Kuraray CSR Report 2005
— Environmental and Social Activities —

Corporate Social Responsibility Report

http://www.kuraray.co.jp/

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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 ensuring that in the conduct of business all employees ground their attitudes and behaviors in the Corporate Philosophy and Guidelines for Action.

Corporate Philosophy

Respect for individuals

Cooperation in shared goals

Creation of values

Guidelines for Action

Act on customers' needs

Act on ideas in the working place

Act on your own initiative

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.

Established in 2003

The Corporate Mission expresses the Kuraray Group's public mission as a sustainable company that contributes value to society.

Principles for Business Conduct

We will develop and provide products and services, giving full consideration to safety.

We will conduct businesses in a free, fair and transparent manner.

We will maintain good communications and build a sound business relationship with society.

We will strive to preserve and improve the global environment and to secure safety and health.

We will respect intellectual properties including trade secrets and control information properly.

Established in 1998

The Principles for Business Conduct indicate proper conduct for ensuring that the corporate activities of the Kuraray Group, which take place in the context of extensive interaction with society at large, are in harmony with the global environment and civil society.
The Kuraray Group at a Glance

Since its founding in 1926, Kuraray has maintained a basic management stance of contributing to society through product development grounded in creative technological innovation. Embodying this stance are the many products offered around the world by the Kuraray Group 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.”

Corporate Profile

Company name: Kuraray Co., Ltd.
Date of establishment: June 1926
Capitalization: 89 billion yen (as of March 31, 2005)
Net sales (consolidated): 354.9 billion yen (fiscal 2004)
Number of employees: 6,919 (as of March 31, 2005) (consolidated)

Global Rankings of Kuraray Group Products

No. 1 in Global Market Share
- Poval (polyvinyl alcohol resin)
- Poval film for optical use (polishing film materials for liquid crystal displays)
- EVAL (EVOH gas barrier resin)
- VINylon (polyvinyl alcohol fiber)
- GENESTAR (highly heat-resistant nylon resin)

No. 2 in Global Market Share
- SEPTON (hydrogenated styrenic thermoplastic rubber)

World-First Product
- GENESTAR (highly heat-resistant nylon resin)

What is G-21?

The name “G-21” was derived from four watchwords at Kuraray: “Globalization,” “Green,” “Growth,” and “Group.” Of course, “Green” refers to concern for the global environment. The Kuraray Group engages in product development that contributes to the reduction of environmental load and to environmental improvement and is solicitous of the environment in its procurement, production, and selling processes.

Progress with the G-21 Medium-Term Business Plan

With the aim of being an eco-friendly enterprise or unique technology, the Kuraray Group is implementing the G-21 medium-term business plan covering the five-year period until fiscal 2005. Although fiscal 2004 brought adverse conditions such as sharp increases in the price of crude oil, we nearly achieved the plan objectives and established solid footing for achieving the goal indicators for the final year of the plan (operating income of ¥40 billion and return on assets of 8% or higher).

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Progress with the G-21 Medium-Term Business Plan

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Aiming to Continue as an Enterprise that Contributes to People and Society

Ever since it was founded in 1926, Kuraray has its corporate mission as fulfilling its responsibility to society, and actively contributed to society through the pursuit of ingenious technological development and unique businesses. Takeshi Kakimoto, a young employee in the Kuraray Office of CSR, asked Kuraray President Yasuaki Wakui about the history of social responsibility and social contribution at Kuraray and the outlook for the future. Mr. Wakui explains Kuraray’s view that contributing to people and society is the Kuraray DNA.

Company founder Magosaburo Ohara devoted effort to improving employment conditions for his workers and generously contributed his wealth to social and cultural undertakings, including opening a medical clinic for employees to a local community, financial assistance for orphans, and the establishment of an art museum. One of his many great achievements was to create awareness among the public of the social responsibility that business entrepreneurs must shoulder, and he is regarded as a pioneering philanthropist in Japan.

Kuraray’s second president, Seichiro Ohara, took the bold and risky decision to export to China a manufacturing plant for vinylon—a product in which the company had invested substantial development funds to industrialize—before the resumption of diplomatic ties between China and Japan. His aim was to share the benefits of an important product with the people of China.

Kuraray’s third president, Takamasa Ohara, continued his father’s vision of social responsibility. Promoting the growth of products beneficial to the earth and to people that resulted from the accumulation of technologies we have perfected through our own efforts is a direction the Kuraray Group will pursue as an eco-friendly enterprise with unique technology.

Striving to be an eco-friendly enterprise with unique technology

Environmental preservation and safety activities

Some people think that a company can discharge its social responsibility by providing things that consumers need, earning profits, returning profits to shareholders, ensuring the employment of workers, and paying taxes. I, however, believe that that alone is an insufficient raison d’etre for a company. Surely the vital public mission entrusted to a corporate citizen is to discharge its responsibility to the natural environment and the international community, to actively commit efforts to subsequent development and investment, and to continuously create value required by society.

Together with the employees who work in the Kuraray Group, I want to pursue at all times a sense of mission to create value and a sense of accomplishment. I want to expand businesses that enable all employees to actively participate in benefiting mankind and the world in which we live. From start to finish, the reason for the existence of a corporation is to do its utmost for people and society. Put another way, I believe that the true meaning of corporate management is to put CSR in practice.

Kuraray got its start in 1926 in Kurashiki, Okayama Prefecture as Kurashiki Kosenkoku Co., a company established to commercialize the chemical fiber rayon. In 1950, Kuraray became the world’s first company to commercialize vinylon fibers and textiles. Vinylon was generated from limestone and hydroelectric power, and so could be produced even in resource-poor Japan. Accordingly, in the period after the Second World War when Japan faced a clothing shortage, vinylon contributed greatly to the lives of the Japanese people as a synthetic substitute for cotton.

Concern for the environment is an obvious responsibility for Kuraray, a chemicals manufacturer that uses vast amounts of raw materials, fuel, water, and air to do business. Conscious of this responsibility, Kuraray established a special section to engage in environmental preservation activities back in 1970. We have participated in the Japan Responsible Care Council since its establishment in 1995, and have put in practice numerous activities including the development of low environmental load products and processes, and the development of substitutes for substances that damage the environment. For instance, Kuraray-developed vinylon fiber has been put to good use in buildings around the world as a substitute for harmful asbestos as a cement reinforcing material.

I would like to grow what we call the environmental activity. We will continue to value socially beneficial activities and harmonious coexistence with society made possible by spontaneous suggestions from Kuraray employees.

These days considerable attention is focused on the social aspects of corporations. How will Kuraray engage in socially responsible activities in the coming years?

In addition to consideration of environmental problems, concern for society overall, including the employees who work for a corporation, is an important task for a corporation. The first requirement is to be a company in which the employees and all people involved in corporate activities feel joy and purpose through their involvement. That is one reason it is important to engage in fair, clean corporate activities grounded in consideration of safety and health and the observance of rules and regulations.

We will also devote effort to the support of forward-looking socially beneficial activities. A good example of that is Chemistry Classes for Boys and Girls, a program of classes held on plant premises or at nearby elementary schools in which young Kuraray employees volunteer to serve as instructors or assistants. A total of more than 4,000 children participated in the program during the thirteen-year period up to 2004. This activity, possible only for a chemicals manufacturer, is steadily deepening relations with the communities. The campaign launched last year to send school bags to children in Afghanistan is an initiative that began as a convergence of Kuraray's Office of CSR, Kuraray volunteer to serve as instructors or assistants. A total of more than 4,000 children participated in the program during the thirteen-year period up to 2004. This activity, possible only for a chemicals manufacturer, is steadily deepening relations with the communities. The campaign launched last year to send school bags to children in Afghanistan is an initiative that began as a convergence of Kuraray's Office of CSR, Kuraray volunteer to serve as instructors or assistants. A total of more than 4,000 children participated in the program during the thirteen-year period up to 2004. This activity, possible only for a chemicals manufacturer, is steadily deepening relations with the communities. The campaign launched last year to send school bags to children in Afghanistan is an initiative that began as a convergence of Kuraray's Office of CSR, Kuraray volunteer to serve as instructors or assistants. A total of more than 4,000 children participated in the program during the thirteen-year period up to 2004. This activity, possible only for a chemicals manufacturer, is steadily deepening relations with the communities. The campaign launched last year to send school bags to children in Afghanistan is an initiative that began as a convergence of Kuraray's Office of CSR, Kuraray volunteer to serve as instructors or assistants. A total of more than 4,000 children participated in the program during the thirteen-year period up to 2004. This activity, possible only for a chemicals manufacturer, is steadily deepening relations with the communities. The campaign launched last year to send school bags to children in Afghanistan is an initiative that began as a convergence of Kuraray's Office of CSR, Kuraray volunteer to serve as instructors or assistants. A total of more than 4,000 children participated in the program during the thirteen-year period up to 2004. This activity, possible only for a chemicals manufacturer, is steadily deepening relations with the communities. The campaign launched last year to send school bags to children in Afghanistan is an initiative that began as a convergence of Kuraray's Office of CSR, Kuraray volunteer to serve as instructors or assistants. A total of more than 4,000 children participated in the program during the thirteen-year period up to 2004. This activity, possible only for a chemicals manufacturer, is steadily deepening relations with the communities. The campaign launched last year to send school bags to children in Afghanistan is an initiative that began as a convergence of Kuraray's Office of CSR, Kuraray...
Maintaining appropriate relationships with shareholders and other stakeholders and fulfilling the Kuraray Group’s environmental and social responsibilities are essential preconditions to continuing to create new value and achieving long-term, sustainable growth through global business activities. For that reason, Kuraray seeks to fulfill its responsibilities as an enterprise open to society by enhancing the corporate governance function and establishing highly fair and transparent management.

