In order to make today better than yesterday, and tomorrow better than today, we at Kuraray have made completely new and unique things by harnessing the power of chemistry. Many industries and people around the world now choose Kuraray’s technologies, products, and services.

We take pride in this fact and are deeply grateful to our customers around the world for making this possible.

Since our founding, we have valued the pioneering spirit. We continually ask ourselves what we can do for the world of tomorrow and the people living in it.

“For people and the planet— to achieve what no one else can.”

Passed down through the generations, this has been our constant motivation.

We still maintain this mission firmly today. It is Kuraray’s value and our driving force.

We continue to cultivate our unique traits, in order to benefit society and the environment.

Our goal is continual corporate growth, and we have already taken the next step forward.
Introduction

Kuraray’s History of Tackling Challenges

Kuraray was founded in 1926 for the purpose of commercializing regenerated cellulose fiber rayon, which was cutting-edge technology at the time. In 1950 during the post-World War II period, as Japan’s first domestic producer of synthetic fiber based on original Japanese technologies, Kuraray became a world leader in the commercialization of PVA (poval) fiber under the KURALON brand, ushering in Japan’s pioneering era in the chemical synthetic fiber industry.

KURALON (PVA Fiber)
Kuraray was the first company in the world to commercialize KURALON (PVA fiber), the first synthetic fiber produced using made-in-Japan technology, and expanded the application of KURALON during the high economic growth period in Japan. PVA resin was conventionally produced for use as a raw material of KURALON, but Kuraray shifted to commercial production of PVA resin considering that its applications were expanding for use as fiber sizing agent and processing agent.

EVAL / Isoprene Chemical
EVAL provides excellent barrier properties against the permeation of gases, superior to those of any other plastics. It became popular as a new food packaging material thanks to its gas barrier properties. Kuraray became the first to succeed in industrializing synthetic isoprene monomer, and started marketing synthetic rubber (polyisoprene rubber) with great demand potential under the trademark of KURAPRENE.

KURARITY
Acrylic thermoplastic elastomer, a unique material offering transparency, elasticity and more. We were the first in the world to succeed in industrializing this material, using proprietary Kuraray technologies. The market rollout in the field of adhesion and molding materials utilizing these characteristics is very promising.

GENESTAR
A new highly heat-resistant polyamide resin created with our proprietary technologies. It is used in electronic parts of smartphones, personal computers, and the like, as well as in LED reflector applications and in the automotive field.

Our Mission
We are committed to developing new fields of business using pioneering technology that improves the environment and enhances the quality of life throughout the world. For people and the planet—to achieve what no one else can.

Our Values
• Respect for individuals
• Close cooperation to attain shared goals
• Constant creation of new value
• Safety is the cornerstone of everything we do
• Customers’ needs are our top priority
• We act on ideas in the workplace

Corporate Statements
Our Commitment
• We will constantly develop and provide safe, high-quality products and services.
• We will maintain a sound relationship with society through good communication.
• We will strive to preserve and improve the global environment, and to secure safety and health in all our workplaces.
• We will value all members of the Kuraray community and respect their rights.
• We will always conduct businesses in a free, fair and transparent manner.
• We will honor all intellectual property and secure data and information in a proper manner.
The Source of Competitiveness That Creates Unique Products

We at Kuray have used our unique technical strengths to create products that the world had never seen before. We were the first company in the world to commercialize KURALON (PVA fiber), the first synthetic fiber produced using made-in-Japan technology. Other businesses we have created include poval resin (PVA resin), which is a raw material of KURALON; PVA film, which is essential for LCDs; EVAL (EVOH resin), which features excellent gas barrier properties; and a lineup of various commercialized chemical products that use the world’s first industrialized synthetic isoprene monomers as materials. We have also launched a wide range of products that have become an integrated part of people’s lives, such as CLARINO (man-made leather), which recreates the structure of natural leather, and MAGIC TAPE (hook-and-loop fastener). The worldwide number-one businesses* that we have created using our unique technologies account for more than half of the Kuray Group’s total sales.

*Businesses that have the world’s top market share, or are the only ones in that category worldwide (in-house survey)
Revenue and Profit Structure Enhanced by Business Portfolio Improvement and Globalization

Steady business expansion and high profits

Operating Income / Operating Income Margin (Return on Sales)

Net Sales

Operating Income (Billions of yen) Operating Income margin (%)

Net Sales

Operating Income (Billions of yen) Operating Income margin (%)

Changes in the portfolio

Topics 1

Sales Ratio of Fibers and Textiles / Sales Ratio of Chemicals

Sales ratio of fibers and textiles (%) Sales ratio of chemicals (%)

Kuraray has expanded business steadily by shifting its business structure drastically. While enhancing efficiency of the fibers and textiles business which are facing a tough business environment, Kuraray is expanding the chemicals-related business which leverages the Group’s unique technologies to strengthen its business portfolio. As a result, the sales ratio of fibers and textiles decreased from 70% in 1988 to 17% in 2017, while the sales ratio of chemicals expanded significantly from 30% to 83%.

Topics 2

Sales Ratio (Domestic/Overseas)

Domestic sales ratio (%) Overseas sales ratio (%)

Kuraray has endeavored to strengthen and expand its businesses by going through several M&As and alliances, in order to realize "a high-profit specialty chemical company with a global presence." As a result, the ratio of overseas sales is getting higher every year, rising from 30% in fiscal 2001 to about 64% in fiscal 2017.

Kuraray is striving to realize high profitability as a specialty chemical company. Operating income margin for fiscal 2017 reached 14.4%, which exceeded the target of 13.8% set out in “GS-STEP”, our previous medium-term management plan. Under “PROUD 2020”, our new medium-term management plan covering the period from fiscal 2018 to fiscal 2020, Kuraray will continue aiming to boost operating income, while maintaining a high operating income margin.

Kuraray changed its consolidated closing date from March 31 to December 31 starting from fiscal 2014. The consolidated results for fiscal 2014 cover the nine-month period from April to December 2014 for Kuraray and its domestic subsidiaries and the 12-month period from January to December 2014 for its overseas subsidiaries. The above figure for fiscal 2014 is adjusted to reflect the 12 months from January to December 2014 for the Company and its domestic and overseas consolidated subsidiaries.

Introduction

Overseas Sales Ratio Has Exceeded 60%

Kuraray has endeavored to strengthen and expand its businesses by going through several M&As and alliances, in order to realize "a high-profit specialty chemical company with a global presence." As a result, the sales ratio of fibers and textiles decreased from 70% in 1988 to 17% in 2017, while the sales ratio of chemicals expanded significantly from 30% to 83%.
Financial and Non-Financial Highlights

**Net Sales of World-Leading Businesses**

- World-leading businesses / Others

**Net Sales / Operating Income**

- Net sales (Billions of yen) / Operating income (Billions of yen)

**Net Income Attributable to Owners of the Parent / Net Income per Share**

- Net income attributable to owners of the parent (Billions of yen) / Basic net income per share (Yen)

**Total Assets / Equity Ratio**

- Total assets (Billions of yen) / Equity ratio (%)

**Capital Expenditure / Depreciation and Amortization**

- Capital expenditure (Billions of yen) / Depreciation and amortization (Billions of yen)

**R&D Expenses / R&D Expenses Ratio**

- R&D expenses (Billions of yen) / R&D expenses ratio (%)
Deepen our determination to being a “Specialty Chemical Company, growing sustainably by incorporating new foundational platforms into its own technologies”

At Kuraray, we are actively taking steps based on the “Kuraray Vision 2026” long-term vision to reinforce the platform for achieving business growth as we head toward the centennial of the Company’s founding. This provides an explanation of our plan going forward under the “PROUD 2020” medium-term management plan, in consideration of Kuraray’s views on providing value to society, an effort that we have been pursuing to date.

Kuraray’s Basic Philosophy That Leads to Competitive Superiority

A company is asked what value it can provide to society through its business activities. At the Kuraray Group, we respond to this question through demonstrating actions that are driven by our aspiration: “For people and the planet—to achieve what no one else can.” These words construct our mission as set out in Kuraray’s corporate statements and reflect the strong belief of our second-generation president Soichiro Ohara. “Any profit which a company might gain should be confined to those profits that come from technological innovation and from consideration of the social and economic benefits it brings to the entire nation.”

It was based on Kuraray’s willingness to take on challenges ahead of others in a new field on top of its intent to pursue high quality and high added value that the Company became the first textile manufacturer to commercialize KURALON (PVA fiber) in 1950 by promoting integrated production using PVA resin as the raw material. And backed by Soichiro Ohara’s view that adopting a substitute for natural things that had brought to the entire nation.

Kuraray has continued to commit to its roles and duties and persistently worked through and overcame numerous difficulties. Through this process, we have nurtured a technical strength with great originality. Kuraray’s competitive superiority today stands on this technical strength combined with our persistence driven by our philosophy, “For people and the planet—to achieve what no one else can.”

Results and Issues under the Previous Medium-Term Management Plan

In our previous medium-term plan “GS-STEP,” we set out the theme of realizing “a high-profit specialty chemical company with a global presence” and took steps to further deepen our core business and build a business foundation for future growth. Due to the deceleration of the economy in China and other emerging countries since fiscal 2015, which was the initial fiscal year of the medium-term management plan, the growth in sales slowed down in these regions. As a result, we were unable to reach the targets set for the final year of “GS-STEP”: net sales of JPY650.0 billion and operating income of JPY190.0 billion. However, we posted record highs in operating income for three consecutive periods during the term of the medium-term management plan, and operating profit margin in the final year of the plan increased to 14.4%, exceeding the target of 13.8%.

Kuraray achieved key qualitative results under the medium-term management plan. In the vinyl acetate-related business, the Company’s core business, we put in place a global production structure by establishing a production site in the U.S. for PVA resin with a view to further expanding the business. We also reinforced our production capacity in line with the growing demand for EVAL, water-soluble PVA film and optical-use PVA film, integrated with a vinyl acetate-related business which we acquired from DuPont U.S.A. and created synergies, and steadily implemented other measures.

As part of the effort to establish a next-generation growth model, we took steps to lay a foundation for developing the next pillars after the Vinyl Acetate Business, such as initiating our study toward establishing a new plant in Thailand for our Isoprene Business. Also, in the activated carbon field, we merged our subsidiary Kuray Chemical Co., Ltd. into the Carbon Materials Division and subsequently decided to acquire the world’s leading U.S.-based Calgon Carbon Corporation. Meanwhile, although we continued to take various initiatives to exploit new R&D themes as a manufacturer of materials, nothing that is ready for commercialization was brought about during the period of “GS-STEP.” In the new medium-term management plan, which will start in fiscal 2018, we will select themes and concentrate resources in an aim to create a new business that can contribute to profit.
Looking toward celebrating its centennial in 2026, Kuraray has set the vision it aims to achieve along with the basic policy as outlined in the “Kuraray Vision 2026” long-term vision. This long-term vision was finalized with recommendations made to management members from a project team composed primarily of young department-head-level employees in Japan and abroad, who will lead the future of the Group.

