Integration of the distribution management operations of Kuraray, Kuraray Chemical, and Kuraray Plastics in April 2007 in order to establish a more efficient distribution system

Action Points

In addition to realizing a 1% reduction in the unit energy consumption, required by the Revised Law Concerning the Rational Use of Energy, Kuraray will also take steps to increase the efficiency of distribution and contribute to improving the global environment.

Striving to Reduce Waste Material

Policies

The Kuraray Group is promoting improvements to production processes and the development of technologies to make effective use of waste material in order to reduce, reuse, and recycle with the goal of reducing waste material.

In fiscal 2006, efforts were launched with the target being raised to an effective waste utilization rate of 90% and we are working to expand our activities to achieve Zero Emissions.

Activities

Improvement in Effective Waste Utilization and Promotion of Zero Emissions

In regards to effective waste utilization, in fiscal 2006, particular focus was on turning pulverized coal generated during the activated carbon manufacturing process into a fuel and using ash generated by boilers used for generating electricity as a raw material for cement. As a result of also making continued use of numerous traditional effective waste utilization technologies, the Kurashiki plant was able

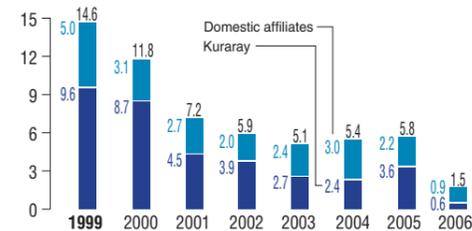
to realize zero emissions. Therefore a total of six business sites—Kashima plant, Okayama plant, Niigata plant, Kurashiki plant, Kuraray Saijo Co., Ltd., and Kuraray Trading Co., Ltd., (Okayama)—have achieved zero emissions. In addition, for the domestic Kuraray Group companies, the final amount of waste disposed of in landfills averaged 1.1% having almost achieved a target of 1% landfill disposal rate.

Definition of Zero Emission Used by the Domestic Kuraray Group Companies

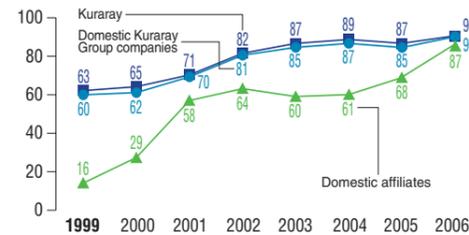
Zero emission is defined as the final amount of waste disposed of in landfills being less than 1% of the total waste generated.

Since a final burial volume of 0 is doubtful from a Life Cycle Assessment (LCA) perspective, this definition was adopted.

Volume of Unutilized Externally-Processed Industrial Waste (1,000 tons)



Industrial Waste Utilization Rate (%)



Action Points

Kuraray is working to reduce the volume of unused material processed outside the company by promoting the effective use of waste material through separation and the development of methods to effectively use waste material.

Furthermore, in order to reduce the actual volume of waste material produced, the Group is promoting greater product yields and the use of a zero surplus sludge system for sludge created when treating wastewater.

Appropriately Managing Chemical Substances

Policies

The Kuraray Group has established the following policy related to chemical substance management in the Kuraray Group Action Guideline on the Global Environment and is working to reduce risks.

Kuraray Group Action Guideline on the Global Environment

“To ensure environmental protection, safety, and health and increase the trust society places in us, the Kuraray Group engages in total management of chemical substances in all processes from development to final consumption and disposal in keeping with the basic principles of responsible care” (remainder omitted).