Corporate Governance System

Kuraray, employing the “company with auditors” system, is building an effective corporate governance system by dividing the business execution and supervision functions.
1. To increase the agility of management decision making, Kuraray has reduced the maximum number of directors to ten.
2. Also, Kuraray has introduced an executive officer system to clearly separate responsibility for management decision making and supervision from responsibility for business execution.
3. The Board of Auditors consists of five corporate auditors, including three auditors from outside the Kuraray Group. The Board performs auditing activities that contribute to sound corporate management from an objective, specialist standpoint.
4. Kuraray has established a Management Advisory Council consisting of five permanent members (including two intellectuals from outside the Group) to serve as a consultative body to the president. The Council advises on important management policies and issues, the president’s compensation, and management succession.

Compliance

To ensure fairness and transparency 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.

Kuraray compiled and produced the Compliance Handbook for Kuraray Group domestic employees in fiscal 2004 and plans to distribute and explain it to the employees in fiscal 2005.

History of Compliance Activities at Kuraray

1988: Establishment of the In-House Ethics Committee chaired by the president, formulation of the Principles for Business Conduct
2001: Establishment of the Kuraray Employee Counseling Room as a point of contact for disclosure of misconduct
2003: Publication by the president of the Compliance Declaration, distribution of the Compliance Card* to all domestic employees
2005: Planned distribution of the Compliance Handbook to Kuraray Group employees

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.

We will comply with the law and the Principles for Business Conduct.
We will give precedence to laws and regulations, and to the Principles for Business Conduct, over corporate profits.
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.

CSR Promotion Structure

The far-reaching social responsibility required of companies necessitates a company-wide and systemwide response. To meet this requirement, in 2003 the Kuraray Group launched the CSR Committee and began to extend the scope of CSR activities. The CSR Committee comprises three subcommittees: the Economic Subcommittee, the Environmental and Industrial Safety Subcommittee, and the Social Responsibility Subcommittee. The subcommittees maintain theme-specific working groups that provide direction to the various sections in the Company and to Group companies, promote CSR activities, and ascertain and evaluate results.

In April 2005 the Office of CSR was established to serve as the secretariat of the CSR Committee. To further strengthen CSR activities, a full-time staff was assigned to the Office of CSR.
Sending School Bags Across the Sea
A Kuraray Campaign

Time and again over the years people would ask Kuraray whether there was some way to make use of the school bags Japanese elementary school students strap on their backs (randoseru in Japanese) after the students graduate. As the company that sells the CLARINO man-made leather used to make the school bags, Kuraray sought a way to meet this request. In 2004 Kuraray, in cooperation with JOICFP, planned the Sending School Bags across the Sea campaign to collect discarded school bags and send them to the children of Afghanistan, where bags and other daily necessities are in short supply.

Solicitation of donations of used school bags began on January 16, 2004. The response was great, and the initial target of 1,000 bags was reached in just two weeks. Owing to the overwhelming response, solicitation was continued and ultimately about 6,500 school bags were collected.

School bags requiring repair were repaired thanks to the cooperation of members of the Randoseru Industry Association, and through JOICFP the school bags were delivered to children in Afghanistan and Mongolia in July 2004. (School bags that could not be sent to Afghanistan for religious reasons were sent to Mongolia.)

The campaign is being conducted once again in 2005. Solicitation of donations began on January 19, and donations of about 8,500 bags were received by the end of March for delivery to children in Afghanistan.

Comments from a Sending School Bags Across the Sea participant

A sense of harmonious coexistence, not voluntarism
According to JOICFP, an NGO that has long supported humanitarian activities in Afghanistan, a sense of harmonious coexistence, not voluntarism, is important. Sometimes I vividly imagine children in the sun-baked desert of Afghanistan with their school bags on their backs. These are times when people call for social contributions from manufacturers, and I felt strongly that next year we should continue this beneficial activity that we can undertake.

Cooperative Business with “Niji-no-ile”

To promote the employment of disabled people, the town of Nakajo in Niigata Prefecture, social welfare institute “Niji-no-ile” Kuraray Workshop, and the Kuraray Na-kajo Plant have joined hands to engage in international cooperation in the area of population and family planning in developing nations.

Kuraray has prepared an environment to promote employment opportunities for people with physical disabilities, setting up massage rooms at several plants to provide workplaces for disabled people. We also support expansion of employment opportunities for people with physical disabilities through such means as conducting tours of the Tokyo Head Office for students from schools for the deaf (a total of four tours have been conducted since 2000).

Kuraray Co., Ltd.
Fibers and Industrial Materials Company

Masashi Uryu
President and Industrial Materials Company Kuraray Co., Ltd.

Kuraray respects human rights and has a policy of employing and promoting diverse human resources and placing importance on ability without discrimination according race, nationality, gender, or other personal attributes. In July 2004 Kuraray established the “Council to Promote Respect for Human Rights” to eliminate all forms of discrimination at Kuraray and raise awareness of human rights among employees.

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As set forth in the Corporate Mission (see p.3), the Kuraray Group’s primary mission is to create new businesses by means of highly creative 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. The Kuraray Group will continue to engage in socially beneficial activities that make the most of our distinctive capabilities and characteristics.

In 1992 Kuraray began the Chemistry Classes for Boys and Girls program with the goal of making it possible for children to conduct experiments and directly experience the fun of chemistry. On school holidays, young Kuraray employees volunteered to serve as instructors or assistants to conduct classes at special classrooms on plant premises and at local elementary schools and public facilities. During the more than ten years the program has continued, a total of more than 4,000 elementary students have participated.

Kuraray also participates and conducts chemistry classes at the “Dream Chemistry-21” event sponsored by The Japan Chemical Industry Association and other organizations (held with cooperation from the Okayama Research Park). In the area of medical care, the Kuraray Group contributes to society through hospitals with which the Kuraray Group has historically maintained close ties, including involvement in their establishment.

In 1992, the Kuray Co., Ltd employees have donated a small fraction of their pay to benefit community social services, and the Company matches the amount. Employees of Kuray Chemical Co., Ltd similarly donate a fraction of their pay and employees of Kuray Plastics Co., Ltd use internal events to collect funds for donation, and these companies also contribute matching amounts. In fiscal 2004 these funds were used to purchase nursing care articles, personal computers, and other items donated to a total of 22 social services facilities.

In fiscal 2004 Kuraray also began the Chemistry Classes for Boys and Girls — A Program for Upper-Grade Elementary Students.

Kuraray also seeks to contribute to society through community social and medical services. In July 2004, we utilized an employee welfare facility at the Nakajo Plant to open Tulip-en, a communal assisted-living facility for people with senile dementia operated by Kuray Techno Nakajo Co., Ltd. As of March 2005 eighteen residents lived in the homelike atmosphere of Tulip-en, where they receive assistance with meals, bathing, and personal hygiene.

Since 2001, Kuray Saijo Co., Ltd., in collaboration with Saijo Central Hospital, has provided unused housing for use as a geriatric nursing facility. Kuray Techno Co., Ltd converted the property for use as a nursing care facility.

Kuraray Fureai Fund Raising (Matching Gift)

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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. However, owing to facilities constraints, these activities tend to center on our production plants. Kuraray believes that it is necessary to augment its social service activities in major cities by effectively utilizing the limited opportunities at the Tokyo and Osaka Head Offices, which have little contact with the surrounding communities, and engaging in socially beneficial activities from new perspectives. We will also review our social service activities that extend beyond local communities.
Thank you for your assistance at the time of kenaf seeding and harvesting and for watering and caring for the plants in our absence. I am glad to have actually seen and observed the plants growing. I hope we will be able to continue to work with you in the future and I look forward to seeing the results of our efforts. I also hope that the benefits of kenaf will continue to be evident in the years to come.

Letter of Appreciation from a Participant
**Communication**

**Sports Meets**
By holding sports meets and opening its grounds and other facilities to the public, Kuraray promotes interaction with host community residents through sports. For instance, the Okayama Plant uses its grounds and gymnasium to hold the Kuran Area Children’s Ball Games Meet. In fiscal 2004 more than 1,000 participating children enjoyed games of baseball, volleyball, and other sports from dawn to dusk. Sponsored by the Nakaj Plant, the Kaestu Area Junior High School Soft Tennis Tournament is familiar to local residents as a gateway to tennis success for area junior high school students.

**Dialog with Host Communities**
The plants of Kuraray Co., Ltd., Kuraray Plastics Co., Ltd., and Kuraray Chemical Co., Ltd. hold various events to foster better communications with host community residents, including plant tours and briefing sessions for schools and residents’ associations. At those events we provide an overview of the plants and their production activities, explain the effects of our business activities on the environment and environmental protection measures, and deepen understanding of what the plants do. We make use of comments and opinions from participants to improve our plants. Each plant compiles its own environmental report for use in communication with its host community.