Our outlook for 2026 indicates changes in the business environment, including major revisions to rules, laws and regulations, innovation and advancement in digitalization on the backdrop of implementation of information communication networks and AI. We also project an increase in the presence of emerging countries in the economic arena. On the other hand, we may face more environmental and social challenges, such as a shortage of water resources and food.

Under such circumstances, the Kuraray Group views that there will be increasing opportunities to apply technical capabilities in chemistry to resolve challenges and problems that might newly arise due to drastic changes that could occur in all types of industries. Meanwhile, we can project a heightening risk that borderless competition will intensify as companies from emerging countries and venture firms make their entries into the market. The Group recognizes the importance of projecting in advance the changes that might take place in the years ahead, making clear how the Group intends to develop as a business enterprise and then taking respective measures to seize opportunities while responding to risks.

Against this backdrop, we have established the “Kuraray Vision 2026” of being a “Specialty Chemical Company, growing sustainably by incorporating new foundational platforms into its own technologies.” And we have defined three basic policies: “Pursue competitive superiority” to further promote the competitiveness of existing businesses, “Expand new business fields” aimed at expanding our business portfolio and business domains, and “Enhance the comprehensive strength of the Kuraray Group” to support all endeavors.

As we at the Kuraray Group head toward the centennial of the Company’s founding, we will once again go back to our starting point, which is the aspiration of our second-generation president Soichiro Ohara, and move forward while continually asking ourselves how we can share value with society and take initiatives to realize our goal. The contents of our business activities may change here and there as we pursue our initiatives, but there is no change to the foundation of the Company of being a corporate citizen that is recognized by people and is needed by society.

“Kuraray Vision 2026” Long-Term Vision

Targeted Vision and Basic Policy toward 2026

With the goal of realizing the vision set forth in “Kuraray Vision 2026,” we launched the “PROUD 2020” medium-term management plan in 2018. Based on the key strategies identified—“Pursue competitive superiority,” “Expand new business fields,” “Enhance comprehensive strength of the Kuraray Group” and “Contribute to the environment”—we will aim to achieve our targets in the final year of the plan, fiscal 2020: net sales of JPY665.0 billion and operating income of JPY90.0 billion.

The name of the plan “PROUD” carries our aspiration of becoming a company that all people surrounding the Kuraray Group can take pride in. It also reflects our wish to be a “safe and secure company” in which employees can work to be happy and for which “employees can take pride in working” and of being a “company which employees can work to be happy and for which employees can take pride in working” and of being a “company which employees can take pride in working.”

Each of the management strategies highlights the direction we should aim for through pursuing initiatives over the three-year period. To pursue competitive superiority, we will actively develop high-value-added products and applications based on customer needs and create new demand. To expand new business fields, we will take a half step ahead from the existing business fields by improving on our own technologies and incorporating external ones. To enhance the comprehensive strength of the Kuraray Group, we will establish global business foundations by adopting a global IT system and building an attractive workplace in which talented employees find their job rewarding. In addition, we will establish more enhanced research centers to reinforce our research & development capabilities to compete in the world and proactively put in place a new training center with a view to enhancing employee training and improving onsite capabilities.

The Kuraray Group’s Mission

We are committed to developing new fields of business using pioneering technology that improves and enhances the quality of life throughout the world.

For people and the planet—to achieve what no one else can

Vision of Kuraray

Specialty Chemical Company, growing sustainably by incorporating new foundational platforms into its own technologies

Basic Policies

Pursue competitive superiority

Expand new business fields

Increase existing businesses’ competitive edge

Strengthen our business portfolio while expanding the scope of operations

Enhance comprehensive strength of the Kuraray Group

Establish global business foundations to ensure the realization of the vision

Medium-term Management Plan Aims to Make Kuraray a Company That People Can Take Pride In

To contribute to the environment, we will provide solutions in the form of products and services to resolve shortages of water, gas emissions and other problems. At the same time, we will take steps to reduce the burden our business activities place on the environment.

In research and development, Kuraray needs to go back to its starting point of being a manufacturer of polymer materials and make reassessments starting from theme selection. Up till now, researchers engaging in R&D activities have led the process of deciding on development themes. Going forward, however, we will closely consider future business endeavors and even synergetic effects that can be expected in connection with our existing businesses and applications and have members of the management team get deeply involved in identifying strong themes. Kuraray has the know-how in polymer processing it has nurtured through engaging in the fibers and textiles business. By leveraging this know-how, we will process high polymers into films, sheets, and fibers and textiles, and focus on processing polymers and developing products with enhanced added value.

Under “PROUD 2020,” we plan to make capital investments amounting to JPY250.0 billion over the three-year period. Of this, approximately 60% is earmarked for strategic investment, including the construction of a new plant for VAM (vinyl acetate monomer) and building a global IT system to increase business profits and reinforce the management platform, and for growth investment aimed at expanding our business. Major growth investment allocations include those to reinforce facilities for optical-use PVA film, water-soluble PVA film and PVB film, construct a new plant for EVAL, and expand production facilities for liquid rubber and dental materials.

While we will continue to actively consider pursuing
promising M&A deals, if any, during the period of “PROUD 2030,” our top priority will be placed on promptly generating synergies from the merger with Calgon Corporation with which we completed the acquisition procedure on March 9, 2018 (U.S. time). As for our financial strategy over the next three years, we project that cash flows from operating activities in our business will amount to JPY300.0 billion and plan to decide on JPY250.0 billion in capital expenditure. To our shareholders, we will strive to appropriately and stably distribute profits, with a basic policy of targeting a total return ratio of 35% or more and annual dividends per share of JPY40 or higher.

Medium-Term Management Plan “PROUD 2020”

Pursue competitive superiority
• Develop high-value-added products and applications based on customer needs
• Achieve innovation of production and operational processes through use of IoT

Enhance comprehensive strength of the Kuraray Group
• Establish global business foundations
• Create a workplace in which employees find their job rewarding
• Cultivate a strong culture of unity within the Kuraray Group

Medium-Term Management Plan “PROUD 2020”

Expand new business fields
• Create new businesses by improving on Kuraray's own technologies and incorporating external ones
• Capture new business areas by M&A and alliance
• Establish a new business model involving technology and services

Contribute to the environment
• Provide products contributing to environmental protection
• Put in place a production process with low environmental footprint
• Provide products that help enhance quality of life (QOL)

Build a stable business portfolio for the future by executing key management strategies

Developing the Next Pillars after the Vinyl Acetate Business

Conduct continuous capital expenditure for growth in core and new businesses

Isoprene: Pursue business expansion via a project in Thailand

Carbon materials: Swiftly realize synergies with Calgon Carbon

Establish global business foundations

High-Priority Initiatives in Fiscal 2018 to Ensure Realization of Vision

In fiscal 2018, we expect to expand sales in each of our businesses and increase net sales in all segments. We also anticipate increasing profits except for net income which rose irregularly due to the impact of the U.S. corporate tax cut in the previous fiscal year. In this initial fiscal year of “PROUD 2020,” we will uphold our management strategies and carry out initiatives, with a special focus on post-merger integration (PMI) toward creating synergies with Calgon Carbon Corporation.

The business integration with Calgon Carbon Corporation, a global leader in activated carbon materials, is of a different scale compared to our past M&A deals, and we expect that the final organizational structure will be centered on Calgon Carbon’s U.S. head office. We believe we can further promote the growth of our activated carbon business by leveraging the strong position Calgon Carbon holds in the activated carbon industry, accelerating the development of applications with the use of Kuraray’s R&D capabilities and analytical technologies and utilizing Kuraray’s network in expanding sales in Asia.

In the Isoprene Business, we will push forward with commercialization in Thailand to mitigate the procurement risk associated with raw materials caused by a decline in ethylene crackers in Japan and to realize further business growth on a global basis. During the three-year period of “PROUD 2020,” we will open up new markets and create applications, improve the operating rate and production efficiency of the Kashima Plant and initiate operations at the new plant in Thailand in 2021 or thereafter to solidify the foundation toward expanding the business.

Kuraray provides products and services that contribute to resolving medium- to long-term social problems, such as water and flood shortages and environmental footprint. The Company hopes to improve the natural environment by not only adopting environmentally friendly production processes, thereby lowering the environmental footprint of its production activities, but also helping customers reduce their burden on the environment in their production activities. As such, we can say that Kuraray leverages the broad possibilities that chemistry has to offer in directly or indirectly helping society to solve its problems.

In recent years businesses have been actively encouraged to contribute to achieving the Sustainable Development Goals (SDGs) adopted by the United Nations. It is my view that Kuraray already has been carrying out some of these initiatives. Going forward, I intend to make improvements in areas where we need to do more, while considering how the Company should disclose to the world the initiatives it has been taking.

Since it is our people who carry out corporate activities in an aim to resolve these social problems, it is very important to make use of human resources and invigorate our workforce. In our efforts to create a workplace in which each and every employee can “lead a better life,” we work to improve our operating efficiency and quality through pursuing style reforms and enhance the work-life balance of employees. In addition, considering that there are still more places, including production sites, in which female workers can play active roles, we are reinforcing initiatives to put in place a working environment with improved schemes for encouraging the active participation of female employees. We believe these efforts will lead to increasing the number of women in managerial positions.

Meanwhile, given the M&A deals concluded in recent years, the ratio of foreign employees has exceeded 30% and we now have three foreign executive officers. We are establishing personnel systems and education programs to hire globally minded persons and we look forward to more actively appointing foreigners to senior managerial positions.

Through pursuing these initiatives, we will aim to realize our vision of being a “company that people can take pride in.” To do this, we need to nurture ethics, to raise awareness about compliance and quality improvement. In March 2017 Kuraray received a cease and desist order from the Fair Trade Commission in connection with competitive bidding on textile products purchased by the Acquisition, Technology and Logistics Agency of the Defense Ministry. Also, in February 2017, the Fair Trade Commission made an on-the-spot inspection of the Company in connection with the production and sale of active carbon used in water purification facilities and waste incinerators. We took this series of events seriously and sincerely and have implemented the necessary measures to ensure such incidents are never repeated and have been taking initiatives to ensure compliance. Meanwhile, with regards to quality, we are striving to “constantly develop and provide safe, high-quality products and services” as stated in our corporate statement and continue to take initiatives to step up quality management and quality assurance. We want to be a company with high ethical views that is trusted by society as a good corporate citizen.

From time to time, I share with the rest of the organization my wish to make the Kuraray Group a “safe and secure company,” “a company that people can take pride in” and “a company growing stably by incorporating new foundational platforms into its own technologies.” For the Kuraray Group to achieve sustainable growth, it is important to share this wish and to have it passed on from one person to another. The philosophy of Soichiro Ohara that any profit which a company might gain should come from its devotion to carrying out duties and providing value to society has been passed down through the generations to the present. With our intention to hand down this approach and the devotion of the Company to future generations as a commitment toward achieving sustainable growth, Kuraray will continue to meet the expectations of its stakeholders.
Value Creation Process of the Kuraray Group

As a corporate group engaged in manufacturing, Kuraray Group creates economic and social value through providing its excellent products and services to the market.