Activities

Reducing the Emission of Specific Chemical Substances

Pollutant Release and Transfer Register Law (PRTR Law)

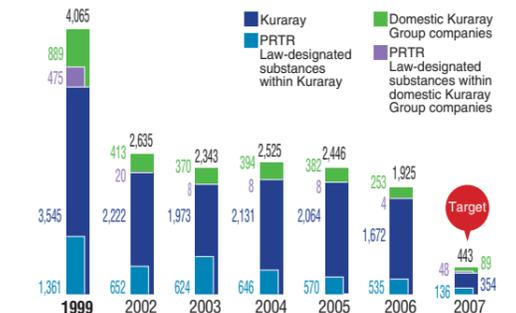
Law Concerning Reporting, etc. of Releases to the Environment of Specific Chemical Substances and Promoting Improvements in Their Management

Kuraray has taken part in Japan Chemical Industry Association (JCIA)'s Pollutant Release and Transfer Register (PRTR) program since the beginning and has gained an understanding of the volume of its emissions of chemical substances designated by the Pollutant Release and Transfer Register Law (PRTR Law). Through the JCIA's PRTR program, 480 chemical substances have been targeted (354 of which are designated by the PRTR Law), and the domestic Kuraray Group companies handle 80 of these chemicals.

The Kuraray Group is working to reduce emissions of these chemical substances and is aiming to reduce emissions in fiscal 2007 of chemical substances covered by the JCIA's PRTR program by 90% compared to fiscal 1999 levels. The volume of emissions of these chemical substances in fiscal 2006 was 1,925 tons (of which 539 tons were chemical substances designated by the PRTR Law). Compared to the previous year, emissions were reduced 21%, or 57% compared to fiscal 1999 levels. This was due to various efforts including the introduction of methanol recovery units (fiscal 2005 investment) used during the poval production

process at the Niigata plant. In fiscal 2006, various equipment was installed, this included isoprene absorption equipment and exhaust gas incinerating equipment used during the SEPTON production process at the Kashima plant, and this is expected to contribute to a reduction in emissions for fiscal 2007. The policy is to work to reduce emission with priority being given to very hazardous chemical substances.

Change in Emissions of Substances Designated Under the JCIA PRTR Program (Unit: tons)



Action Points

In fiscal 2006, volatile organic compounds (VOC) regulations come into force in accordance with the provisions of the Air Pollution Control Law. Emissions reduction measures are required at some facilities at the Kuraray Group subject to the regulations, and we plan to implement reliable measures.

Efforts Related to Soil Contamination

The Kuraray group considers knowing whether there is soil contamination as a result of previous business activities one part of its risk management activities, and is conducting soil testing of its production sites based on a voluntary plan. Following soil tests at its Kurashiki plant (Sakazu) in fiscal 2003, Kuraray tested the soil at its Kashima plant in fiscal 2005. As a result, there were indications of the possibility of light contamination from arsenic and tetrachloroethylene, but based on additional tests for the two substances conducted in fiscal 2006, it was confirmed that there was no contamination of not only the soil and underground water but also of the underground water down stream.

Kuraray will move forward with soil tests at production sites based on its voluntary plan and will implement necessary measures based on the results of the tests.

Environmental Data

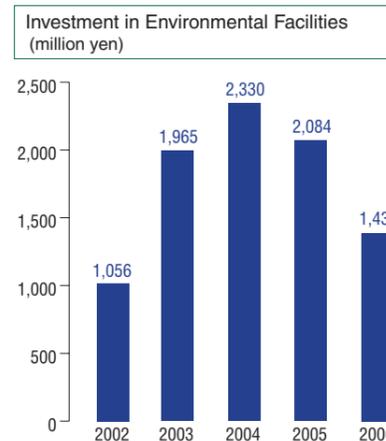
Environmental Accounting

Environmental Preservation Costs (million yen)				
Category	Investments	Costs	Principal Activities	
Costs within the Sites	Pollution prevention costs	754	2,635	Operating cost of environmental facilities, measures to prevent emissions of chemical substances
	Global environmental conservation costs	510	783	Boiler fuel conversion (from heavy oil to natural gas) Other energy conservation measures
	Resource recycling costs	173	269	Waste reduction and recycling
	Total	1,437	3,687	
Upstream and downstream costs	—	177	Recycling and reuse of packaging materials, improvement of container packaging	
Administrative costs	—	106	ISO 14001, environmental measurement, environmental education	
Research and development costs	—	205	Operating cost of environmental facilities, measures to prevent emissions of chemical substances	
Social activity costs	—	1	Afforestation, beautification, provision of environmental information to host community residents	
Environmental damage costs	—	0		
Total	1,437	4,176		