### Dialog with the Labor Union

**Examples of Kuraray’s stance of reflecting the opinions of employees in company systems** are the introduction of nursing care leave to enable employees to care for family members and the leave system to enable employee participation in socially beneficial activities, programs that Kuraray introduced in response to employee requests before they became required by law.

**Kuraray Employee Counseling Room**
To uncover any problems in the Kuraray Group, the Company has established an internal whistleblowing 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 report wrongdoing directly, consult on compliance issues, and seek advice on thorny problems in the workplace.

**Establishment of Points of Contact for Employee Counseling**

**Internal Communication**
Kuraray periodically publishes the Kuraray Times (monthly publication) group newsletter, the Kuraray News Letter (quarterly publication) for overseas employees, and other publications and strives to enhance internal communications. In response to an increase in the number of employees in German-speaking areas, in fiscal 2004 we began publishing a German-language edition of the Kuraray News Letter.

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

**Action Points**

*In addition to maintaining a structure for responding to problems after the fact, Kuraray is considering proactive measures and policies to create a more open atmosphere within the Company and activate communication among employees (such as holding periodic events and recreation activities in cooperation with the labor union).*

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**Creating an Open Work Environment**

**Dialog with Top Management**

**Dialog with the Labor Union**

**Establishment of Points of Contact for Employee Counseling**

**Dialog with Top Management**

The gathering with the president and other executive managers held on the day of the initiation ceremony began with a more amiable and relaxed atmosphere than I had imagined, relaxing the tension that had continued since the initiation ceremony. The opportunity to talk with people with whom we seldom come into contact is a wonderful memory. To receive a message conveying my objectives at my first event as working members of society was a great source of encouragement. I want to continue to put forth my best effort.

**Dialog with Top Management**

**Establishment of Points of Contact for Employee Counseling**

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**Establishment of Points of Contact for Employee Counseling**

**Dialog with Top Management**

The Kuraray Group has the Kuraray Labor Union, which is made up of employees, and the Kuraray Group Federations of Labor Unions. The Company exchanges views with the union on the basis of employee opinions expressed at periodic union meetings and workplace committee meetings and takes advantage of these exchanges to create better working environment.

Examples of Kuraray’s stance of reflecting the opinions of employees in company systems are the introduction of nursing care leave to enable employees to care for family members and the leave system to enable employee participation in socially beneficial activities, programs that Kuraray introduced in response to employee requests before they became required by law.
Personnel Policies

The Kuraray Group strives for a fair and transparent personnel system that encourages employees to work with vitality and dynamism. Kuraray is committed to establishing and operating non-discriminatory hiring, remuneration, and skills development systems that conform to the concept of current international standards, including the Universal Declaration of Human Rights and the Fundamental Human Rights Conventions of the International Labour Organization.

Measures to Support Independent Career Development

Kuraray assigns employees to posts in which they feel motivated, rewarded, and fulfilled, and provides employee learning opportunities to satisfy employees' aspirations for self-development, skills improvement, and lifelong learning. In addition to offering more than 300 correspondence courses to meet the education needs of individual employees, the Kuraray Group has prepared training and educational opportunities for entire companies and business sites.

Activities

A Fair, Impartial, Transparent Personnel System

Kuraray believes that designing a compensation system that rewards people in proportion to their efforts increases employee motivation and leads to improvement in business results. Kuraray has eliminated seniority and personal attributes and introduced a merit-based remuneration system. Close communication between supervisor and subordinate is an essential prerequisite to the operation of a merit system satisfactory to employees.

Kuraray has established a Management By Objectives system and a mandatory supervisor-employee interview system to ensure that supervisors and employees proceed to the next step on the basis of mutual consent. Through this process, we aim to promote employee growth and development. Each year we conduct evaluator training for managers to improve interviewing skills.

Support for Chilcare, Nursing Care, and Socially Beneficial Activities

Over the years, Kuraray has maintained various leave of absence programs to support diverse workstyles. When drawing up and revising these programs, we consider to design plans that exceed legal requirements and create a workplace environment that in actual practice makes it easy for employees to take leave of absence.

Stock Options Grants and the Employee Stock Ownership Plan

The Kuraray Group grants stock options to about 6,500 eligible employees at Group companies in Japan and overseas. Based on the concept of cooperative effort, the grants reflect management’s belief that improvement in the Group's business performance is the result of the combined efforts of individual employees. Some employees were able to exercise their options beginning in 2004, and 33 employees had exercised options by March 31, 2005. Kuraray also operates an employee stock ownership plan, fostering awareness of corporate value and share price and a sense of participation in management among employees.

Commendation System and Patent Incentive System

The Kuraray Group has a system of 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.

Patent Compensation and the 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 each year provides compensation in accordance with the importance of patents and the profits they generate.

Kuraray is currently studying positive action based on an action plan and grounded in Law for Measures to Support the Development of The Next Generation and the requirements of society.

We are conducting a questionnaire survey to ascertain the current situation and, on the basis of the findings, will devise measures in line with current circumstances.

Policies

Education, Training, and Career Development

Kuraray assigns employees to posts in which they feel motivated, rewarded, and fulfilled, and provides employee learning opportunities to satisfy employees' aspirations for self-development, skills improvement, and lifelong learning. In addition to offering more than 300 correspondence courses to meet the education needs of individual employees, the Kuraray Group has prepared training and educational opportunities for entire companies and business sites.

Activities

Domestic Kuraray Group companies have adopted the training scheme depicted below, which combines training for the purpose of acquiring knowledge and skills required for work with training that satisfies the desire to learn. Employees undergo training adapted to their work requirements as well as to their own aspirations. Kuraray also offers financial incentives for employees who successfully obtain public qualifications on their own initiative.

Corporate Training Scheme

Career Guidance

Kuraray provides career guidance for management-track employees who have completed their third, seventh, and eleventh years of service as an opportunity to reflect on previous work experience and discuss with immediate supervisors, Personnel Department staff, and supervisors of other sections the work experience they seek in the future. Consideration of the completion of “career sheets,” interviews, and career presentation sessions, career guidance is a process by which managers of various departments consider employee aspirations and aptitude and plan job transfers.

Internal Recruitment System

The Kuraray Group engages in extensive internal recruitment of personnel to perform duties in areas of strategic importance, and employees apply for advertised positions suited to their career aspirations. Positions and human resources are matched twice each year under this system, which was instituted in 2001.

Measures to Support Independent Career Development

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Results of the Internal Recruitment System

<table>
<thead>
<tr>
<th>Number of employees who have transferred under the system since its inception (as of 2001)</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Number of posts offered</td>
</tr>
<tr>
<td>b. Number of applicants</td>
</tr>
<tr>
<td>c. Number of transfers</td>
</tr>
<tr>
<td>d. Transfer rate (CR)</td>
</tr>
</tbody>
</table>

Action Points

To more closely align the skills development and knowledge acquisition Kuraray requires of employees with the career advancement opportunities that employees themselves desire, Kuraray will pursue means of identifying knowledge and skills and strive for appropriate job assignments. To this end, we will review and continue to consider improvements to the internal recruitment system and utilization of competency modeling.
In keeping with the Principles for Business Conduct, the Kuraray Group recognizes that ensuring the safety and health of employees is the basis of its company’s business activity and engages in occupational safety and health activities. We have constructed an occupational safety and health system and strive to provide safe, healthy workplaces.

### Kuraray Group Responsible Care Convention

Managers and employees from throughout the Kuraray Group attend a convention to raise awareness of responsible care (RC). Participants seek to increase the group-wide level of RC by introducing and discussing examples of progress with RC initiatives. The main theme of the fiscal 2004 conference was occupational safety, and participants reported on successful examples of Occupational Safety and Health Management System (OSHMS) implementation and safety improvements and discussed the introduction of continuing activities.

### Experiential Education in Occupational Hazards

In addition to classroom learning about the hazards posed by the equipment and chemicals workers handle in their day-to-day work, the Kuraray Group continuously provides experiential education in occupational hazards conducted by external educational institutions. In fiscal 2004, the course “Fire and Explosions Caused by Static Electricity” was conducted at the Okayama Plant; about 90 participants experienced the importance of accident prevention.

### Special Safety Activities

Kuraray designates as special safety activities organizations plants and departments where a major occupational accident has occurred or where occupational accidents have continuously occurred and conducts activities to increase the level of safety through the intensive implementation of safety measures.

#### Mental Health Care

This term encompasses both mental and spiritual well-being. By actively engaging in mental health care activities, Kuraray aims to prevent depression and other mental disorders and ensure health in mind and body.

#### Augmenting Mental Health Care

Kuraray devotes effort to mental health care activities to prevent stress-related illness, which have been on the increase in Japan in recent years. Kuraray opened the Mental Health Consultation Office at the Tokyo Head Office in 1987, putting in place a system for providing consultation to all employees, including those of Group companies. At our plants, we work to prevent mental health problems by conducting mental health training and lectures.

### Measures to Promote Health Maintenance

Kuraray operates clinics and health management offices at all its plants to help employees maintain their health. In addition to the legally prescribed Safety and Health Committee, Kuraray provides physical examinations, health instruction, mental health care, and physical fitness support.