### Issues facing society
- Global warming
- Depletion of water resources
- Food crisis
- and others

### Core Competences of the Kuraray Group

#### Unique technical strengths

#### Application development capability

### Financial capital
- Stable cash flows

### Intellectual capital
- A broad spectrum of base technologies ranging from materials technologies to processing technologies

### Human capital
- Diversity of human resources

### Manufacturing capital
- Global production system

### Social and relationship capital
- Trust from customers
- Trust from the local community

### Strategy of Kuraray

#### Long-term vision

- **Vision of Kuraray**
  Specialty Chemical Company, growing sustainably by incorporating new foundational platforms into its own technologies

#### Basic Policies
- Pursue competitive superiority
- Expand new business fields
- Enhance the comprehensive strengths of the Kuraray Group

### The Kuraray Group’s Mission

We are committed to developing new fields of business using pioneering technology that improves the environment and enhances the quality of people’s lives throughout the world. “For people and the planet — to achieve what no one else can.”

### Sustainable Growth through Accumulation of Management Resources

### A Variety of Number One and One and Only Products

#### Business activities

#### Input

#### Outcome

### Contribute to Sustainable Society through Our Businesses

- EVAL
  - Plastic fuel tanks
  - Replacement for automotive metal parts
- EVAL GENESTAR
  - Food packaging materials
  - Long-term food preservation
  - Extension of expiration dates
- EVAL PLANTIC
  - Food packaging materials
  - Extension of expiration dates
- EVAL PVB film
  - Interlayer for safety glass
  - For automotive safety glass
- PVB Film
  - Interlayer for safety glass
  - High-performance automobile noise
  - Cement and concrete reinforcement
- Liquid rubber
  - High-performance automobile noise
  - Cement and concrete reinforcement
In this business, we manufacture and sell PVA resin, which features water solubility and adhesive properties, PVB film, which can be applied to liquid crystal displays and is also used for single-use packets for detergents and so on; PVB film used as an interlayer for laminated glass; and EVAL, which has an excellent gas barrier property.

In this business, we manufacture and sell synthetic isoprene chemical products, and SEPTON, a thermoplastic elastomer that is a derivative of synthetic isoprene chemical products, as well as GENESTAR, a new polyamide resin with excellent heat resistance.

Functional Materials
In this business, we manufacture and sell methacrylic resin, which boasts excellent weather resistance, CLARINO, a man-made leather with a structure and functionality as elaborate as natural leather, dental materials that enable repairs that closely resemble natural teeth; activated carbon, which is used in water and air purification utilizing absorption properties, and others.

In this business, we manufacture and sell vinyl fiber used as a substitute material for asbestos and for use in automotive brake hose applications, KURAFLEX, nonwoven fabric used for lifestyle products and industrial materials, MAGIC TAPE hook and loop fasteners, and others.

In this business, we manufacture and sell polyester fibers and textile products, as well as export/import and wholesale resin and chemical products.

In this business, we manufacture and sell highly functional membranes and systems used in water treatment, and conduct the engineering business, as well as manufacture and sell VECASTAR, a liquid crystalline polymer film used mainly for flexible circuit boards.

At a Glance

<table>
<thead>
<tr>
<th>Segment name</th>
<th>Percentage of net sales (%)</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vinyl Acetate</td>
<td>43%</td>
<td>263,175</td>
<td>266,894</td>
</tr>
<tr>
<td>Isoprene</td>
<td>9%</td>
<td>51,083</td>
<td>56,366</td>
</tr>
<tr>
<td>Functional Materials</td>
<td>11%</td>
<td>67,981</td>
<td>69,910</td>
</tr>
<tr>
<td>Fibers and Textiles</td>
<td>8%</td>
<td>48,566</td>
<td>51,658</td>
</tr>
<tr>
<td>Trading</td>
<td>20%</td>
<td>119,498</td>
<td>128,834</td>
</tr>
<tr>
<td>Others</td>
<td>9%</td>
<td>46,292</td>
<td>54,233</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Net sales (Billions of yen)</th>
<th>Operating income (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>2017</td>
</tr>
<tr>
<td>263,175</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Major products</th>
</tr>
</thead>
<tbody>
<tr>
<td>KURARAY PVAL, ELVANOL (PVA resin)</td>
</tr>
<tr>
<td>Paper/pulp processing agents, adhesives, stabilizers for polyvinyl chloride polymerization and others</td>
</tr>
<tr>
<td>TROPEX (PVB film and interlayer)</td>
</tr>
<tr>
<td>Interlayer film for safety glass</td>
</tr>
<tr>
<td>EVAL, EVALDH resin</td>
</tr>
<tr>
<td>Food packaging, automotive seats, heat-resistant wallpaper, vacuum insulation panels, and others</td>
</tr>
<tr>
<td>SEPTON (Thermoplastic elastomer)</td>
</tr>
<tr>
<td>Substrate for rubber, automobile parts, electron parts, stationary, toys, sporting goods, and others</td>
</tr>
<tr>
<td>CLARINO (Man-made leather)</td>
</tr>
<tr>
<td>Men’s and women’s shoes, bags, athletic footwear, large inflatable sports balls and others</td>
</tr>
<tr>
<td>KURAFLEX (Nonwoven fabric)</td>
</tr>
<tr>
<td>Daily goods, industrial products (hooks, filtration media, automobile applications) and others</td>
</tr>
<tr>
<td>MAGIC TAPE (Hook and loop fastener)</td>
</tr>
<tr>
<td>Clothing, sporting goods, industrial materials and others</td>
</tr>
<tr>
<td>VECSTAR (Liquid crystalline polymer film)</td>
</tr>
<tr>
<td>High-speed signal transmission flexible printed circuit boards and others</td>
</tr>
</tbody>
</table>

Notice of Change in Business Segments
Through fiscal 2017, the Clariant business was included under the Functional Materials segment, but the business will be reported under the Fibers and Textiles segment starting from fiscal 2018. Following the acquisition of Calgon Carbon Corporation, a U.S.-based global leader in the manufacture and distribution of activated carbon products, in March 2018, Kuraray has newly established the Calgon Carbon Division under the Functional Materials segment and integrated Calgon Carbon Corporation into the nine business divisions. It has done this to accelerate the integration of Calgon Carbon into the Carbon Materials Business of the Company.
Coordinating Production and Human Resources Globally with a View to Achieving Further Value Addition

Tomoyuki Watanabe
Executive Officer
Vice-President of Vinyl Acetate Resin Company
General Manager of Poval Resin Division
Manager of Poval Resin Sales Management Department

Maintaining the World’s Top Share by Exploiting Our Competitive Advantage

2018 is the 60th year since poval resin was brought to the market. It marked the beginning of the challenges faced by Kuraray, originally a synthetic fiber manufacturer, in undertaking the manufacturing and sales of synthetic resin and expanding the scope of business significantly by developing diverse applications of synthetic resin. Kuraray has since then maintained the top market share worldwide for poval resin, its core product.

Kuraray’s competitive advantage in poval resin is that we are thoroughly familiar with the needs of customers’ industries and have the technological capabilities to promptly meet such needs. We have established cost competitiveness by building a global production structure covering the four regions of Japan, Singapore, Germany, and the United States.

The Vinyl Acetate Segment has maintained a high level of profitability, with operating profit margin at 23.0% for fiscal 2017. Poval resin plays an important role in forming the basis of optical-use PVA film, water-soluble PVA film and PVB resin as their raw material. Kuraray sets prices for external sales by taking a bird’s-eye view of the value chain, while working to increase profits through cost reduction and efficiency improvement on the production side.

Enhancing Global Production Structure with the Full-Scale Launch of the New U.S. Plant

Kuraray has expanded the production structure for poval resin from domestic production at the Niigata Plant and the Okayama Plant to the production base in Singapore managed by Kuraray Asia Pacific Pte. Ltd., and to Germany in which Kuraray Europe GmbH secured the business base by the Company’s acquisition of the PVA-related business of Clariant AG. Kuraray has expanded further, to the U.S., with the acquisition of the vinyl acetate-related business of DuPont in 2014, securing a U.S. production base operated by Kuraray America, Inc. and with the launch of operations of a new plant in Texas in 2018.

In Japan, the Okayama Plant, with an annual production capacity of 96,000 tons, functions as a mother plant, while the Niigata Plant, with an annual production capacity of 28,000 tons, serves the role of a development-oriented plant, producing high value-added products. Kuraray, while following the standard approach of developing such technologies, will lead to the creation of new added value in Japan and transferring such technologies to plants outside Japan, has also incorporated the technologies of acquired companies and businesses outside Japan and promoted the blending of such technologies with the Group’s technologies.

For our global business development, Kuraray, while following the principle of local production for local consumption, concentrates production in the plant with the greatest competitive advantage in regions where it is beneficial to integrate import and export by taking into account the benefits of Free Trade Agreements (FTAs), etc. However, in accordance with the growing need in recent years for meeting BCP (business continuity plans for use in the event of emergency) requirements, Kuraray has established a production framework of first establishing a main production base at the plant closest to customers and then building up alternative production capacities at other plants.

Evolving into a True Global Company That Can Generate Cash Flows around the Clock

Looking at the future market outlook, we can expect a growth in poval resin demand by tapping into emerging markets and through horizontal deployment of technologies in developing countries with a focus on the four fields of additives for vinyl chloride resin, coating agents for paper, fiber sizing agents, and emulsion adhesives, which are directly related to the lifestyles of developed countries. We believe this will serve as a source of future growth for us.

In the Poval Resin Business, Kuraray will aim toward higher added value of products under the medium-term management plan “PROUD 2020.” In addition, the Company will work to improve the profitability of the overseas businesses by deploying the production line design for high value-added products established at the Niigata Plant to its overseas plants.

Our poval resin production is facing an issue with ensuring product quality uniformity between plants. By achieving a uniform quality of production on a global scale, the Kuraray Group can minimize inventories in Japan where the ratio of high value-added products is high.

The Kuraray Group has ensured that management personnel of the Group’s affiliates outside Japan have a shared viewpoint through post-M&A alignment. In the three-year period covered by the “PROUD 2020” medium-term management plan, we will work to foster understanding and penetration of our vision among leaders of business sites, and make an effort to incorporate know-how cultivated in each business site with a respect for their cultures and traditions. For instance, we will hold discussions and presentations on development themes in which members are selected from each business site participate. Through such concrete efforts, we will aim to cultivate human resources who can take the lead in our global operations.

Looking at the current business performance of the Kuraray Group, performance in the affiliates outside Japan is weaker than that in the Group companies in Japan where the ratio of high value-added products is high. However, the Group’s businesses outside Japan will undoubtedly be the growth driver in the future.

Ideally, the Kuraray Group will build a business foundation for generating cash flows around the clock by further reinforcing coordination and cooperation in the global four-region production structure, with an eye to evolving into a truly global company.