- Total investment during the reporting period: 30,200 million yen (Totalled in accordance with the scope of environmental accounting)
- Total R&D costs during the reporting period: 9,500 million yen (Same as above)

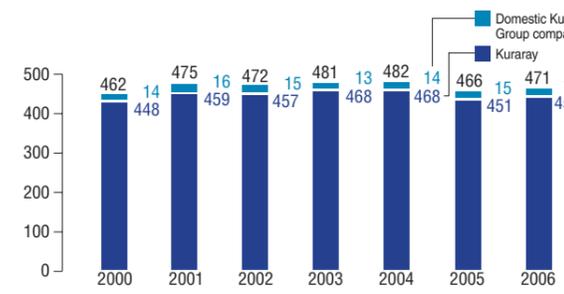
Environmental Preservation Effects					
Category	Unit	Fiscal 2005	Fiscal 2006	Variance	
Pollution prevention effect	SOx emissions	1,000 tons	0.50	0.61	0.11
	NOx emissions	1,000 tons	1.83	1.67	-0.16
	Particulate emissions	tons	38	47	9
	Emissions of substances covered under the JCIA voluntary PRTR management program	tons	2,064	1,672	-392
Global environment preservation activities	COD load	tons	741	743	2
	CO ₂ emissions	1,000 tons of CO ₂	1,336	1,289	-47
Resource recycling activities	Energy consumption	1,000kl (crude oil equivalent)	451	457	6
	Unutilized industrial waste disposed of in external landfills	1,000 tons	3.6	0.6	-3.0
	Industrial waste utilization efficiency	%	87	90	3
	Water resource use	million m ³	84.6	84.7	0.1
	Total emission of wastewater	million m ³	77.5	76.8	-0.7

- Basis for environmental accounting calculations**
 - Reporting period: April 1, 2006 to March 31, 2007
 - Scope covered: Kuraray Co., Ltd.
- Environmental conservation cost calculation criteria**
 - Depreciation: Straight-line method
 - Standard for allocating costs: In principle 100% of costs are allocated to environmental individual conservation items. However, a portion of costs are allocated on a pro rata basis.
- Standard for calculating environmental preservation effects**
 - Effects are calculated in a simple comparison with the total environmental load of the previous fiscal year and are not adjusted for production volume.
- Standard for calculating economic effects (benefits) of environmental preservation measures**
 - Although material effects such as income from recycling are known, benefits are deducted from environmental preservation costs.

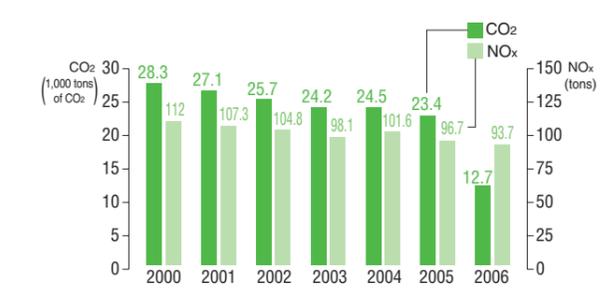


Global Warming Prevention

Energy Consumption (1,000kl crude oil equivalent)

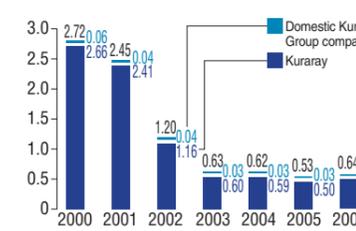


CO₂ and NO_x Emissions during Transport

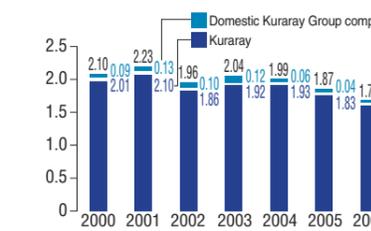


Air Pollution Prevention

SO_x Emissions (1,000 tons)