#### Occupational Safety Performance

**Occupational Safety Performance (Lost Workday Injury Incidence Rate)**

Note: Lost workday injury incidence rate = Number of injuries / Number of hours worked × 1,000,000

Despite the numerous occupational safety activities described above, in fiscal 2004 a total of 21 occupational accidents resulting in loss of work occurred in the Kuraray Group (including accidents involving employees of business partners and other temporary plant visitors), an increase of 7 accidents from the previous year. Kuraray regards this as a crisis situation and is moving forward with special safety activities at plants and reviewing safety management systems, including the safety education system.
Advances in technology have brought renewed attention in recent years for new energy sources. An example of this is the installation of photovoltaic power generation facilities at the Tsukuba Research Laboratories. The facilities are operating smoothly.

### Discovering New Energy Conservation Themes in Fiscal 2004

In fiscal 2004, Kuraray focused on optimizing operation of the electric power plants at its manufacturing plants, devising a plan and introducing concrete measures. As energy conservation is the basis for CO2 emissions reduction, Kuraray thoroughly reviewed all energy conservation measures, large and small, at its plants to discover new ways of conserving energy.

With regard to the use of environmentally friendly fuels, following successful conversion at the Nakajo Plant we decided to convert the fuel used in our low-pressure boilers at the Okayama Plant from heavy oil to natural gas. Moving ahead with fuel diversification and the introduction of new energy sources, we are considering the introduction of biomass fuel, sunlight, and wind power.

### Energy Conservation

1. Power plant energy efficiency improvement by means of installation of condensing extraction turbines (Nakajo Plant)
   - Reduction of 0.08 CO2 tons per ton of output (reduction of 32,000 CO2 tons per year)
   - Turbines and other equipment are currently under construction and are scheduled to go into operation in August 2009.

2. New energy conservation measures
   - Reduction of 0.14 CO2 tons per ton of output (reduction of 58,000 CO2 tons per year in fiscal 2008)

3. Fuel Conversion
   - Conversion of low-pressure boiler fuel from heavy oil to natural gas (Okayama Plant)
   - Reduction of 0.04 CO2 tons per ton of output (reduction of 13,000 CO2 tons per year)

### Introduction of New Energy Sources

1. Facilities currently under construction and scheduled to go into operation in December 2005

2. Operation of facilities to increase use of biomass fuel (Tamashima Plant, beginning in December 2004)
   - Reduction of 0.05 CO2 tons per ton of output (reduction of 22,000 CO2 tons per year)

3. Operation of photovoltaic power generation facilities (50 kw) (Tsukuba Research Laboratories, beginning in January 2005)

4. Study of wind power generation facilities introduction (Kasahima Plant)

Kuraray aims to reduce CO2 emissions per unit of output in fiscal 2010 by 10% from the fiscal 1990 level. To achieve this target, we have established a reduction plan involving three key measures:

1. Energy conservation
2. Fuel conversion
3. Introduction of new energy sources

We have steadily achieved results in line with the targets in the plan. The Kuraray Group, including domestic and overseas affiliates, will continue to engage in measures to reduce emissions.

### Expansion of Biomass Power Generation Using the No. 8 Boiler at the Kurashiki Plant (Tamashima)

In 2002 the Kurashiki Plant (Tamashima) began introducing RPF* and biomass fuel (construction and demolition wood waste) as substitute fuels to replace coal, its principle boiler fuel. As prospects for solving supply and technical issues are good, the plant has subsequently undertaken facilities improvement, expanding processing volumes from the previous 1,000 tons to 3,000 tons per year. The facility is operating smoothly, and the consequent reduction in environmental load will be 22,000 tons of CO2 per year. As energy conservation is the basis for CO2 emissions reduction, Kuraray thoroughly reviewed all energy conservation measures, large and small, at its plants to discover new ways of conserving energy.

Targeting a 5% Reduction in Carbon Dioxide Emissions Per Unit of Output

Gases that contribute to global warming include carbon dioxide (CO2), methane (CH4), nitrous oxide (N2O), hydrofluorocarbons (HFC), perfluorocarbons (PFC), and sulfur hexafluorides (SF6). Of these, CO2 and HFC are especially pertinent to Kuraray. Kuraray places particular emphasis on reducing emissions of CO2, which accounts for an overwhelmingly high percentage of emissions volume.

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1. Energy conservation
2. Fuel conversion
3. Introduction of new energy sources

We have steadily achieved results in line with the targets in the plan. The Kuraray Group, including domestic and overseas affiliates, will continue to engage in measures to reduce emissions.

### Photograph of a biomass power generation facility

Fiscal 1990
Carbon dioxide emissions per unit of output: 2.39 tons of CO2 per ton of output

Fiscal 2010
Reduction in carbon dioxide emissions per unit of output: 2.64 tons of CO2 per ton of output

### Tons of CO2 per ton of output: the number of tons of carbon dioxide emitted for each ton of product manufactured

### Instrastion of photovoltaic power generation facilities at Tsukuba Research Laboratories

A key CO2 emissions reduction measure is the introduction of new energy sources. An example of this is the installation of photovoltaic power generation facilities at the Tsukuba Research Laboratories. The facilities are operating smoothly.

Advances in technology have brought renewed attention in recent years for new energy sources. An example of this is the installation of photovoltaic power generation facilities at the Tsukuba Research Laboratories. The facilities are operating smoothly.

The construction was aided by a subsidy under the Field Test Projects on Advanced Photovoltaic Power Generation Technology program of the New Energy and Industrial Technology Development Organization (NEDO), and power generation performance data from the Tsukuba Research Laboratories will be used to promote dissemination of photovoltaic power generation facilities.

* What is RPF?

RPF is an abbreviation of Refuse Paper and Plastic Fuel, a high-calorie solid fuel made from waste paper and plastic.
Activities Policy

To reduce emissions of carbon dioxide (CO2), nitrogen oxides (NOx), and other substances that place a load on the environment during transport, Kuraray is increasing transport efficiency and proceeding with a modal shift to more efficient modes of transport. In fiscal 2003 we stepped up these activities with the objective of reducing CO2 and NOx emissions in fiscal 2005 by 15% and 10% respectively from the fiscal 2000 level.*1

Current State of Activities

In fiscal 2004 Kuraray succeeded in reducing CO2 emissions*2 by 24,482 tons and NOx emissions by 101.6 tons, reductions of 13.4% and 9.4% from fiscal 2000 levels respectively, through greater transport efficiency, implementation of a modal shift, and cooperation with logistics partners.

Implementation of a Modal Shift** (Coastal Vessel Feeder Transport of Freight Containers Between Okayama and Kobe)

In the past, most of the export freight from the Okayama Plant, Kuraray’s principle domestic manufacturing plant, was loaded into containers at the plant and trucked to the Port of Kobe for loading onto oceangoing ships for export. In April 2004 we began shifting from overland container transport to more environmentally friendly transport by coastal vessels, substantially reducing truck exhaust. Although the transport distance is relatively short (150 km one way), this modal shift to coastal vessel transport makes possible a 73% reduction in CO2 emissions, and we achieved a reduction of 283 tons in fiscal 2004. This initiative was designated a Demonstration Experiment for the Construction of Low Environmental Impact Logistics Systems by the Ministry of Land, Infrastructure and Transportation (MLIT).

Coastal Vessel Feeder Transport of Freight Containers Between Okayama and Kobe

Coastal Vessel Feeder Transport of Freight Containers Between Okayama and Kobe

Cooperation with Logistics Partners

Kuraray continuously assesses the environmental friendliness of logistics partners against its Green Purchasing Guidelines to evaluate the efficiency of their packaging specifications and transport practices in conserving energy and resources and curbing exhaust emissions. In fiscal 2004 the “greenness” of our logistics partners was 64%, an increase of six percentage points from the previous year. We will continue to seek the cooperation of logistics partners by continuously conducting questionnaire surveys to ensure that all our logistics partners conform to the Green Purchasing Guidelines.*3

Activities Policy

1. Promotion of Protection

- Study and assess the impact of business activities on biodiversity on company-owned land.
- Avoid biodiversity destruction from business activities and remedy biodiversity deterioration.
- When planning construction on a larger scale than stipulated by law, conduct an assessment of the natural environment.

2. Awareness Activities and Education

- Engage in awareness and education activities targeting employees and other stakeholders.
- Conduct employee education concerning biodiversity, which should be considered in the conduct of business activities.

3. Support for Activities

- Cooperate with volunteers within Kuraray and stakeholders to evaluate and support their activities.
- Publish information in connection with biodiversity and communicate with stakeholders.

Current State of Activities

Activities based on this policy include cooperation on the part of Kuraray Saijo Co., Ltd. (Saijo, Ehime Prefecture) with a request from the local fishery cooperative to construct a fishway to assist natural sweetfish to swim upstream in the Kamo River, from which the company draws service water (February 2005).

As a cooperating with external nature conservation activities, Kuraray belongs to the Nature Conservation Society of Japan and the Kansai Organization for Nature Conservation and supports the activities of these organizations.

Kuraray will continue to work to maintain biodiversity in the vicinity of its plants and engage in awareness activities and education through nature observation tour and other activities.
Environmental Impact of Business Activities

The Kuraray Group uses substantial quantities of energy, chemical substances, and water resources in its business activities. Because these business activities exert various effects on the environment, Kuraray steadily works to minimize their environmental load. The diagram below depicts the flow of materials in business activities in fiscal 2004.