The Core Vinyl Acetate Material: PVA Resin

PVB film
Optical-use PVA film
Wax-based PVA film
Water-soluble PVA film
PVA resin

Vinyl Acetate Monomer (VAM)

PVB resin

PVA resin

Cellulose nitrate

Optical-use PVA film

Water-soluble PVA film

PVB resin
The Vinyl Acetate Business has been increasing and remaining at high levels in recent years, rising from 8.6% in fiscal 2012 to 14.8% in fiscal 2017. The strong growth in profit margin can be explained by the high profitability of the business as well as the absence of large investments for some time. Therefore, we expect to maintain the same level of operating income margin for the three years covering “PROUD 2020.” Meanwhile, operating income margin will decline temporarily in fiscal 2021 and thereafter due to depreciation of the new Thai plant. However, we will stably keep the operating income margin of at least 10% and aim to increase profitability by expanding production by leveraging competitive advantages in the procurement of raw materials and promoting the shift to high value-added products.
Long-Standing Corporate Culture of “Valuing People”

In Kuraray’s basic approach to human resources, “respect for individuals,” which is one element of the philosophy set out in the Group’s Corporate Statements, constitutes an important component. Under this philosophy, Kuraray has fostered a corporate culture of “valuing people” over many years.

Since the 2000s, Kuraray has acquired operations outside Japan to accelerate global business development. The acquired businesses take pride in their corporate cultures that have been cultivated until the time of acquisition, so it takes some time for them to blend in with us. Based on such understanding, we communicate, and promote the understanding and penetration of, Kuraray’s philosophy expressed in the Corporate Statements among the acquired businesses, while paying respect to their corporate cultures.

Work-Style Reforms toward “Leading a Better Life”

Kuraray is making an effort for work-style reforms as a priority issue in human resource management in Japan. In July 2015, President Ito, in his message, called on all the employees to give thought to how they should work to “lead a better life” and laid out guidelines designed for the individual employees to find their work satisfying. This message from the President has since been disseminated on occasions when employees gather, and specific initiatives for work-style reforms have been launched in accordance with the guidelines in Japan since 2016.

We started by stocktaking operations. Specifically, each department has identified waste and started with reducing the number of meetings and their durations. In addition, we distributed the “Kuraray Shigotojutsu Handbook” (work skills handbook) designed to improve operational efficiency and reduce work burden to promote a change in the mindset of employees. We also introduced a “no overtime week” on a trial basis, aimed at preventing long work hours by urging employees to re-examine their ways of working, and plan to introduce the program on a full-scale basis from 2018. Kuraray will endeavor to further increase productivity by enhancing the work-life balance of each employee through a better work environment.

Employment of Female Employees, Expansion of Their Responsibilities, and Improvement of Their Retention to Promote Their Active Participation

Kuraray is making efforts to promote the diversity of human resources, Kuraray has adopted the aforementioned global human resource management system, while embracing the active participation of female employees as a priority theme.

Kuraray has constantly employed female employees in career-track positions since 1999, and the employment ratio of females to males is currently about 25%. Kuraray will aim to increase this to 30%, while striving to expand the job responsibilities and improve retention of female employees. We will try to link this effort to the active promotion of female employees to managerial positions.

Kuraray Will Work toward Creating a Motivating Workplace during the Three-Year Period

Under the “PROUDO 2020” medium-term management plan, Kuraray has designated “workplace,” as well as “society” and “environmental safety,” as the core themes. It has set out “creating a workplace in which employees find their job rewarding” as an action item designed to enhance the comprehensive strength of the Kuraray Group in its management strategies. Kuraray will implement diverse measures over the course of the three years covered by the plan, in order to raise the retention rate of the Group’s employees in Japan.

Specifically, we will take companywide initiatives for creating an open communication work environment by utilizing the mentor program by which employees’ complaints about their workplaces are solicited by employees in other departments who are close in seniority, and providing training for personnel in managerial positions to facilitate smooth and good communication with subordinates. In terms of systemic improvement, we will introduce homeworking and flextime systems on a full-scale basis and adopt a rest/recovery interval between work periods, etc.

Kuraray will continue to work toward creating a workplace in which employees find their job rewarding and supporting employees to achieve a good work-life balance and personal growth, in order to link the efforts to the development of its businesses.
Kuraray’s Transformation into a Company with a Global Mindset by Expanding Its Global Business through Successful M&As

Matthias Gutweiler
Senior Executive Officer
President, Kuraray Europe GmbH

Kuraray’s Global Mindset Seen from Europe

I joined the Kuraray Group in connection with the business acquisition in 2001. At the time, Kuraray gave me the impression of being a typical Japanese firm. Soon after that, I came to realize that Kuraray was a company that set out extremely high ethical standards and put those standards into practice. And today, I truly feel Kuraray has transformed itself into a firm that sets out extremely high ethical standards and is known in the European market as a development manufacturer that maintains high ethical standards and are undertaking that role. Only chemical manufacturers that maintain high ethical standards and are determined to protect people and the environment can continue to take on that role. Kuraray is widely known in the European market as a development partner that fulfills those conditions at a high level.

Kuraray’s global business expanded primarily through M&As and the net sales of its business outside Japan grew to as much as 64% in fiscal 2017. Although M&As statistically have high failure rates, it is the Company’s stance to look at business growth from the long-term perspective, pursue investment in the market 10 to 15 years ago. Under such circumstances, we operate on a policy of not limiting ourselves to value creation through new development but to combine unique products and services and adopting more advanced marketing methods to stir new demand in the market with a view to providing the value expected by customers. At the same time, we promote operational excellence through advancing digitalization and automation for our operating processes, from maintenance, future projections, procurement of raw materials, and utility related to production to customer services so that we can respond to the growing needs and technical requirements of customers.

By taking these initiatives, we work to strengthen our marketing and support for developing markets, such as Africa, the Middle East, and Eastern Europe, and intend also to widen the group products we handle. Meanwhile, in terms of “diversity,” I feel it is important that we fully demonstrate the potential of a diverse group of employees at KEG. We are focusing particularly on promoting programs to enhance leadership skills and supporting our female workers in managerial positions. I believe that promoting diversity is inevitable also to realize our long-term vision, “Kuraray Vision 2026.”

KEG’s Challenges in the Medium-Term Management Plan

Contributing to “PROUD2020” medium-term management plan is a priority management challenge for KEG. I believe we can contribute significantly to the management strategies relating particularly to “U” – Unique Products & Services and “D” – Diversity, among the five elements set forth in “PROUD2020.”

The products and services that customers desire have become increasingly diverse compared to those in the market 10 to 15 years ago. Under such circumstances, we operate on a policy of not limiting ourselves to value creation through new development but to combine unique products and services and adopting more advanced marketing methods to stir new demand in the market with a view to providing the value expected by customers. At the same time, we promote operational excellence through advancing digitalization and automation for our operating processes, from maintenance, future projections, procurement of raw materials, and utility related to production to customer services so that we can respond to the growing needs and technical requirements of customers.

Looking at Kuraray from Europe, the Company is a chemicals supplier that can view customer relationships from a long-term perspective and provide value to each customer as a business partner. Kuraray understands that the Company will continue to be a special and unique chemical manufacturer. Even if our net sales were to increase to 10 billion dollars because of future M&As, Kuraray would still be a midsize firm in the chemical industry. Yet I believe that Kuraray can achieve sustainable growth in the future too by pursuing attractive segments in niche fields, building a network of highly talented experts, and contributing to problem-solving and increasing value for customers. KEG will continue to contribute to Kuraray’s endeavors to evolve into a truly global company.

Expectations for a “Special and Unique Chemical Manufacturer”

We believe Kuraray is a chemical company with strengths in materials technology and development capability. Taking a long-term perspective for customers, Kuraray prioritizes providing a wide array of solutions for manufacturing. Customers expect us to stand on a partnership where they can identify their essential needs by holding discussions on technology with Kuraray and work together to create a technology to realize those needs.

As for Kuraray’s long-term vision, I personally hope that the Company will continue to be a special and unique chemical manufacturer. Even if our net sales were to increase to 10 billion dollars because of future M&As, Kuraray would still be a midsize firm in the chemical industry. Yet I believe that Kuraray can achieve sustainable growth in the future too by pursuing attractive segments in niche fields, building a network of highly talented experts, and contributing to problem-solving and increasing value for customers. KEG will continue to contribute to Kuraray’s endeavors to evolve into a truly global company.

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Overview of Kuraray Europe GmbH

<table>
<thead>
<tr>
<th>Company name</th>
<th>Kuraray Europe GmbH</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head office</td>
<td>Hattersheim, Germany</td>
</tr>
<tr>
<td>Representative</td>
<td>Matthias Gutweiler</td>
</tr>
<tr>
<td>Number of employees</td>
<td>676 (As of December 31, 2017)</td>
</tr>
<tr>
<td>Net sales</td>
<td>€763 million (Fiscal 2017)</td>
</tr>
<tr>
<td>Total assets</td>
<td>€656 million (As of December 31, 2017)</td>
</tr>
<tr>
<td>Business lines</td>
<td>Import, export and sale of textile products and chemicals, manufacture and sale of PVA resin and PVB resin/film</td>
</tr>
<tr>
<td>Production sites</td>
<td>PVA resin, PVB resin Frankfurt, Germany, PVB film Troisdorf, Germany</td>
</tr>
</tbody>
</table>
Corporate Governance

**Foundation for Value Creation**

**Basic Approach to Corporate Governance**

The Company believes that maintaining appropriate relationships with various stakeholders and fulfilling social responsibilities through establishing a corporate governance system that ensures effective and fair management will contribute to the long-term and sustainable enhancement of corporate value. The Company has adopted the governance system as "a company with a board of corporate auditors." Under this framework, the Company has established a corporate governance mechanism centered on its Board of Directors and Board of Corporate Auditors to improve the effectiveness of the supervisory and monitoring mechanism, while maintaining management efficiency, and to handle issues including management remuneration, selection of new company officers, internal control and risk management.

By establishing this mechanism as described above, the Company believes that the effectiveness of the supervisory and monitoring mechanism will be improved, while maintaining management efficiency, contributing to the long-term and sustainable enhancement of corporate value.

**Kuraray’s Steps to Strengthen Corporate Governance**

The Company has worked continuously to strengthen corporate governance by taking steps, such as establishing the Management Advisory Committee, separating supervision and execution functions through the introduction of the Executive Officer System, appointing and increasing the number of Outside Directors and Outside Corporate Auditors, establishing the CSR Committee and the Risk Management and Compliance Sub Committee, and Analysis and Evaluating of the Effectiveness of the Board of Directors. The Company will further strengthen the corporate governance system through measures such as managing compliance risks in its overseas operations.