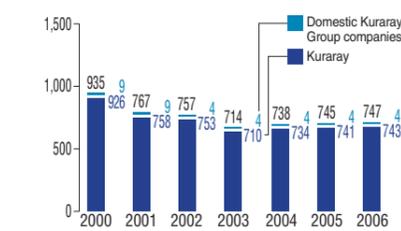


NO_x Emissions (1,000 tons)



Water Pollution Prevention

COD Load (tons)



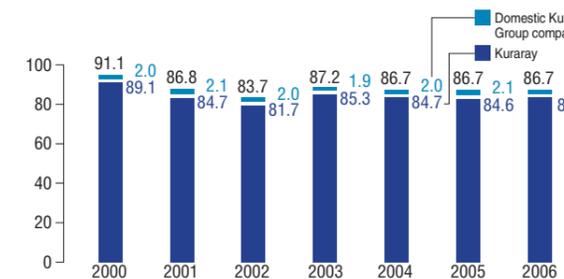
Management of Ozone Layer Depleting Substances

Emissions of Principal Ozone Layer Depleting Substances (tons)

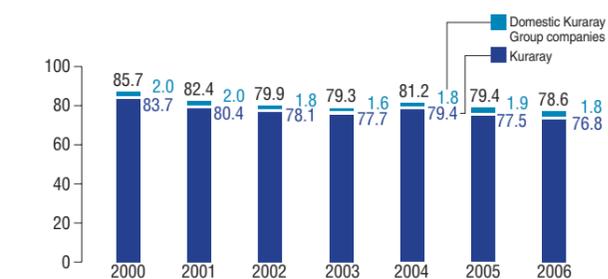
	Ozone depleting potential	Emissions					CFC equivalent				
		FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
Hydrochlorofluorocarbons (HCFC-123)	0.02	1.52	0.31	0.97	3.84	1.02	0.03	0.01	0.02	0.08	0.02
Chlorofluorocarbons (CFC-11)	1.00	0.46	0.20	0.03	0.18	0.00	0.46	0.20	0.03	0.18	0.00
Carbon tetrachloride	1.10	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
1,1,1-Trichloroethane (Methylchloroform)	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Three specified halons	3.0~10.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Hydrobromofluorocarbons	0.1~14.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Methyl bromide	0.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total		1.99	0.52	1.01	4.03	1.03	0.50	0.22	0.06	0.27	0.03

Resource Conservation

Water Resource Use (million m³)



Total Emission of Wastewater (million m³)