Materials Flow in the Kuraray Group

- **Inputs**
  - Raw materials: 728 thousand ton
  - Water: 87 Million m³
  - Energy: 482 thousand (crude oil equivalent)
  - Product packaging materials: 8.8 thousand ton

- **Outputs (including product transport)**
  - Products: 425 thousand ton
  - Wastewater: 81 Million m³
  - Chemical substances: 2.5 thousand ton
  - NOx: 2.1 thousand ton
  - Particulates: 77 ton

- **Byproducts**
  - Products: 168 thousand ton

- **Recycling of used products**
  - Waste plastic: 21.4 thousand ton

- **Waste recycling**
  - Internal recycling: 57.2 thousand ton
  - External recycling: 838 ton

- **Waste**
  - Byproducts: 0.6 thousand ton
  - Externally processed waste: 5.4 thousand ton

- **Recycling of used products**

- **End users**

Lifecycle Assessment Initiatives

To develop and manufacture eco-friendly products, the Kuraray Group engages in lifecycle assessment (LCA). In 2001 we designated the Kurashiki Plant a model plant for LCA introduction and began LCA activities. In fiscal 2003 we launched company-wide LCA activities.

In fiscal 2004, we further ascertained the environmental load of our products and produced lifecycle inventory (LCI) data. Although we aimed to produce LCI data for products that account for more than 80% of total sales in fiscal 2004, to date we have completed data production for products that account for about 60% of sales. We also experimented with a system to assess newly developed products from the perspective of LCA.

Through activities involving the use of LCA we will strive to develop and manufacture low-environmental-load products and provide a indication for evaluating environmental preservation measures throughout the Group.

Life Cycle Assessment (LCA)

Life cycle assessment (LCA) is a technique for assessment and interpretation, in numerical terms, of environmental load and resource consumption over the entire product life cycle (from exploitation of the resources to scrapping of the product).

Life Cycle Inventory (LCI)

Life cycle inventory (LCI) is an itemized input-output account setting forth data for the input of resources and energy, and output of product and waste, at each stage of the product life cycle, with breakdowns by type of environmental load.
Environmental and Safety Policies

In line with the provisions of the Principles for Business Conduct, the following are Kuraray’s most basic policies for the promotion of environmental preservation and industrial safety.

**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. We recognize that ensuring the safety and health of employees is the basis of a company’s business activity and strive to provide workplaces where people can work in safety and health.

**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.

Responsible Care

The term “responsible care” refers to responsible activities on the part of companies that handle chemical materials to preserve the environment, ensure safety, and promote health at every stage of the product lifecycle, from product development through manufacturing, use, and disposal.

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.

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.

Principles of Conduct

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

Medium-Term Environmental Plan

The Kuraray Group is implementing G-21, a five-year medium-term management plan whose purpose is to transform Kuraray into an eco-friendly enterprise with unique technology. We have established the Medium-Term Environmental Plan as part of G-21 and are actively conducting environmental preservation activities in line with specific numerical targets set forth in the plan. We are also reviewing legal and regulatory trends and progress to date.

**High-Priority Tasks**

1. Environmental load reduction efforts
   - Reduction in emissions of harmful chemical substances into the environment
   - Reduction in emissions of carbon dioxide
   - Achievement of zero emissions of industrial waste
2. Expansion of green purchasing, green procurement, and green logistics
3. Quantification of the environmental load of Kuraray products
   - Expanded application of lifecycle assessment (LCA)
   - Introduction of type Ⅲ environmental labels
4. Development and supply of environmentally friendly products
   - Greater information disclosure
   - Enhanced environmental accounting
   - Strengthened risk communication with local communities

**Numerical Targets**

<table>
<thead>
<tr>
<th>Target</th>
<th>Unit</th>
<th>Base year</th>
<th>Fiscal 2004</th>
<th>Target year</th>
<th>Activities in fiscal 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduction of 50% in emissions of PRTR-designated substances (JCA program)</td>
<td>Ton</td>
<td>1999</td>
<td>2,525 (57%)</td>
<td>1,361 (100%)</td>
<td>Augmentation of exhaust gas treatment systems in the isoprene manufacturing process</td>
</tr>
<tr>
<td>Reduction of 50% in external disposal volume of unutilized industrial waste</td>
<td>Ton</td>
<td>1999</td>
<td>1,020 (100%)</td>
<td>510 (50%)</td>
<td>Development of effective means of using individual waste materials</td>
</tr>
<tr>
<td>Increase of 30 percentage points or higher in waste utilization</td>
<td>%</td>
<td>1999</td>
<td>63</td>
<td>83</td>
<td>Development of effective means of utilizing industrial waste materials through production process optimization</td>
</tr>
<tr>
<td>Reduction of 10% in CO₂ emissions per unit of production</td>
<td>Ton CO₂/ton</td>
<td>Fiscal 1999</td>
<td>2.93 (100%)</td>
<td>2.38 (33%)</td>
<td>Generator turbine performance improvement</td>
</tr>
<tr>
<td>Increase of 6 percentage points or higher in energy efficiency (one point per year)</td>
<td>%</td>
<td>1999</td>
<td>—</td>
<td>7.6</td>
<td>Expanded use of biomass</td>
</tr>
</tbody>
</table>
Environmental Management

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

The Kuraray Group treats environmental management as a group-wide issue and has established the Environmental and Industrial Safety Subcommittee of the CSR1 Committee as an organization subordinate to the Executive Committee to engage in environmental conservation activities from a medium term and long-term perspective. The Environmental and Industrial Safety Subcommittee maintains several specialized teams that implement the Kuraray Group’s environmental preservation activities. (Organization structure as of April 2005)

- Environmental and Industrial Safety Subcommittee
  - CO2 Reduction Team
  - LCA and Chemical Substance Management Team
  - Green Purchasing and Logistics Team
  - Quality and PL Team
  - Environmental and Industrial Safety Team

Kuraray has participated in the Japan Responsible Care Council since its establishment in 1995 and engages in numerous Responsible Care (RC) activities. To ensure steady implementation of these activities, each year we hold the Kuraray Group RC Convention and the RC Activities Verification Meeting.

Kuraray holds the annual RC Activities Verification Meeting to identify issues and confirm progress concerning themes from individual plants concerning a common theme selected from among the following important RC topics: Environmental Preservation, Disaster Prevention, Occupational Safety and Health, Logistics Safety, Chemicals and Product Safety, and Dialog with Society. Individuals are assigned responsibilities, action plans are prepared, and solutions sought for problems identified. At the following year’s meeting progress with activities is rechecked and continuous improvement implemented. The results of the meeting are reported to management, and the level of RC activities is raised by means of a group-wide PDCA cycle.

The common topic selected for fiscal 2004 was Occupational Safety and Health, and Kuraray Specialties Europe Gmbh, Kuraray Chemical Co., Ltd., and the Tsukuba Research Laboratories were newly included in the scope of verification.

Topics covered at the meeting were identification of unsafe areas in the workplace and countermeasures, safety education suited to individual skills and job grades, occupational safety management abilities of managers and supervisors, and mental health as an aspect of occupational health. In addition, disaster prevention topics such as typhoon countermeasures and tsunami countermeasures were covered.

Since 1998 the Kuraray Group has worked to acquire ISO 14001 certification to increase the effectiveness of our environmental preservation activities. As a result, all domestic plants and research laboratories were certified by December 2001. Kuraray Chemical Co., Ltd. is preparing to obtain ISO 14001 certification in fiscal 2008. It will join the other certified domestic affiliates Kuraray Techno Soft Co., Ltd., Kuraray Plastics Co., Ltd., and Kuraray Fastening Co., Ltd.

In October 2003, we introduced an ISO 14001-based environmental management system at the headquarters in Tokyo and Osaka and are conducting energy conservation and resource conservation activities in our corporate offices.

We will continue to utilize environmental management systems in the implementation of measures to reduce the environmental impact of our business activities and other environmental conservation activities throughout the Kuraray Group.

Chemical Substances Control

The Kuraray Group handles a variety of chemical substances for raw materials and finished products. Chemicals involve both benefits and risks, and it is necessary to ascertain and appropriately manage the risks. With this in mind, the Kuraray Group has established the following policy concerning chemical substances management in Kuraray Group Action Guideline for Global Environment and is engaged in measures to reduce risk.

“To ensure environmental protection, safety, and health and increase the trust society places in us, Kuraray 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 to Reduce Chemical Substance Emissions

Kuraray has participated in the PRTR program of the Japan Chemical Industry Association (JCIA) since its inception and the voluntary emissions of chemical substances controlled under the Pollutant Release and Transfer Register Law (PRTR Law). The JCIA’s PRTR program covers 486 substances (including 394 substances controlled under the PRTR Law), 94% of which are handled by Domestic Kuraray Group companies.

The Kuraray Group works to reduce emissions of these chemical substances on the basis of the Medium-Term Environmental Plan. As a result of a revision to the Medium-Term Environmental Plan, we now aim to achieve a reduction of 90% in emissions of substances designated under the JCIA PRTR program in fiscal 2007 from the fiscal 1999 level. We have augmented exhaust recovery systems in the isoprene manufacturing process at the Kashiwama Plant and implemented other measures to reduce emissions. As a result, in fiscal 2004 we reduced these emissions of substances to 2,525 tons (including 636 tons of substances controlled under the PRTR Law), a 43% reduction from the fiscal 1999 level but an 8% increase from the previous year. The year-on-year increase in emissions is due to factors including the discovery of methanol vaporization in the wastewater treatment process at Kuraray Saijo Co., Ltd.