**Kuraray’s Efforts for Improving Corporate Governance Thus Far**

- **Established the Management Advisory Committee**
  - An advisory body to provide advice on the execution of duties of the President from the viewpoint of compliance with laws and regulations, protecting shareholder rights, and ensuring transparency of management.
  - Purpose: Strengthening the management monitoring function of Corporate Auditors
- **Established the CSR Committee**
  - Reinforced the Group’s CSR promotion structure.
- **Introduced two Outside Directors**
  - Purpose: Strengthening the management monitoring function of the Board of Directors
- **Started early delivery of the notice of convocation of the ordinary general meeting of shareholders (at least three weeks before the date of the meeting)**
  - Purpose: Providing enough time for shareholders to examine each proposal
- **Started uploading an English translation of the notice of convocation of the ordinary general meeting of shareholders to the TSE platform and the Company’s website.**
- **Started Analysis and Evaluation of the Effectiveness of the Board of Directors.**
- **Established the Risk Management and Compliance Sub Committee**
  - Promoted the development and operation of the Group’s compliance structure

**Key Points of Corporate Governance of the Kuraray Group**

The key points of Kuraray’s corporate governance are as follows:

1. Kuraray has adopted the governance system as “company with board of corporate auditors” and established the Board of Corporate Auditors comprised of five Corporate Auditors, at least three of whom are Outside Corporate Auditors. It has done this to ensure the fairness and transparency of management.

2. The Company has been appointing Outside Directors since 2008, and two Outside Directors are in office.

3. The Company has established the Management Advisory Committee as a discretionary committee corresponding to a nomination committee or remuneration committee. In it, Outside Corporate Auditors and outside experts, etc. provide advice to the President on such matters as resignation of the President, candidates for the successor, remuneration, important management policies, and management issues.

**Corporate Governance System**

- **The Board of Directors and Business Execution Body**
  - The Board of Directors (convenes at least once a month according to the Board of Directors’ Regulations and deliberates and decides important management matters, including legal matters, and supervises the execution of business. The maximum number of Directors is set at 12, with the aim of promoting agile management decision-making by the Board of Directors, and the term of office of Directors is set at one year to clarify their responsibilities to the shareholders. There are currently nine incumbent Directors including two Outside Directors who have abundant experience in and broad insight into economy, finance, and management and other fields. These two Outside Directors take on the role of overseeing the management from an independent third-party standpoint. As the chief executive responsible for business execution, the President, appointed by the Board of Directors, exercises control over the execution of business in the Group. Every executive officer (one-year term of office), appointed by the Board of Directors, is responsible for business execution in the Group organization. As the heads of internal companies, divisions and major functional organizations, the executive officers bear responsibilities for business execution results of operations. In this way, the Company clearly separates the responsibilities of Directors, that is, decision-making and supervision on the management, from the responsibilities of business execution. Some Directors hold concurrent positions as executive officers. The President has established the Executive Committee (in principle, convenes twice a month) and various other councils and committees to deliberate and report on important matters concerning the Group’s management policies and business execution.

- **Board of Corporate Auditors and Internal Audit**
  - The Board of Corporate Auditors consists of five Corporate Auditors comprising of four males and one female, including three independent Outside Corporate Auditors. The current number of Corporate Auditors is five, including three Outside Corporate Auditors who have extensive experience in and broad insight into areas such as finance, law and management and perform their duties from an independent third-party standpoint.

Corporate Auditors attend meetings of the Board of Directors and other important meetings and monitor the Directors’ performance of duties through inquiries conducted by such means as examining important documents and receiving explanations on the status of business operations. In principle, the Board of Corporate Auditors convenes monthly. The Corporate Auditors regularly have meetings with the Accounting Auditor to receive reports on
Corporate Governance System  
(As of March 23, 2018)

Foundation for Value Creation

Corporate Governance

audit planning and the implementation status and content of audit. Also, they receive reports on the internal audit result by the Internal Auditors Office (consisting of nine members). The Corporate Auditors also serve as corporate auditors of core subsidiaries to conduct subsidiary audits as needed and attend the Group Auditor Liaison Meeting, which consists of corporate auditors of the Group companies and is held periodically and obtain information about each Group company through the meeting.

The Management Advisory Committee
As an advisory body to provide advice on the execution of duties of the President from the viewpoint of complying with laws and regulations, protecting shareholder rights, and ensuring transparency of management, the Management Advisory Committee has been established. Currently, the Committee is comprised of six permanent members; three outside experts with abundant experience and broad expertise in economics, finance, management, etc.; one Inside Director (President); and two other members (Advisor, Outside Corporate Auditors). Chaired by the Advisor, the Committee is, in principle, held twice a year to provide advice to the President on such matters as important management policies, management issues, resignation of the President, candidates for the successor and remuneration, etc.

Policies for the Appointment of the Candidates for Directors and Corporate Auditors and the Independence Standards for Outside Officers

(1) The Company appoints individuals who have experience, knowledge and capabilities required for Directors of the Company as candidates at the Board of Directors meeting with the attendance of Outside Directors and Outside Corporate Auditors (hereinafter, “Outside Officers”), and elect them as Directors with the resolution of the General Meeting of Shareholders. However, the candidates for Outside Directors shall satisfy the criteria of independence provided separately.

(2) The Company appoints individuals who have experience, knowledge and capabilities required for Corporate Auditors of the Company as candidates at the Board of Directors meeting with the presence of Outside Officers and elects them as Corporate Auditors with the resolution of the General Meeting of Shareholders after obtaining the consent of the Board of Corporate Auditors. However, the candidates for Outside Corporate Auditors shall satisfy the criteria of independence provided separately.

Independence Standards for Outside Officers

(1) The Company judges that its Outside Officers and the candidates for the Outside Officers are fully independent from the Company if they do not fall under any of the following items:

- A business executive of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”);
- A counterparty which has transactions principally with the Group or a business executive thereof;
- A major business partner of the Group or a business executive thereof;
- A major lender of the Group or a business executive thereof;
- A counterparty that receives a large amount of donations from the Group or a business executive thereof;
- A major shareholder of the Company (who possesses 10% or more of the total voting rights either directly or indirectly) or a business executive thereof;
- A business executive of a party whose major investor (who possesses 10% or more of the total voting rights either directly or indirectly) is the Group;
- A consultant, certified public accountant or other accounting professional, attorney or other legal professional who receives a large amount of monetary or other assets from the Group other than the executive remunerations (in case of a legal entity, association or other organization, a person belonging thereto);
- A person who belongs to an accounting firm that conducts the statutory audit of the Company;
- A person who has been referred to the above criteria (i) in the past ten years;
- A person who has been referred to the above criteria (ii) through (ix) in the past three years;
- A person who belongs to a company which has a relationship with the Company of interlocking Outside Officers; and
- A relative of the person listed in the above criteria (i) through (xi)

(2) Even in cases where a person falls under any of the above items, if the person is deemed to be appropriate for the post of an independent Outside Officer in light of personality, knowledge and other qualities, the Company may appoint him/her as independent Outside Officer on condition that the reasons that the person is deemed appropriate for the post will be explained to the public.

Directors’ Remuneration System

(1) Remunerations for Directors are determined by taking into consideration the remuneration level of other companies and other factors so that the remuneration will function as one of the incentives for mid- to long-term and sustainable enhancement of the corporate value.

(2) Remuneration for each Director is determined based on the calculation method stipulated by the Board of Directors within the extent of the maximum amount resolved at the General Meeting of Shareholders. The remuneration for the President, which serves as the basis for calculating the remuneration for each Director, is determined upon deliberation at the Management Advisory Committee comprised of Outside Corporate Auditors and outside experts.

Policies for the Determining the Remuneration for Directors

(1) Remunerations for Directors are determined by taking into consideration the remuneration level of other companies and other factors so that the remuneration will function as one of the incentives for mid- to long-term and sustainable enhancement of the corporate value.

(2) Remuneration for Directors is comprised of monetary remuneration consisting of fixed remuneration by position and performance-linked remunerations, and stock option-based remunerations. However, monetary remuneration for Outside Directors does not include performance-linked remunerations.
Performance-Linked Remuneration System
The Company abolished the bonus scheme to Directors and introduced a performance-linked remuneration system in July 2008, thereby strengthening the incentives of Directors for increasing the Company's corporate value. In addition, to respond to the increase in the amount of performance-linked remuneration in

Calculation Method of Performance-Linked Remuneration
As a short-term performance incentive, the performance-linked remuneration for the President shall be the amount that is obtained by multiplying the amount of net income attributable to owners of the parent for the prior fiscal year by a predetermined coefficient. The performance-linked remuneration for Directors shall be determined by dividing the said amount in proportion to the index corresponding to each position of Directors. The Company does not have a performance-linked remuneration system for Outside Directors based on the above calculation method.

Remuneration-Type Stock Option Scheme
The Company abolished the severance and retirement benefits system for Directors in July 2006 and introduced a remuneration-type stock option scheme that entails the issuance of share acquisition rights for the purpose of further boosting Directors' motivation and morale towards improving the Company's performance. The maximum amount of stock option-based remuneration under this scheme shall be set at ¥90 million, separately from the maximum amount of annual remunerations to Directors. The number of share acquisition rights to be granted shall not exceed 120 units each year (the number of common stock to be issued upon exercise of share acquisition rights shall not exceed 60,000 shares each year).

Corporate Officer Remuneration for Fiscal 2017

<table>
<thead>
<tr>
<th>Director classification</th>
<th>Total amount of remuneration, etc. (Millions of yen)</th>
<th>Total amount by type of remuneration, etc. (Millions of yen)</th>
<th>Number of eligible officers (persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Directors excluding Outside Directors</td>
<td>592</td>
<td>471</td>
<td>10</td>
</tr>
<tr>
<td>Corporate Officers including Outside Corporate Officers</td>
<td>50</td>
<td>50</td>
<td></td>
</tr>
<tr>
<td>Outside Corporate Auditors</td>
<td>56</td>
<td>56</td>
<td>3</td>
</tr>
</tbody>
</table>

*1 The above stock option-based remuneration is open to Directors who concurrently serve as Executive Officers (negligible directors) as stock option-based remuneration for Executive Officers.

Evaluation of the Effectiveness of the Board of Directors

Analysis and Evaluation of the Effectiveness of the Board of Directors

(1) Analysis and evaluation method
The Company distributed “Questionnaire on Effectiveness of the Board of Directors” (non-anonymous) to all the Directors and Corporate Auditors in December 2017 and collected responses and opinions from all members in January 2018. The secretariat of the Board of Directors compiled the responses, and analyzed and evaluated the effectiveness of the Board of Directors based on the data.

Questionnaire Items:
- Structure of the Board of Directors
- Operation of the Board of Directors
- Agenda of the Board of Directors
- Systems outside the Board of Directors

(2) Outline of analysis and evaluation results
The evaluation confirmed that the Company’s Board of Directors is generally functioning properly and that the effectiveness of the Board of Directors is ensured in all aspects, such as its size, composition, diversity, effectiveness, scope of matters to be discussed or reported, timing for scheduling the Board of Directors meetings, frequency of the meetings, operation of the Board of Directors including deliberation time, provision of additional information to the Directors, systems outside the Board of Directors such as those for providing training opportunities, etc.

Furthermore, proposals made during the evaluation last year for the purpose of enhancing the effectiveness of the Board of Directors, namely, “the timing of materials distribution” and “content and quality of materials”, were confirmed to have improved through efforts such as ensuring distribution of materials in advance, and preparation of written summaries of proposals.