History of Environmental, Safety, and Social Service Activities at Kuraray

■ Environmental and Safety Activities ■ Social Service Activities

1977	■	The Environmental and Safety Management Regulations are established.
1991	■ ■	The Philanthropy and Environment Committee is established. The Philanthropy and Environment Committee's Ecology Subcommittee and Philanthropy Subcommittee begin activities.
1992	■ ■	The first Chemistry Class for Boys and Girls is conducted at the Kurashiki Plant and Kuraray Saijo Co., Ltd. (Ehime Prefecture). The Matching Gift system (a system by which employees donate a small fraction of their pay to benefit community social services and the Company matches the amount) is established.
1993	■	Kuraray Action Guidelines on the Global Environment are established. (The guidelines are expanded to encompass the entire Kuraray Group in 2001.)
1995	■ ■	Participation in responsible care activities begins.
1997	■	The Niigata Plant's work center is established at Niji-no-ie social welfare house in Nakajo-machi (Tainai City, Niigata Prefecture).
1998	■ ■ ■	The In-House Ethics Committee is established. Activities to obtain ISO 14001 certification for all production plants and research laboratories begin. Publication of the Kuraray Environmental Activities Report begins.
1999	■	Chemistry Class for Boys and Girls awarded the prize of Ministry of Economy, Trade and Industry.
2000	■ ■	ISO 14001 certification is obtained by the Kashima, Okayama, Niigata and Kurashiki Plants, Kuraray Tamashima Co., Ltd., Kuraray Saijo Co., Ltd., Eval Company of America, and Kuraray Europe GmbH. The Fruits-no-ie shared residence is opened after conversion of unused company housing at the Saijo Plant.
2001	■ ■ ■ ■	The Medium-Term Environmental Plan is established. The functions of the Environmental, Industrial Safety and Quality Management Department are upgraded and the department is renamed the Environmental and Industrial Safety Management Center. The RC Activities Verification Meeting is inaugurated. Certification of the Tsukuba Research Laboratories marks the completion of ISO 14001 certification at all Kuraray plants and research laboratories in Japan.
2003	■ ■ ■	The CSR Committee is established and the Environmental and Industrial Safety Subcommittee, Economic Subcommittee, and Social Responsibility Subcommittee begin activities. (The In-House Ethics Committee and Philanthropy and Environment Committee are dissolved and reorganized.) The one hundredth Chemistry Class for Boys and Girls is held. Kuraray Plastics Co., Ltd., Kuraray Fastening Co., Ltd. and SEPTON Company of America obtain ISO 14001 certification.
2004	■ ■ ■	The Tulip-en assisted-living facility opens in an unused employee welfare facility at the Nakajo Plant. A campaign to donate used school bags to children in overseas countries begins. Kuraray begins full-scale utilization of renewable energy (such as expansion of biomass fuel use), expanding the scale of renewable energy use.
2005	■ ■ ■	The CSR Committee is reorganized (the Kuraray Group Risk Management Conference is integrated), and the Environmental and Industrial Safety Subcommittee, the Social Responsibility and Economic Subcommittee, and the Risk Management and Compliance Subcommittee are established. The Compliance Handbook is distributed to all domestic Kuraray Group employees. Kuraray Trading Co., Ltd. obtains ISO 14001 certification.
2006	■ ■ ■ ■	The Kuraray Group Global HR Policy is established. Antimonopoly Act Compliance Guidelines is revised to revisions in the law (this is the second revision following the revision in 2002, it was originally established in 1992). As one part of the 80-year anniversary, three exhibitions, including the Rare Works of Shiko Munakata Exhibition, are held. Kuraray Chemical Co., Ltd. obtains ISO 14001 certification.

Reader Questionnaire Responses

We would like to express our gratitude for all the responses we received regarding the questionnaire. We received responses from 55 people who read the 2006 Kuraray CSR Report, and the following is a summary of the comments we received.

Sections readers found especially interesting

(Multiple answer question)

The section that readers found the most interesting was A Message from the President section, revealing readers strong interest in top management's thoughts on CSR. Furthermore, the Corporate Philosophy section was the section that generated the second greatest level of interest with 90% of respondents showing interest, and this was followed by the Corporate Governance section, which had the same percentage of respondents showing interest. This showed that there is greater interest in the company as a whole than particular activities. Regarding individual activities, CSR Procurement and Socially Beneficial Activities generated the greatest interest.

1	A Message from the President	52 responses
2	Corporate Philosophy	50 responses
3	Corporate Governance	34 responses
3	CSR Procurement	34 responses
5	Socially Beneficial Activities	33 responses

Kuraray activities thought "good" and those thought "insufficient"

(Multiple answer question)

Corporate Governance was top for both "good" and "insufficient." Each company has a different form of corporate governance with some introducing committees and others introducing independent board of directors and advisory board (for Kuraray, this is referred to as the Management Advisory Council), and there was split in reader opinion regarding this. Among activities, Socially Beneficial Activities (ranked 2nd for "good" and 3rd for "insufficient") and Measures to Prevent Global Warming (ranked 4th for "good" and 2nd for "insufficient") were at the top. While reviewing the content of activities, Kuraray will work to gain "good" responses for our activities from all readers. In particular, for measures to prevent global warming, emission targets were revised and the goal is to realize a reduction in absolute volume.