In fiscal 2005 we plan about 1776 million in capital investment for projects such as emissions reduction measures in the CLARMII manufacturing process at the Okayama Plant and the introduction of exhaust incineration facilities in the SEPTDII manufacturing process at the Kashiwama Plant, etc. We will continue to engage in long-term initiatives to reduce emissions, placing priority on comparatively hazardous substances.

Change in Emissions of Substances Designated Under the JCIA PRTR Program

In Japan, because asbestos has adverse effects on human health, its use is totally prohibited except for exceptional applications such as use for sealing materials at chemical plants. Although some domestic Kuraray Group companies use asbestos for special sealing materials at their chemical plants, we are working to identify alternative materials and eliminate its use as soon as possible. Some facilities at Kuraray plants that were built before current asbestos regulations were enacted used asbestos as an insulating material. We plan to remove aging ducts in us, Kuraray 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).
Zero Emissions of Industrial Waste

The Kuraray Group aims to achieve zero emissions of industrial waste (refer to the definition below). To achieve this goal, we are improving production processes and developing methods of effectively using waste.

The Medium-Term Environmental Plan established targets for fiscal 2005 of a reduction of 90% in the volume of unutilized industrial waste disposed of in external landfills and by incineration and an increase of at least 20 percentage points in the waste utilization rate from the fiscal 1999 levels. Because the target for waste utilization was achieved ahead of schedule in fiscal 2002, we established a revised target of an increase of at least 30 percentage points in the waste utilization rate in fiscal 2006 from the fiscal 1999 level.

For the long term, we have established targets for fiscal 2010 of reducing the volume of waste destined external landfills for and incineration by 94% from the fiscal 1999 level and maintaining the waste utilization rate at 90% of the fiscal 1999 level.

Thermal Recycling

Thermal recycling is a form of recycling, which refers to turning used products into resources and creating new products from them. Unlike “material recycling,” thermal recycling re-uses the resources as fuel or another heat source.

Molten Slag

Molten slag is molten metal and other materials produced when waste is incinerated, which melt and fuse under the high temperatures of the furnace, then cool and harden into a glass-like substance.

Progress in Achieving Zero Emissions

In fiscal 2004, the Nakajo Plant achieved zero emissions for the first time, joining the Kashima Plant, Okayama Plant, and the Kuraray Trading Co., Ltd. Okayama Plant to become the fourth Kuraray Group plant to reduce industrial waste emissions to zero. We will continue efforts to achieve zero emissions at other plants in the coming years.

Eco-Friendly Plant Certification

On the basis of the Okayama Prefectural Ordinance to Promote the Formation of a Recycling Society, Okayama Prefecture has established a system by which companies evaluate their own environmental preservation initiatives in the areas of environmental management systems construction by means of acquiring ISO 14001 certification, emissions reduction, and recycling in order to have their manufacturing plants certified as Eco-Friendly Plants. Among the Kuraray Group sites in Okayama Prefecture, the Okayama Plant, Kurashiki Plant (Kurashiki), and Kurashiki Plant (Tamashima) obtained certification in March 2005.

The Kuraray Group’s Definition of Zero Emissions

The Kuraray Group defines zero emissions as reduction of the final amount of waste disposed of in landfills and by incineration to less than 1% of the total waste generated at a site by promoting the effective utilization of waste.

Although it is possible to reduce the amount of waste disposed of in landfills and by incineration to zero, waste processing requires consumption of great quantities of energy. Because the benefits of this are doubtful from a lifecycle assessment perspective, the Kuraray Group does not aim to completely eliminate the amount of waste disposed of in landfills and by incineration.

Actions Points

In fiscal 2005 Kuraray plans to continue efforts to promote the effective use of industrial waste through waste separation and the development of methods of effectively using waste. We aim for industrial waste external landfill and incineration disposal volume of 1,500 tons (a reduction of 90% from the fiscal 1999 level) and an industrial waste utilization rate of 87.9% (an increase of 28 percentage points from the fiscal 1999 level).

To reduce the volume of industrial waste generated, we will promote the effective use of raw materials through various means, including product yield increases and the development of a zero surplus sludge system for wastewater treatment.
Green Procurement

Law on Promoting Green Purchasing, which went into effect in April 2001, requires companies to select low-environmental-load products and services. Eco-friendly commercial activities, product development, and manufacturing hinge on the procurement of parts and materials that place a low load on the environment. The Kuraray Group established internal regulations for green purchasing of office supplies and manufacturing supplies in fiscal 2001, and we give priority to low-environmental-load products and services.

Activities

In March 2003, Kuraray established Green Purchasing Standards applicable to raw materials and manufacturing supplies. We give priority to suppliers that actively engage in environmental conservation. We conducted an assessment of the “greenness” of our principal suppliers in fiscal 2002, and in fiscal 2003 and fiscal 2004 provided individual guidance to suppliers that failed to meet the Green Purchasing Standards. The pie charts to the right show the results of reassessment following the guidance: the percentage of green suppliers increased by more than five points. We plan to step up efforts to ensure that suppliers comply with the Green Purchasing Standards.

- Supplier Assessment Standards
  - Standard 1: The supplier is certified to ISO 14001.
  - Standard 2: ISO 14001 certification is planned, and the auditing body and audit data have been decided.
  - Standard 3: The following criteria must be met when neither Standard 1 nor 2 applies:
    - Corporate philosophy or policy on environmental preservation
    - Organization or plan for environmental preservation
    - Environmental impact assessment
    - Environmental education and information disclosure
    - Environmentally friendly logistics

Scope of Green Procurement

- Raw materials used in product manufacturing and development
- Equipment and facilities used in product manufacturing and development
- Packaging materials and containers used in product shipment and transport
- Equipment and supplies used in marketing activities and office work
- Outsourced services pertaining to manufacturing, marketing and logistics

Kuraray purchases green products in accordance with its Green Purchasing Guidelines. In fiscal 2004, we expanded the scope of green purchasing to include stationery.

<table>
<thead>
<tr>
<th>Field</th>
<th>Item</th>
<th>Fiscal 2003</th>
<th>Fiscal 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Paper (recycle)</td>
<td>49</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Stationary (recycle)</td>
<td>10</td>
<td>95%</td>
</tr>
<tr>
<td></td>
<td>Furnishings (reuse)</td>
<td>8</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>Office equipment (reuse)</td>
<td>23</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Appliances (energy conservation)</td>
<td>19</td>
<td>80%</td>
</tr>
<tr>
<td></td>
<td>Lighting (energy conservation)</td>
<td>2</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Automobiles (petrol reduction)</td>
<td>77</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Uniforms and work clothes (reuse)</td>
<td>2</td>
<td>50%</td>
</tr>
<tr>
<td></td>
<td>Work gloves (recycle)</td>
<td>2</td>
<td>50%</td>
</tr>
</tbody>
</table>

*Policy to use uniforms and work clothes made using Kuraray recycled polyester fibers from the second half of fiscal 2005 is under consideration.

Disaster Prevention

In keeping with the Basic Responsible Care Policies, the Kuraray Group regards the prevention of fire, explosions and other forms of disaster at plants, safety assurance, and the provision of a sense of security to host communities and society at large as critical management tasks. Accordingly, Kuraray engages in disaster prevention activities. To ensure basic facilities safety, Kuraray has established the Equipment Safety Design Guidelines and Safety Inspection Standards. When facilities are newly installed or rebuilt or when there is a major change in operating conditions, to prevent accidents or disasters we conduct safety inspections at four stages: during design, during construction, before commissioning, and after startup. We are also putting in place a disaster response system and improving public information systems in the event a disaster occurs.

Activities

- Natural Disaster Preparation and Mitigation
  - A series of major natural disasters occurred around the world in 2004, including earthquakes, tsunami, and flooding. The Kuraray Group sustained damage from tidal waves and rainstorms in Typhoons 16, 18, and 21. It has been suggested that global warming might be responsible for an increase in natural disasters caused by abnormal weather conditions, and Kuraray is investing to enhance disaster preparedness.
  - For instance, in a test at a state-of-the-art earthquake countermeasure, the Kikuma Plant participates in a research project for a system to obtain earthquake information from observation sites across Japan and to alert workers to conduct an emergency plant shutdown. Last year a basic system for obtaining information went into operation, and it was confirmed that the information can be effectively used for earthquake countermeasures. In another development, previous experience with tidal wave damage has prompted a decision to install seawalls at Kuraray sites in 2005.

- Total Productive Maintenance
  - Since 1997 the Kuraray Group has engaged in Total Productive Maintenance (TPM) activities. The purpose of these activities is to increase productivity and prevent malfunctions or accidents due to facilities deterioration by maintaining facilities in optimal condition through constant maintenance activities based on three principles: autonomous maintenance (Jishu Houzen), planned maintenance, and quality maintenance. In fiscal 2004, the Okayama Plant received the Special Award for TPM Achievement and the Kikuma Plant received the TPM Challenge Award from the Japan Institute Plant Maintenance.