Based on the results of this evaluation, the Company may examine and implement necessary measures in the future to make discussions more lively and productive at the Board of Directors meetings.

Message from Outside Director

Accelerating Growth Through External Contacts to Establish the Second and Third Pillars after the Vinyl Acetate Business

As an outside director, my policy is to check the management of Kuraray from the viewpoints of “What decision would I make if I were the President of Kuraray?” and “Hasn’t the common practice at Kuraray deviated from that in society?” I try to provide advice to the Company by always considering “What is missing at Kuraray?”

From my experience of working in the information and communications industry where technologies and markets change rapidly, I see that Kuraray is a company that has cultivated engineers and developed unique products over time. It has done this by placing importance on its corporate culture of valuing unity within the Company. However, in order for Kuraray to establish the second and third pillars after the Vinyl Acetate Business with a sense of speed, which is its growth challenge, I believe the Company needs to compensate its weakness through external contacts, such as cross-industrial association and open innovation-oriented development.

The meetings of Kuraray’s Board of Directors are a place for unfettered discussion with outside directors and outside corporate auditors, including myself, actively providing opinions and advice. In addition, Kuraray takes active stances on strengthening communication and relationships with shareholders, as can be seen from the question and answer session at the General Meetings of Shareholders. I will continue contributing to enhance the corporate value of Kuraray as an outside auditor.

Message from Outside Corporate Auditor

Dealing with Compliance Risks of Global Subsidiaries to Achieve Growth and Development as a Global Company

Outside corporate auditors share a common role with outside directors in that we both supervise the management of the company from the viewpoint of outsiders. On the other hand, the duties of outside corporate auditors are very different from those of outside directors and include routinely exchanging opinions with standing corporate auditors and conducting visiting audits to domestic and overseas businesses in cooperation with standing corporate auditors. Many of Kuraray’s standing corporate auditors have served important positions at business divisions and have a deep and accurate understanding of management issues. The Board of Corporate Auditors is functioning with outside corporate auditors complementing standing corporate auditors based on the experience, etc. acquired in other sectors and industries.

I’m a lawyer specialized in labor laws. And I’m making use of my experience of dealing with labor-related corporate issues and knowledge on building and administering global governance I acquired through my involvement with foreign-affiliated corporate clients in the audit operations and the Management Advisory Committee of Kuraray.

Through the audit operations of the Kuraray Group, I had the impression that Kuraray is an honest, clean, and open corporate group. Unfortunately, violations of the anti-monopoly act occurred. The Board of Corporate Auditors has since been focusing on monitoring thorough compliance with the antimonopoly act by setting it as one of the top priorities in the audit operations, and I evaluate that Kuraray is seriously taking measures to prevent recurrence on a company-wide basis.

Management of compliance risks at bases outside Japan, such as corruption prevention and bribery prevention for which regulations are tightening globally, will become more important down the road. I expect that Kuraray will achieve sound growth and development as a truly global company by taking further measures to deal with such compliance risks.
## Corporate Governance

### Executives (As of March 23, 2018)

#### Board of Directors

1. **Masaaki Itō**  
   - President of Isoprene Company, Officer Responsible for Osaka Head Office  
   - Date of birth: March 23, 1956

2. **Tomokazu Hamaguchi**  
   - Director and Senior Executive Officer  
   - Date of birth: March 23, 1956

3. **Hitoshi Kawahara**  
   - General Manager of Operations Division, Deputy President  
   - Date of birth: August 17, 1967

4. **Takaharu Kawahara**  
   - General Manager of Administrative Unit  
   - Date of birth: August 17, 1967

5. **Akira Omura**  
   - General Manager of Research and Development Division  
   - Date of birth: February 28, 1956

6. **Tsugunori Kashimura**  
   - Executive Officer  
   - Date of birth: February 28, 1956

7. **Keiji Tago**  
   - Executive Officer  
   - Date of birth: February 28, 1956

8. **Hitoshi Toyoura**  
   - President of Kuraray America, Inc.  
   - Date of birth: February 28, 1956

9. **Mitsuhiro Nagahama**  
   - President of Kuraray America GmbH  
   - Date of birth: October 24, 1953

10. **Kunio Yukiyoshi**  
    - Corporate Auditor and Independent Corporate Auditor  
    - Date of birth: April 1, 1960

11. **Yukinori Yamane**  
    - Corporate Auditor and Independent Corporate Auditor  
    - Date of birth: October 24, 1960

12. **Mie Fujimoto**  
    - Corporate Auditor and Independent Corporate Auditor  
    - Date of birth: August 15, 1967

13. **Yoshimitsu Okamoto**  
    - Corporate Auditor and Independent Corporate Auditor  
    - Date of birth: December 21, 1945

14. **P. Scott Bening**  
    - Corporate Auditor, Mazda Auto Lease Co., Ltd.  
    - Date of birth: August 1, 1959

Please refer to our website for personal histories of Directors and Corporate Auditors.  
http://www.kuraray.com/company/directors/

### Corporate Auditors

1. **Kazuhiko Kagawa**  
   - Date of birth: January 21, 1964

2. **Kenichi Abe**  
   - Date of birth: May 9, 1966

3. **Jun Hamano**  
   - Date of birth: February 27, 1956

4. **Toshihiro Omatsu**  
   - Date of birth: March 23, 1956

5. **Hitoshi Kawahara**  
   - Date of birth: March 23, 1956

6. **Kunio Yukiyoshi**  
   - Date of birth: August 15, 1967

7. **Mie Fujimoto**  
   - Date of birth: August 15, 1967

8. **Yoshimitu Okamoto**  
   - Date of birth: December 21, 1945

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    - Date of birth: August 1, 1959

* The responsible positions of both names were appointed on April 1, 2018.
CSR Materiality of the Kuraray Group

As social requirements towards corporate activities become more diversified, the Kuraray Group has been identifying materiality (priority issues) to clarify initiatives with high priorities in accordance with the CSR guidelines which are considered the international standard. Each identified materiality item is reflected in the CSR Activity Targets and managed so that results are achieved. The Kuraray Group is considering whether to further narrow down and prioritize materiality as the Group, together with society, will need to actively link the initiatives to achieve sustainable development with business in the future. Such initiatives include contributions to Sustainable Development Goals (SDGs) adopted by the United Nations Summit in September 2015.

<table>
<thead>
<tr>
<th>Material Items (18 Items)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic performance</td>
</tr>
<tr>
<td>Environment</td>
</tr>
<tr>
<td>Global Partners</td>
</tr>
<tr>
<td>Local Communities</td>
</tr>
<tr>
<td>Safety</td>
</tr>
<tr>
<td>Product and service labeling</td>
</tr>
</tbody>
</table>

Non-Financial Capital as a Foundation to Support Value Creation

A value chain is formed in our corporate activities where funds received from our shareholders and investors are invested in business, and profits earned through the provision of high-value added products and services are distributed and reinvested. To continue supporting the chain of value creation for sustainable growth and development, the Kuraray Group is striving to enhance non-financial capital, namely, its unique technologies and talented individuals, safety assurance, environmental conservation measures, and public trust, by cooperating with stakeholders including our customers, employees, and business clients. Furthermore, the Group views appropriate return of earnings to society including social contribution activities as an important responsibility to fulfill.

Value Chain

Business Activities

- Procurement
- Design and production
- Sales, Marketing and Shipping

Material Cycle

Foundation for Value Creation

Basic Approach to CSR

The Kuraray Group creates economic and social value through the provision of its excellent products and services to the market and aims to contribute to the realization of a sustainable society.

The Kuraray Group’s business utilizing its unique technologies is related to various social issues such as resource saving, energy saving, environmental conservation, and improving the quality of life. The Group believes that its most fundamental responsibility is to resolve these issues, and therefore we aim to fulfill our corporate social responsibility by sustaining value creation through quality management in manufacturing with compliance, safety, and risk management serving as a base.

The Kuraray Group’s corporate activities are established by relationships with many stakeholders including customers and consumers, shareholders and investors, suppliers and partners, employees, local communities, and central and local governments. The Group will further deepen dialogue and cooperation with each stakeholder and will endeavor to enhance non-financial capital to realize sustainable growth.

Corporate Statements

- Our Mission
- Our Values
- Our Commitment

Realization of Corporate Statements

Value creation through business activities

Compliance
Safety
Risk management

Involvement with Stakeholders

- Shareholders and Investors
  Kunaray will strive to expand corporate value, will retain profits to its shareholders and investors, and will appropriately disclose information available to it.

- Suppliers and Partners
  Striving to build a relationship of mutual growth with its suppliers and partners, Kunaray will conduct fair and transparent transactions and CSR procurement activities.

- Employees
  Kunaray will continue to create safe and healthy workplaces in which to develop human resources are treated fairly and the employees can maintain their capability and competitiveness.

- Customers and Consumers
  Kunaray is committed to building a relationship of trust over many years by providing “safe, trustful and satisfactory” products and services and by providing appropriate information.

Central and Local Governments, NPOs and NGOs

We will continue to build a relationship of mutual growth with its suppliers and partners, Kunaray will conduct fair and transparent transactions and CSR procurement activities.

Stakeholder Communication

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Communication</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders and Investors</td>
<td>General meetings of shareholders, plant tours, meetings to report on earnings of accounts</td>
</tr>
<tr>
<td>Suppliers and Partners</td>
<td>Purchasing activities, safety courses, liaison meetings, etc.</td>
</tr>
<tr>
<td>Employees</td>
<td>Employees’ evaluation survey, labor-management meetings, personnel evaluation interviews, company newsletter, various events</td>
</tr>
<tr>
<td>Local Communities</td>
<td>Support for local government dialogue, “Kuraray Day” visits, exchange visits with local students and associations, plant tours, environmental classes for boys and girls, cherry blossom viewing parties, summer festivals and other events</td>
</tr>
<tr>
<td>Central and Local Governments, NPOs and NGOs</td>
<td>Plant tours, firefighting drills, volunteer activities</td>
</tr>
<tr>
<td>Customers and Consumers</td>
<td>Sales and marketing activities, trade fairs, eco-friendly products fair and other fairs, questionnaires</td>
</tr>
</tbody>
</table>
Research and Development Division are the Kurashiki and revitalize the efforts toward creating new businesses. In this way, we will improve the efficiency of R&D operations progress by checking each step before going on to the next. Development Division, which works to achieve steady stage and the advanced stage near commercialization as which all R&D projects are integrated in the Research and Division. Starting from 2017, it moved to a framework under development organization for corporate research and the Company reviewed and changed its research and Kuraray Group's technological development capabilities, is Technological Development (R&D) activities are guided by its corporate missions to “Create new business,” “Strengthen and expand existing businesses,” and “Establish and deepen core technologies.” To promote “Strengthen and expand existing business,” in particular, the Research and Development Division provides support to solidify the Vinyl Acetate Business, which has achieved a greater scale through M&A executed in recent years. It does this by taking into account differences between regions, histories, and cultures of acquired companies and businesses, as well as differences in markets, customers, and manufacturing methods. We have been conducting activities for deepening discussions with bases outside Japan for a year and a half, with the Head Office, Kurashiki Research Center, and Tsukuba Research Center serving as contact points. And we have identified research and development themes requiring solutions and support by the Research and Development

Basic Strategy for Research and Development

Competition is increasing in the chemicals industry due to the entry of companies from emerging countries and the commoditization of specialty chemicals is also underway. Technological development activities to create value-added products are increasing in importance as an essential management resource for maintaining and strengthening global competitiveness. Corporate research and development, the center of the Kuraray Group’s technological development capabilities, is conducting activities to fulfill the corporate mission to “Create new businesses,” “Strengthen and expand existing businesses,” and “Establish and deepen core technologies.” We are doing this by closely collaborating with in-house companies, business divisions, and division R&D organizations that belong to subsidiaries, with an eye to expanding the scope of operations and improving earnings.