Kuraray Activities Thought "Good"		Kuraray Activities Thought "Insufficient"		
1	Corporate Governance	36 responses	1 Corporate Governance	10 responses
2	Socially Beneficial Activities	34 responses	2 Measures to Prevent Global Warming	7 responses
3	Zero Emissions of Industrial Waste	26 responses	3 Socially Beneficial Activities	5 responses
4	Compliance	23 responses	3 Communication	5 responses
4	Measures to Prevent Global Warming	23 responses	3 Management of Chemical Substances	5 responses
			3 Preservation of the Natural Environment	5 responses

Responses to questionnaire

Many opinions and questions were received through our questionnaire, and our responses to some of these are given below.

Major accidents and incidents

- Q.** The Okayama explosion and Niigata fatal accident put the existence of the company in danger, and I think you should never forget that safety takes priority over everything else.
- Q.** I think it is important that from an error studies perspective, troubles are the impetus of activity.
- A.** We recognize that the two accidents were serious, and in fiscal 2006 Kuraray's efforts were focused on safety in order to learn from these incidents. Based on the activities during the past year, Kuraray will revise its efforts and continue to work in fiscal 2007 and beyond to resolve these problems (refer to P.32 for details).

Thermal recycling

- Q.** Are there benefits to the Earth of thermal recycling of waste material even if one considers the energy to transport the material and labor costs?
- A.** Kuraray is actively promoting thermal recycling in order to make effective use of resources. From the perspective of optimizing energy and costs, while targeting waste material that can be incinerated in the neighboring area and working to reduce the volume of waste material, the Company conducts thermal recycling.

Mental health

- Q.** I would like to know more about the Kuraray's handling of employee's safety and health, particularly mental health.
- A.** Kuraray's response to mental health issues, which all employees, regardless of the work environment, have the risk of confronting, is to promote programs that all employees participate in and target prevention and early detection/response (refer to P.34 for details). In addition, focus is placed on creating a work environment which is conducive to preventing mental health issues, and this involves various efforts including strengthening communication at the workplace.

Direction of unique technologies

- Q.** I would like you to explain the direction of unique technology, which is Kuraray's specialty.
- A.** In order to more finely tune business, the Kuraray Group is moving forward with the development of more highly specialized products. The Company is focusing its resources on processing technology, such as precision casting, and is focusing on expanding the range of advanced processed products. Therefore, the Kuraray Group is aiming to "contribute to society through new businesses based on technological innovation."

- While incorporating the opinion of readers into our CSR activities, we are striving to expand communication. We would appreciate it if you would send us your opinion and impressions.

URL <http://www.kuraray.co.jp/en/csr/report/index.html>
The Kuraray CSR website can be accessed at the above address.

Third-Party Evaluations

CSR activities conducted by the Kuraray Group are evaluated by third parties. These results are studied, which are helpful for investigating and improving future activities.

The 10th Nikkei Corporate Environmental Management Survey (Results released on December 4, 2006, in the Nikkei Sangyo Newspaper)

Kuraray ranked 297th out of 541 companies (199th out of 558 companies the previous year)

Except for administrative structure, all scores declined, resulting in a lower overall ranking. Since we considered this a sign that measures implemented up to now have not fully resolved issues, Kuraray will move forward from a different perspective, such as revising the targets for global warming and expanding the range of measures.

The 10th Corporate Environmental Management Survey		
	Previous year	This year
Administrative structure	67	70
Long-term objectives	84	65
Antipollution measures	87	80
Resource recycling	70	65
Product measures	43	36
Global warming prevention	66	50
Office	57	35

About the Nikkei Corporate Environmental Management Survey

Nikkei Inc. (Japanese economic newspaper publisher) has been conducting this survey once every year since 1997, for the purpose of making an overall assessment of environmental action among companies. It assesses the situation as regards corporate measures to reduce greenhouse gas emissions, waste derivation, etc., while also heightening management efficiency. The findings of a questionnaire survey with corporate respondents provide the basis for scoring the level of environmental management. The results are published in the newspaper in the form of a corporate ranking. Each corporate respondent is scored with respect to seven items of assessment. The scores for each item are made through a conversion upon assigning a value of 100 to the top-ranked respondent and 10 to the lowest-ranked one. In the manufacturing sector, the top total score came to 660, due to a reduction of the relative weight of office workspace, for which there are fewer questionnaire items.