- Disaster Prevention Drills
  - To prepare for accidents, each Kuraray plant maintains a disaster prevention organization unit and engages in periodic drills. In fiscal 2004, the plants conducted disaster prevention drills to prepare for emergency situations, including fire, earthquake, leakage, and nighttime emergency. Diligent drilling paid off when representatives from the Kuraray Group, Okayama Plant, and Kikuma Plant participated in firefighting training conducted by fire departments in their respective cities and received commendations for excellent results in the women’s fire extinguisher drills and the men’s indoor fire hydrant drills.

- Independent Fire Brigade
  - Kuraray uses large quantities of highly flammable chemical materials (hazardous materials) in its day-to-day production activities. For this reason, to guard against fire we maintain firefighting facilities at all sites that handle hazardous materials and organize independent fire brigades at each plant. In fiscal 2004, the Okayama Plant, Kurashiki Plant, and Kikuma Plant Co., Ltd. updated a total of four firefighting vehicles to maintain and improve the response capabilities of their fire brigades. Also, the Kuraray Plastics Co., Ltd. built a firefighting vehicle for the first time to improve its fire response capabilities.

- Crime Prevention
  - In recent years concern about terrorism or other intentionally caused large-scale disasters has increased even in Japan. To prevent such acts from occurring, the Kuraray Group has augmented its crime prevention systems by installing crime prevention lights and surveillance cameras around the perimeter of its plants, upgrading fencing, and stepping up security patrols on plant grounds.

Despite the continuing disaster prevention activities described above, in fiscal 2004 six small-scale fires and one organic solvent leak occurred at Kuraray sites. Although all the accidents were discovered quickly and none developed into a serious problem, Kuraray regards the occurrence of such accidents as an alarm that signals weaknesses in its disaster prevention systems and will continue to earnestly implement prevention measures.
Quality Assurance and Product Safety

### Policies

#### I. Basic Policy on Product Safety

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

#### II. Action Guidelines for Product Safety

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

#### Implementation Structure

**Product Liability (PL)**
- To prevent product liability incidents, Kuraray has established a system for the control of yellow cards (emergency response cards) that contain information necessary for the safe handling of a chemical product, including the substance name, physical properties, dangerous toxins, and precautions for use.

**Quality Assurance and Product Safety**
- Quality and PL Team under the Environmental and Industrial Safety Subcommittee of the CSR Committee assures the status of quality and product liability (PL) management based on information received from its three working groups (Quality and PL Manager Working Group, Affiliated Company Quality and PL Committee Member Working Group, and Specialists Working Group) and from various 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 and PL Manager Working Group**
- Staffed by people in charge of quality and PL at all departments of the Company, this working group plans quality and PL programs, gathers information on performance, quality complaints and PL incidents, devises improvements for any issue that has been identified, and reports to the Quality and PL Team on the results of its activities.

**Affiliated Company Quality and PL Committee Member Working Group**
- Staffed by people in charge of quality and PL at affiliated companies, this working group has the same functions as the Quality and PL Manager Working Group.

**Specialists Working Group**
- Staffed by internal and external specialists in quality and PL, this working group deals with certain highly specialized matters that the other two working groups are not equipped to address and reports to the Quality and PL Team on the results of its activities.

#### Product Safety

Kuraray has established independent standards including the Product Safety Management Standards for the R&D Stage, Product Safety Management Standards up to Market Launch, and Handling Instructions Production and Management Guidelines. In creating products we carefully consider their impact on the environment, safety, and health at every stage of the product lifecycle, from R&D to final disposal.

- We have established the Material Safety Data Sheet Management Guidelines to ensure the proper handling of material safety data sheets (MSDS) and have compiled a database so that employees can search for and access MSDS using computers. We also publish MSDS for principal Kuraray products on our website.

#### Action Points

Kuraray will work to improve employee awareness of quality and product liability and to develop key personnel to promote product quality. We also plan to improve quality and product liability management at contract manufacturers.

#### Logistics Safety

The domestic Kuraray Group companies have established Distribution Safety Management Standards and the Distribution Safety Management Standards Implementation Procedures to rigorously ensure safety management during the physical distribution of chemical products. On the basis of these standards, Kuraray engages in safety management in the transport, storage, loading, and unloading of hazardous or toxic products and liquid products.

Distribution safety supervisors periodically provide necessary education and guidance to employees involved with physical distribution and contract distribution companies to maintain product quality and ensure safety during handling. To maintain emergency response preparedness in case of distribution accidents and other emergency situations, Kuraray keeps sandbags and other clean-up supplies at the ready and maintains a communication network.

In accordance with the Guidelines for the Control of Yellow Cards, to prevent the spread of damage in the event that an accident occurs, truck drivers are required to carry Yellow Cards (emergency response cards) that contain information necessary for the safe handling of a chemical product, including the substance name, physical properties, dangerous toxins, and precautions for use.

The Kuraray Group strives to rapidly and properly handle customer complaints in connection with product quality in accordance with the Quality Complaint Handling Regulations. To prevent complaints and avoid their recurrence, the Quality and PL Team and its subordinate organizations provide departments in the Company with support for quality improvements.

Kuraray will work to increase employee awareness of quality and product liability and to develop key personnel to promote product quality. We also plan to improve quality and product liability management at contract manufacturers.

#### Current State of Activities

Distribution safety supervisors periodically provide necessary education and guidance to employees involved with physical distribution and contract distribution companies to maintain product quality and ensure safety during handling. To maintain emergency response preparedness in case of distribution accidents and other emergency situations, Kuraray keeps sandbags and other clean-up supplies at the ready and maintains a communication network.

In accordance with the Guidelines for the Control of Yellow Cards, to prevent the spread of damage in the event that an accident occurs, truck drivers are required to carry Yellow Cards (emergency response cards) that contain information about the hazardous nature and toxicity of the chemical products being transported, emergency contact information, and emergency response procedures. In accordance with the Material Safety Data Sheet Management Guidelines, to increase distribution safety we supply contract distribution companies with MSDS.

In fiscal 2004, we engaged in activities to upgrade the above systems put in place up to fiscal 2003.

**Response when accidents occur outside Kuraray premises**
- Revision of the Guidelines for the Control of Yellow Cards (including the addition of container yellow card regulations)
- We plan to continue to improve logistics safety systems in fiscal 2005 and beyond.

### Log ❙ Sites That Have Obtained Certification in ISO 9001:2000

- Kuraray Nakajo Plant
- Kuraray Okayama Plant
- Kuraray Kashima Plant
- Kuraray Sanjo Co., Ltd.
- Kuraray Tamashima Co., Ltd.
- Kuraray Medical Inc.
- Kuraray Chemical Co., Ltd.
- Kuraray Plastics Co., Ltd.
- Kuraray Techno Co., Ltd.
- Kuraray Fastening Co., Ltd.
- Eval Company of America
- SEPTON Company of America
- EVAL Europe N.V.
- Kuraray Specialties Europe GmbH
Environmental Accounting

Environmental Preservation Costs

<table>
<thead>
<tr>
<th>Category</th>
<th>Investments</th>
<th>Costs</th>
<th>Principal Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costs within the sites</td>
<td></td>
<td></td>
<td>Million yen</td>
</tr>
<tr>
<td>Pollution prevention costs</td>
<td>1,637</td>
<td>2,407</td>
<td>Environmental facilities operating costs Prevention of chemical substance emissions</td>
</tr>
<tr>
<td>Global environmental conservation</td>
<td>270</td>
<td>569</td>
<td>Increase the efficiency of electric power generators Introduction of photovoltaic power</td>
</tr>
<tr>
<td>costs</td>
<td></td>
<td></td>
<td>generators facilities</td>
</tr>
<tr>
<td>Resource recycling costs</td>
<td>423</td>
<td>420</td>
<td>Waste reduction and recycling</td>
</tr>
<tr>
<td>Total</td>
<td>2,330</td>
<td>3,396</td>
<td></td>
</tr>
<tr>
<td>Upstream and downstream costs</td>
<td>—</td>
<td>1</td>
<td>Recycling and reuse of packaging materials, improvement of container packaging</td>
</tr>
<tr>
<td>Administrative costs</td>
<td>—</td>
<td>193</td>
<td>ISO 14001, environmental measurement, environmental education</td>
</tr>
<tr>
<td>Research and development costs</td>
<td>—</td>
<td>526</td>
<td>Development of eco-friendly products</td>
</tr>
<tr>
<td>Social activity costs</td>
<td>—</td>
<td>1</td>
<td>Attirestades, pastafication, provision of environmental information to host community</td>
</tr>
<tr>
<td>residents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Environmental damage costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,330</td>
<td>3,777</td>
<td></td>
</tr>
</tbody>
</table>

Total investment during the reporting period: ¥222,100 million (Totalized in accordance with the scope of environmental accounting) Total R&D costs during the reporting period: ¥10,300 million (same as above)