Research and Development Organization

The Company reviewed and changed its research and development organization for corporate research and development under which projects in the basic stage of research and development are handled by the Research and Development Division, while projects in the advanced stage near commercialization by the New Business Development Division. Starting from 2017, it moved to a framework under which all R&D projects are integrated in the Research and Development Division. We regard projects both in the basic stage and the advanced stage near commercialization as those in the process of becoming commercially viable. And we integrate R&D activities into the Research and Development Division, which works to achieve steady progress by checking each step before going on to the next. In this way, we will improve the efficiency of R&D operations and revitalize the efforts toward creating new businesses. Research and development organizations under the Research and Development Division are the Kurashiki Research Center, Tsukuba Research Center, KAI Corporate R&D (USA), Functional Products Development Department, Molding Component Business Department, and Vectstar Business Promotion Department. Division R&D activities are conducted by R&D departments at each manufacturing plant established by in-house companies/business divisions. 

Research and Development Organization

Kuraray’s corporate R&D activities are guided by its corporate missions to “Create new business,” “Strengthen and expand existing businesses,” and “Establish and deepen core technologies.” To promote “Strengthen and expand existing business,” in particular, the Research and Development Division provides support to solidify the Vinyl Acetate Business, which has achieved a greater scale through M&A executed in recent years. It does this by taking into account differences between regions, histories, and cultures of acquired companies and businesses, as well as differences in markets, customers, and manufacturing methods. We have been conducting activities for deepening discussions with bases outside Japan for a year and a half, with the Head Office, Kurashiki Research Center, and Tsukuba Research Center serving as contact points. And we have identified research and development themes requiring solutions and support by the Research and Development

Priority Policy

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R&D Expenses

<table>
<thead>
<tr>
<th>Year</th>
<th>R&amp;D Expenses (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>17.1</td>
</tr>
<tr>
<td>2014</td>
<td>18.0</td>
</tr>
<tr>
<td>2015</td>
<td>19.1</td>
</tr>
<tr>
<td>2016</td>
<td>19.8</td>
</tr>
<tr>
<td>2017</td>
<td>20.9</td>
</tr>
</tbody>
</table>

*The figure for FY2014 is adjusted for the 12-month period from January to December 2014.

R&D Topic 1

VECTSTAR Liquid Crystalline Polymer Film

There is increasing demand for high-speed signal transmission through high-frequency waves, such as vehicle-mounted millimeter-wave radar and 5G antennas. In this connection, the sales volume of VECTSTAR increased due to its high reputation for low transmission loss in the high-frequency wave range and excellent workability as a flexible printed circuit board. We expect that this trend will continue accelerating, and we will proactively pursue business expansion in this area.

R&D Topic 2

Polishing Pads for Semiconductors (CMP Pads)

Polishing pads for semiconductors are made of high-hardness polyurethane, a new material developed by leveraging the polyurethane design and manufacturing technologies cultivated through the development of CLARINO man-made leather. Kuraray’s CMP pads feature high hardness with excellent properties to polish and planarize devices, vary low scratch formation despite their high hardness, and long hours of duration due to their excellent abrasion resistance. Multiple customers have been verified these features in their manufacturing processes. In addition, we have created a business environment in which we can select and propose pads with appropriate hardness that suit customers’ requests and allow them to choose suitable pads for their manufacturing processes. At Kuraray, we have set our eye on expanding business beyond Japan into global markets, and we plan to develop a business environment in which we can provide pads that can accommodate both advanced processes and existing processes of customers.
Based on the Kuraray Group Global Human Resource (HR) Policy, the Kuraray Group is making efforts to develop its organizational system regarding the promotion of diversity, fostering of human resources, and fair and just evaluation of performance, as well as establishing a healthy corporate culture and creating new employment opportunities, so that each employee can grow personally through work.

The Kuraray Group Global HR Policy
1. We will respect the human rights of individuals.
2. We will abolish discrimination and respect diversity and individuality.
3. We will carry out our HR activities in full compliance with applicable laws and regulations.
4. We will create HR systems that uphold equality, fairness, and transparency.
5. We will strive to improve the environment of workplaces.

We will strive to employ personnel who are able to contribute to the development of the Kuraray Group.

We will place the right person in the right job.

We will implement evaluation and benefits systems that are fairly satisfactory.

We will support professional development.

We will strive to promote communication and disclose information as appropriate.

Global Human Resource Management
In human resource management, the Kuraray Group is working to develop a foundation for human resource management that will contribute to improving productivity and strengthening competitiveness from the viewpoint of optimal allocation of human resources on a global basis. In fiscal 2017, we introduced a globally uniform personnel evaluation system and human resource information database mainly for the personnel in managerial positions. Based on these systems, Kuraray will implement the following basic human resource management processes on a global scale: 1) Setting organizational goals, sharing and deploying the goals among members of organizations, and performing personnel evaluation based on the goals; 2) Supporting the capacity building and career development of subordinates; 3) Finding excellent human resources, rotation and optimal allocation of personal, and reviewing the personnel succession plan.

The Kuraray Group also introduced behavioral indicators (Kuraray Competency 5x5) that will be applied to the Group companies globally, and is utilizing them as personnel evaluation items and indicators of capacity development. In addition, Kuraray sorted out job grades, which were different in each country and company, as global grades based on the duty size and is working to develop a foundation for human resource management..

Mechanisms and Systems for Human Resource Development

- Executives and Manager Candidate Development (EMT)
To strengthen our management capability, the Kuraray Group has been providing Executive Management Training since 2012 for our business heads, as well as those heading corporate and administrative divisions, in addition to the presidents and similar-level personnel of the Group’s subsidiaries outside Japan. Executive Management Training enables participants across businesses and regions to hold discussions and more fully perceive the direction the Kuraray Group should take. At each training seminar, we have first-rate consultants who provide information on a variety of themes to participants.

- Career Support (Career Training)
Amid rapid changes in the business environment, the Kuraray Group supports the career development of employees through the following systems to enable them to improve their human resource value independently and autonomously.

1) Training for designing one’s own career
We provide training for employees at turning-point ages at the Company (ages 30, 42, and 50) to give them opportunities to look back on their career and design their future career path. At the training, employees’ superiors also receive guidance and participate in supporting subordinates’ career development.

2) Provision of opportunities for career consultation
We have in-house career advisors to help employees design their career and implement career programs.

Responding to Globalization of Operations (Global Talent Development Program)
Kuraray Group’s sales ratio outside Japan has grown to more than 50% (fiscal 2017: 64.4%) in recent years, and approximately 30% of the Group’s employees are working in the Group’s operations outside Japan.

In order to foster human resources who can actively take part in conducting business internationally with the aim of achieving growth on a global basis, the Kuraray Group has been providing the global human resource development program since fiscal 2001, and more than 700 employees in Japan and from overseas operations participated in the program over the 10-year period through fiscal 2017. This program has been provided continuously, with the content of training revised every year.

Global Team Training (GTT), designed to develop global leadership capabilities for the section manager class, has been provided 16 times, with a total of 300 employees participating. The network of training alumni has contributed significantly to the promotion of cross-border communication within the Group.

A trainee system, whereby younger employees are dispatched between the Head Office in Japan and overseas subsidiaries for a limited period of three months, has had more than 600 employees participating, and many of the participants are actively taking part in conducting business internationally as global personnel by going on assignments to the Group’s subsidiaries outside Japan after they finish the trainees program.

Promotion of Diversity and Work-Style Reforms

- Promotion of Women in the Workplace
Kuraray is placing emphasis on creating a corporate culture to promote more active participation by female employees with a focus on three points—employing more female employees, expanding areas of their responsibility at work and improving retention of female employees. It is doing this in order to enhance its organizational strengths by making the most of the abilities of its diverse human resources. Specifically, we provide workshops for employees in managerial positions (division general manager class and department general manager class) and training for female employees aimed at fostering career development and leadership development, etc.

- Work-Style Reforms (Productivity Improvement, Working Hour Management, etc.)
Kuraray is promoting work-style reforms toward realizing the ideal work style conveyed in the Top Statement in 2015. We have begun by striving to create a culture and reform our members’ mindsets while examining and implementing measures to improve productivity and introducing a flexible work scheme.

The ideal work styles
- Carry out your tasks with awareness of regular work hours.
- Aim to deliver high-quality work within a given time.
- Cooperate with the people around you and share an efficient work style throughout the whole workplace.
- Keep in mind to get refreshed and stay in good physical condition to gear up for your next work day.

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- Keep in mind to get refreshed and stay in good physical condition to gear up for your next work day.

Topics: No overtime week
A system whereby each employee designates any week of a month as “no overtime week” and leaves work on time during the week. This system was introduced to bring about a change in awareness of organizations and individuals so that each employee will “work with an awareness of regular work hours.”

The system was implemented on a trial basis in the Headquarters (Tokyo and Osaka) in fiscal 2017, and will be adopted on a full-scale basis in the entire Kuraray, including plants, from fiscal 2018.
Kuraray’s Approach to Safety

In the Kuraray Group’s business activities, safety is the cornerstone, an absolute requirement that forms the basis for all activities. Realizing workplaces where people can safely work at ease without accidents is an important cornerstone, an absolute requirement that forms the basis for reflecting the determined activity policy. A group of safety capabilities by accumulating safety awareness among individual persons.

Safety Activity Management

In accordance with Corporate’s Safety Activity Management Regulations, the Kuraray Group develops safety activity plans every fiscal year and operates them to ensure occupational safety and process safety. Specifically, at the Safety Promotion Committee attended by the President and executives in charge, we carry out an overall assessment of the safety activity performance of the current year and decide an activity policy for the next fiscal year. Each plant and department conducts an overall assessment of the safety activity performance by grasping safety priority points through an assessment of safety systems and cultures conducted by an external organization and running a PDCA cycle. On the other hand, for overseas affiliates, we promoted the development of global foundations for safety activities, such as developing a system for sharing information on occupational injuries and process accidents that have occurred and their countermeasures.