MS-SRI

MS-SRI (Morningstar Socially Responsible Investment Index) is a stock price index created by Morningstar and is based on the share price of 150 companies selected as the top companies listed within Japan in terms of social responsibility. Kuraray was selected as one of the companies (as of May 2007).



FTSE4Good

FTSE4Good is a benchmark index for Socially Responsible Investment (SRI) established by the FTSE (a joint venture between the Financial Times and London Stock Exchange). The index is used extensively in Europe, where the SRI market is growing markedly, especially in Scandinavia and the U.K. It is also a closely watched index in Japan. Within the FTSE4Good, Kuraray has been included in the FTSE4Good Global Japan Index, which targets companies throughout the world, as of May 2007.



FTSE4Good

Global 100

2007 Global 100 (the top 100 most sustainable companies) is announced by Corporate Knights Inc. and Innovest Strategic Value Advisors Inc. at the annual World Economic Forum (WEF) which is commonly referred to as the Davos Meeting. These are the world's 100 top companies in terms of sustainability. For 2007, Kuraray was one of the 13 Japanese companies selected.



Message to Our Readers

I would like to comment on a few items at this time. In 2003 Kuraray established the CSR Committee to make a full-fledged start of CSR activities, and it has already been four years since Kuraray fully implemented CSR activities. Providing value recognized by society is the mission of the Kuraray Group, and we will continue to conduct these activities as it is our responsibility to fulfill this mission and our social responsibilities.

In order to learn from several major accidents that occurred in 2005, we are refocusing our efforts on safety under the slogan Safety is the Cornerstone of Everything We Do in fiscal 2006. Although these efforts have not resulted in a clear major reduction in occupational accidents, we will continue to focus on safety since the most important point is continuing our efforts. In addition, we are also stressing employee health-related issues such as mental health. In fiscal 2006, global warming was once again recognized as a global problem. While we have worked to reduce emissions of carbon dioxide in order to fulfill the pledges in the Kyoto Protocol, we have revised our response, which includes establishing new targets for reducing the emission of greenhouse gases in addition to carbon dioxide. Furthermore, reflecting on the frequent incidents and accidents companies

have been involved in, the Kuraray Group has launched new efforts, which included thoroughly implementing compliance and establishing a risk management system. The demands of stakeholders on corporations are growing daily, and there is no end to CSR activities. Therefore, we are steadily undertaking what we can accomplish. At the same time, we are facing greater issues and gradually expanding the scope of what we can do, which we will continue to do. We consider this vital to fulfill our corporate social responsibilities. The Kuraray's basic stance on CSR activities is to obviously accomplish the obvious, which we want to continue to do.

Communication with all stakeholders is an important factor when continuing to implement CSR activities. Since this report was created as one aspect of this communication, we would like to receive your honest opinion and questions regarding it.



Seji Wajiki
Managing Director
Chairman of the CSR Committee

Editor's Postscript

Since the first issue of the Kuraray CSR Report in 2004, the report has been produced and issued thanks to the cooperation of various organizations in the Kuraray Group, with the CSR Committee playing a central editorial role. We believe that CSR isn't something that a specific department implements as a specialized task, but something that every department must realize in day-to-day business affairs.

For the 2007 report, the structure and content was revised so that everyone would find it easier to read. Although it is still a work in progress, we will issue the report while continuing to make improvements. We are actively working to communicate with all readers and would like to enliven the CSR activities of the Kuraray Group.

CSR Committee Secretariat
(CSR Report Editorial Staff)