Environmental Preservation Effects

<table>
<thead>
<tr>
<th>Category</th>
<th>Unit</th>
<th>Fiscal 2003</th>
<th>Fiscal 2004</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pollution prevention effect</td>
<td>SOx emissions</td>
<td>1,000 tons</td>
<td>0.60</td>
<td>0.59</td>
</tr>
<tr>
<td></td>
<td>NOx emissions</td>
<td>1,000 tons</td>
<td>1.52</td>
<td>1.33</td>
</tr>
<tr>
<td></td>
<td>Particulate emissions</td>
<td>Tons</td>
<td>60</td>
<td>67</td>
</tr>
<tr>
<td></td>
<td>Emissions of substances covered under the JCA voluntary PPRR management program</td>
<td>Tons</td>
<td>1,975</td>
<td>2,150</td>
</tr>
<tr>
<td></td>
<td>CO2 load</td>
<td>Tons</td>
<td>710</td>
<td>734</td>
</tr>
<tr>
<td>Global environmental preservation activities</td>
<td>CO2 emissions</td>
<td>1,000 tons of crude oil equivalent</td>
<td>1,351</td>
<td>1,359</td>
</tr>
<tr>
<td></td>
<td>Energy consumption</td>
<td>kWh</td>
<td>468</td>
<td>468</td>
</tr>
<tr>
<td>Resource recycling activities</td>
<td>Resource recycling activities</td>
<td>1,000 tons</td>
<td>0.67</td>
<td>0.52</td>
</tr>
<tr>
<td></td>
<td>Total wastewater use</td>
<td>million m3</td>
<td>85.3</td>
<td>84.7</td>
</tr>
<tr>
<td></td>
<td>Total wastewater</td>
<td>million m3</td>
<td>77.7</td>
<td>79.4</td>
</tr>
</tbody>
</table>

Global Warming Prevention

Energy Consumption

- Energy consumption (kWh) per 1,000 tons of crude oil equivalent

Air Pollution Prevention

SOx Emissions

- Emissions of SOx (Tons)

NOx Emissions

- Emissions of NOx (Tons)

Water Pollution Prevention

COD Load

- COD load (Tons)

Management of Ozone Layer Depleting Substances

Emissions of Principal Ozone Layer Depleting Substances

- Emissions of Ozone Depleting Substances (Tons)

CFC equivalent

- CFC equivalent (Tons)

Resource Conservation

- Water Use (million cubic meters)

- Wastewater (million cubic meters)
History of Environmental, Safety, and Social Service Activities at Kuraray

1970
- The Environmental Control and Occupational safety Regulations are established.

1977
- The Environmental Control and Occupational safety 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 and Saijo Plants.
- 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 Nakajo Plant's work center is established at “Niji-no-ise” social welfare house (Nakajo, 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.

2000
- The Fluits-no-ise 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, Industrial Safety and Quality 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 re-organized.)
- The one hundredth Chemistry Class for Boys and Girls is held.

2004
- The Tulp-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.

Question and Answer

We received completed questionnaires from 39 readers of the Kuraray CSR Report 2004. The section of the report in which the readers indicated the greatest interest was Social Contributions, followed by Environmental Preservation Activities and Management Philosophy/Management Organization. The responses suggest a high degree of interest among readers in a wide range of corporate social responsibility issues.

Questions

1. I would like to know the direction you plan to take in communication and interaction with local communities.

2. What proposals are under consideration for boiler fuel conversion?

3. Do you plan to convert the fuel used in the low-pressure boilers at the Okayama Plant (from heavy oil to natural gas) and expect the converted boilers to go into operation in December 2005? This follows conversion of the fuel used in our low-pressure boilers at the Nakajo Plant from heavy oil to natural gas in June 2002 and will contribute to reducing emissions of CO2 by 19,000 tons per year as well as emissions of sulfur oxides (SOx) and nitrogen oxides (NOx).

4. Do you plan to expand the use of biomass fuel (wood waste) at the No.8 Boiler at the Kurashiki Plant (Tamashima). In December 2004 we constructed a new boiler for accepting wood waste and began processing at the rate of 16,000 tons per year. This will result in a reduction of 22,000 tons of CO2 emissions per year. Future plans call for further expansion of biomass fuel use.

5. What is the situation with the employment and advancement of female employees?

6. Neither the percentage of female employees (15.2%) nor that of female managers (0.6%) can be considered high. Our objective is not merely to increase the percentages of female employees and managers; we believe that continuously engaging in substantive activities to create an environment where women find it easy to work (such as increasing the percentage of employees taking childcare leave) and providing work opportunities that enable women to experience self-realization (such as increasing workplace satisfaction) will result in increasing the percentage.

7. What is the situation with the employment and advancement of female employees?

8. We received a number of opinions and questions from the readers. Here we provide some of the questions and our answers to them.

9. "There’s too much text." "It’s too lengthy to scan through from start to finish.

10. "What about including comments from employees?" "It would be good if you included employee opinions and photographs.

11. "Devise ways of arousing interest and encouraging people to read the report." "Clearly state the main points in headings and titles.

12. "There are words and phrases I don’t understand." "We have included explanatory notes throughout the report.

13. "I wish you’d include explanatory notes."

14. "There’s too much text. It’s too lengthy to scan through from start to finish." "We have controlled the volume of text and improved the visual presentation and readability.

15. "What about including comments from employees?" "We have included Highlights that place emphasis on initiatives given special effort.

Here we provide some of the questions and our answers to them.

We received a number of opinions and questions from the readers. Here we provide some of the questions and our answers to them.

We plan to continue to reflect reader opinions in our corporate social responsibility activities and strive to improve communication. To assist us, please provide your opinions and impressions of this report.


Please access the CSR page of the Kuraray website to fill in a questionnaire.
Third-Party Evaluation

The Kuraray Group’s corporate social responsibility activities have been evaluated by third parties. We will carefully consider the evaluation results and reflect them in our CSR activities where possible.

Kuraray received a medium rating among the 64 companies that participated in the third Sustainable Management Rating conducted by the Sustainable Management Rating Institute. We regard continuous efforts to strengthen environmental initiatives at consolidated subsidiaries and affiliates as an issue to be addressed in the coming years.

Corporate Environmental Management Survey

The Nihon Keizai Shimbun’s Eighth Corporate Environmental Management Survey

- Domestic ranking
  Kuraray ranked 192nd out of 590 companies (108th out of 599 companies the previous year)

- Overseas ranking
  Kuraray ranked 66th out of 260 companies (260 of the 590 companies that have overseas production sites for which performance can be compared; 40th out of 217 companies the previous year)

The major factors contributing to the drop in the rankings from the previous year were product recycling measures and a delay in implementing environmental activities in company offices, which was included as an evaluation item for the first time this year.

Corporate Social Responsibility Survey

The Nihon Keizai Shimbun’s First Corporate Social Responsibility Surveys

- Domestic ranking
  Kuraray ranked 76th out of 847 companies

This survey indicates the results of analysis of the posture on increasing corporate value by reflecting in corporate management dialog with shareholders, consumers, suppliers, and other stakeholders with respect to five evaluation items: management strategy and organizational structure, compliance, social contributions, treatment of employees, and treatment of consumers and suppliers.

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). This index is used extensively in Europe, and the SRI market is growing markedly, especially in Scandinavia and the U.K. It is also closely watched in Japan.

Kuraray has been included in the FTSE4Good Global Index for three consecutive years (as of May 2005 the index consisted of 920 issues, 183 of which were Japanese companies). Selection is based on three factors: environmental criteria, social and stakeholder criteria, and human rights.

Message to Our Readers

Each year since 1998 Kuraray has issued a report mainly on its response to environmental problems. Each year we have enhanced the content of the report, reflecting our belief that as a company whose business is chemistry we have a particularly weighty responsibility to protect the environment.

In recent years the social responsibility required of companies has increased in scope and gravity. In response to this development, in 2003 Kuraray established the CSR Committee, commenced activities that integrate environmental, social, and economic considerations, and issued the CSR Report to report on the results of those activities. This report is the second edition of the CSR Report.

Since its foundation, the Kuraray Group has engaged in management that reflects a strong sense of awareness of the role we should play in benefiting society, and we began many of the activities introduced in this report before the concept of corporate social responsibility became widespread. Accordingly, we have not begun to engage in CSR from scratch; rather, we have begun by reexamining activities we have engaged in over the years and by discovering activities we have been involved in but have not considered from a CSR perspective.

We seek to establish a corporate culture characterized by high awareness of CSR and to cause it to take firm root so that our day-to-day business activities themselves are CSR activities. The Kuraray Group maintains business sites around the world, and our environmental, social, and economic presence is increasing everywhere. The expansion and enhancement of CSR activities in Japan and overseas is an important management task for the coming years.

We desire to continue to engage in down-to-earth, enduring CSR initiatives. To that end, it is important to solicit and listen to the views of many people and reflect them in our day-to-day activities. I request and encourage our readers to address any opinions, questions, or impressions to our attention.

Koichi Kushida
Senior Managing Director and CSR Committee Chairman

Editor’s Postscript

In April 2005 Kuraray newly established the Office of CSR. The mission of the Office of CSR is to serve as the secretariat for the CSR Committee, which commenced activities in 2003, and strengthen CSR activities throughout the Kuraray Group.

This report was compiled under the direction of the CSR Committee and prepared in a cooperative effort by the Office of CSR and involved sections throughout the Kuraray Group. In preparing the report, in response to opinions provided by readers of the 2004 edition we highlighted initiatives given special emphasis or newly begun and strove to make the layout visually pleasing and improve readability.

We hope that through this report you will gain an understanding of the Kuraray Group’s thinking and stance on corporate social responsibility, the current state of CSR at Kuraray, and the issues we are addressing.

Shuichi Takemoto
Manager
Office of CSR