In addition, we have been preparing for the global deployment of the global meeting of the environment and industrial safety divisions scheduled to start from 2018, as well as the safety activities management system. By conducting these safety management activities, we will work toward improving the safety level of the Group as a whole.

Safety Activities

At each workplace, we work to ensure the early discovery of process safety and disaster risks and occupational safety risks through risk assessment activities and implement inherently safe countermeasures for production facilities, in order to prevent the occurrence of accidents. In preparation for occupational injuries and process accidents, we make efforts to minimize damage and to prevent the recurrence of occupational injuries and process accidents, such as emergency drills and sharing information of accidents or lessons.

The Kuraray Group companies in Japan conduct safety priority activities aimed at further enhancing the process safety management level, such as risk assessment activities and implement inherently safe countermeasures for production facilities, in order to prevent the occurrence of accidents. In preparation for occupational injuries and process accidents, we make efforts to minimize damage and to prevent the recurrence of occupational injuries and process accidents, such as emergency drills and sharing information of accidents or lessons.

Kuraray Group is managing chemical substances using an information technology (IT) system. To manage chemical substances, we improve and provide training on the software of the IT system on a continuous basis to comply with the laws and regulations of each country. In addition, we periodically provide opportunities for sharing information to the managers responsible for chemical substance management and their staff in each business division and the Kuraray Group companies inside and outside of Japan, in order to ensure strict compliance with the laws and regulations.
Advancing Resources That Support Sustainable Growth — Environmental Management —

Environmental Performance

The Kuraray Group in Japan reduced greenhouse gas (GHG) emissions by 9,600 tons-CO₂, against the target of reducing GHG emissions by 12,000 tons-CO₂, more compared with the fiscal 2016 level, and reduced waste by 1,180 tons, against the target of 900 tons or more. In addition, the Group managed to keep JCA-designated PRTR substance emissions to 1,066 tons, which is below the fiscal 2010 level (1,104 tons). By evaluating the above actual performance figures by using Environmental Efficiency as an evaluation index in the Medium-Term Environmental Plan, figures for the base year fiscal 2010 equal to 100, the result was GHG emissions of 109 (target for fiscal 2020: 140), waste emissions of 100 (target for fiscal 2020: 110), and JCA-designated PRTR substance emissions of 120 (target for fiscal 2020: 200). These were all at the same level as or better than the levels in the base year of fiscal 2010 but underperformed the targets.

Kuraray Insight

We have revised our Medium-Term Environmental Plan under which activities were undertaken since 2011. Our previous Medium-Term Environmental Plan incorporated environmental efficiency as an indicator based on net sales to numerically evaluate the activity results. However, the business environment of the Kuraray Group has greatly changed compared with the time when the targets were set because we have incorporated new businesses through large-scale M&As and changes in the market environment. As result, we have judged that evaluation using the environmental efficiency based on net sales no longer properly reflects the environmental improvement activities. The revised Medium-Term Environmental Plan is based on evaluation using production volume (production volume per environmental footprint, indexed to 2016 = 100) to allow us to directly evaluate the results of environmental improvement activities. The Paris Agreement took effect with the aim of mitigating global warming with 2030 as the time frame. In Japan, however, the government has only started discussing various measures designed to reduce greenhouse gases. Accordingly, Kuraray postponed the target-setting for 2020 and beyond and the revised Medium-Term Environmental Plan covers the period through 2020.

The revised numerical targets are as shown in the table below. The Kuraray Group will work to steadily achieve environmental improvement by solidly implementing the PDCA cycle of environmental improvement activities across the entire Group, including overseas affiliates.

Numerical Targets of the Revised Medium-Term Environmental Plan

<table>
<thead>
<tr>
<th>Activity</th>
<th>FY2017 targets</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global warming prevention</td>
<td>Kuraray Group in Japan: Implemented measures to reduce GHG emissions by 9,600 tons-CO₂.</td>
<td>—</td>
</tr>
<tr>
<td>Effectiveness in the use of water resources</td>
<td>Overseas affiliates: Improved environmental efficiency (water usage except seawater) by 7% compared with FY2010</td>
<td>—</td>
</tr>
<tr>
<td>Management of chemical substance emissions</td>
<td>Kuraray Group in Japan: JCA-designated PRTR substance emissions were 1,000 tons.</td>
<td>—</td>
</tr>
<tr>
<td>Reduction of waste</td>
<td>Kuraray Group in Japan: Implemented measures to reduce waste by 1,180 tons.</td>
<td>—</td>
</tr>
<tr>
<td>Environmental accounting</td>
<td>The amount of investment for environmental conservation was ¥752 million (FY2016: ¥382 million).</td>
<td>—</td>
</tr>
</tbody>
</table>

Environmental Management System

The Kuraray Group has established the Kuraray Group Action Guidelines for the Global Environment and Environmental Activity Policy and is conducting environmental conservation activities in accordance with them. In addition, we are making improvements on a continuous basis by running the Plan-Do-Check-Act and Improve (PDCA) cycle among the plants, affiliates, and head office in accordance with Kuraray Environmental Activity Management Rules. Kuraray plants and affiliates have acquired certificates under ISO 14001 (Environmental Management Systems) and are scheduled to complete updating the 14001 system to the 2016 version by the end of 2018.

Kuraray's Approach to Environment-Friendly Manufacturing

As a material and intermediate material manufacturer, the Kuraray Group carries out the corporate activities of producing and providing materials and intermediate materials which had previously been making beneficial use of waste.

The Kuraray Group Action Guidelines for the Global Environment

Basic guidelines

We fulfill our responsibility to future generations through sustainable corporate activities that are in harmony with the global environment and the local community. In order to achieve these basic guidelines, we will undertake the following activities:

(i) We will assign the highest priority to the environment and safety in the course of our corporate operations.
(ii) We will work to improve the global environment and ensure its sustainability.
(iii) We will develop technologies and products that contribute to the goal of improving the global environment.

*1 Environmental efficiency: Net sales divided by environmental load

*2 JCA-designated PRTR substance: specific chemical substance targeted under voluntary inspection by the Japan Chemical Industry Association
Advancing Resources That Support Sustainable Growth

—Trust—

The Kuraray Group considers sound and sustainable social development a precondition for corporate growth and prosperity. Therefore, the Group is contributing to society through the provision of products and business services valuable to people and is addressing social issues under certain reasonable standards as a corporate citizen.

Kuraray Group Social Contribution Policy

To fulfill its responsibilities as a member of society, the Kuraray Group shall make vigorous approaches to social contribution activities in accordance with the following policy.

Types of activities

- Activities that lead to a resolution of social issues
- Activities rooted in local communities where Kuraray’s plants and sites are located
- Activities emphasizing participation by employees on their own initiative
- Activities that are sustainable in the long term
- Areas of activities
  - Priority areas: Culture, science, environment, and social welfare

Activities in Culture Field

The Kuraray Group continues supporting the Ohara Museum of Art, which was established by Magosaburo Ohara, the first president of the Company. The Group also supports cultural activities at its plants and sites.

Activities in Science Field

In fiscal 2017, some of the Kuraray plants sponsored “Chemistry Classes for Boys and Girls,” participated in outside events and sponsored sports tournaments to foster healthy children and teenagers by continuously supporting on-going activities.

Activities in Social Welfare Field

Aiming to support and continue the employment of people with intellectual disabilities and to undertake the Kuraray Fureai (Rapport) Fund-Raising Campaign, Kuraray’s Kurashiki, Saijo, Niigata, and Kashima plants operated workshops and donated money raised in the campaign.

Activities in Environmental Field

Aiming at implementing forest conservation work and volunteer cleaning work carried out every year, the Okayama plant undertook “Kuraray Mirai no Mori (Kuraray Forest of Future) Activity,” and the Nigata Plant undertook the “MIRABAKESSO Forest Creating Activity.” All the plants undertook volunteer cleaning work.

Risk Management and Compliance

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

Quality Management

The Kuraray Group implements quality management systems such as ISO 9001 in each major manufacturing site. Divisions have developed systems for each business operation to supply products incorporating the requirements of customers. The CSR Division under-takes the Group-wide quality management and works for its enhancement.

As for the enhancement of Group-wide quality management, a system has been under operation since fiscal 2016 where the relevant division and CSR Division jointly proceed with the confirmation of the present status and the improvement of the quality management of individual divisions. The system was upgraded in fiscal 2017 to a PDCA cycle under which confirmation of the status and improvement actions are taken on a company-wide basis concerning issues which include those newly raised and those identified in the previous fiscal year. The Group will continue performing the PDCA cycle with the aim of enhancing Group-wide quality management.

Group Compliance

“Our Commitment” states the principles of our conduct which we should observe in doing our business. The “Kuraray Group Code of Conduct” serves as guidelines to implement the commitment in performing day-to-day work. The Group’s top executive has declared that we will comply with laws and regulations and “Our Commitment” under any and all circumstances. To share these principles and commitments among all Kuraray Group personnel throughout the world, the Compliance Handbook has been compiled containing the foregoing declaration by the top executive and explanations of the “Kuraray Group Code of Conduct.” To disseminate these principles and commitments among all Kuraray Group employees, a compliance handbook written in eight languages, Japanese, English, German, Chinese, Hangul, Russian, Flemish and Czech has been distributed to the Group employees worldwide. In addition, we have appointed compliance officers at plants, offices and laboratories of Kuraray and Group companies, and have organized regional compliance committees. The regional committees are working to effectively implement not only Group-wide themes decided by the Risk Management and Compliance Sub-committee but also region-specific themes.
Whistleblower System

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

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

<table>
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</tr>
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Thorough Compliance Measures

In March 2016, the Fair Trade Commission of Japan made an on-the-spot inspection of Kuraray, involving competitive bidding on textile products purchased by the Acquisition, Technology and Logistics Agency, Defense Ministry. Subsequently, in March 2017, the commission ruled that Kuraray had violated the Anti-Monopoly Law and issued a cease-and-desist order. After the on-the-spot inspection, the top executive issued a message to all officers and employees of the Kuraray Group instructing strict compliance with the Antimonopoly Act. Outside experts were also invited to hold seminars relating to the Antimonopoly Act for sales personnel and all managerial personnel in the Tokyo and Osaka Head Offices. At the same time, each division checked its transactions thoroughly in light of violations and other cases. Furthermore, revision of employment rules with an emphasis on compliance with laws and regulations and the setting of new rules of contact with other companies in the same industry were made. Nevertheless, in February 2017 the Fair Trade Commission of Japan made an on-the-spot inspection again at Kuraray on the manufacture and sale of activated carbon used in water purification facilities, waste incinerators and other facilities. We take this series of events seriously and sincerely and will implement all necessary measures to ensure that such incidents do not recur. We are cooperating fully with the inspection by the commission and will clarify the points that should be improved in the following respects and reinforce countermeasures.

Message from top Executive

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

Compliance Enhancement Months

The compliance enhancement month, from August 2017 to October 2017, was set and the following measures were implemented:

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

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

3. Thorough check on transactions
   - Divisions and affiliated companies rechecked their transactions thoroughly after the Antimonopoly Act seminar was held.

Establishment of Systems

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