

CORPORATE GOVERNANCE

Fundamental Philosophy

Kuraray is striving to maintain an appropriate relationship with shareholders and other stakeholders and meet its responsibilities with regard to society, in order that the Group may achieve sustained growth and improve performance over the long term as an enterprise operating on the global stage. The strengthening of corporate governance functions and the establishment of highly transparent and fair management are fundamental imperatives.

To achieve these objectives, Kuraray is reinforcing oversight and supervisory functions, beginning with the Board of Directors and the Board of Auditors. To address the issues of succession planning, primarily the selection and compensation of the president, internal control systems, and risk management, we have deployed a corporate governance system as discussed below.

Status of Corporate Governance Systems

Kuraray has chosen the "Company with Corporate Auditors" system. Through the reinforcement of the Board of Auditors and the other measures discussed below, the Company is seeking to heighten management efficiency and the effectiveness of supervisory and oversight functions.

(1) Corporate organizations

a. Board of Directors and Executive Officer System

To increase the agility of management decision-making, Kuraray has reduced the maximum number of directors to ten, and the Group currently has nine directors. No outside directors have yet been elected.

To clarify responsibilities for management decision-making, oversight, and execution of operations, we have implemented an executive officer system. A representative director (chairman and president) is selected from among the directors, and three of the other directors also occupy the post of executive officer.

Executive officers are the heads of business divisions, in-house companies, and important management organizations, and bear executive responsibility and responsibility for profitability. The term of office for directors and executive officers is one year.

b. Board of Corporate Auditors and Operational Audit System

Kuraray's Board of Auditors is composed of five people, of whom three are outside corporate auditors in accordance with Article 18-1 of Japan's Law for Special Provisions for the Commercial Code Concerning Audits, etc., of Kabushiki-Kaisha (Joint Stock Companies).

To strengthen the effectiveness of the Board of Corporate Auditors, we have appointed an organization of three assistants to the corporate auditors. We also ensure frequent opportunities for information exchange between the Board of Corporate Auditors, the Group Board of Corporate Auditors, which is composed of corporate auditors from the Group companies, and the eight-member Office of Internal Auditors, which is an organization specializing in internal audits.

Compensation for Directors

Position	Number of Positions	Compensation (¥ million)	Notes
Director	12	287	The maximum monthly compensation for directors is ¥30 million. The maximum monthly compensation for corporate auditors is ¥8 million. (By resolution of the June 2003 annual general meeting of shareholders.)
Corporate Auditor	5	70	
Total	17	358	

Notes:

- In addition to the above, compensation of ¥29 million is paid to directors having duties in an employee's capacity.
- The amounts above do not include bonuses to directors of ¥56 million paid out earnings last fiscal year.
- The above includes two directors who resigned during this fiscal year.
- In addition to the above, retirement bonuses of ¥66 million were paid to the two directors who resigned during this fiscal year.

(2) Establishment of the Management Advisory Committee

The Management Advisory Committee was established to ensure regulatory and statutory compliance by the president in the execution of operations, to protect the rights of shareholders, and guarantee management transparency.

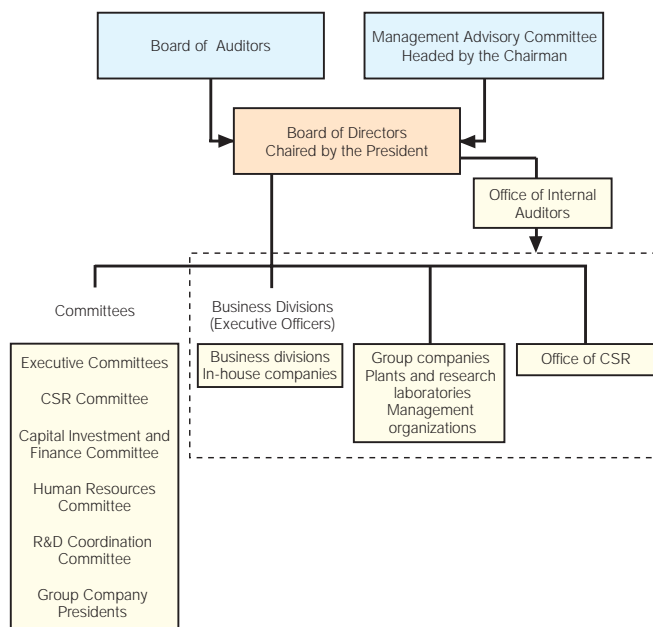
The Management Advisory Committee is composed of five standing members: Kuraray's chairman, an adviser, and a corporate auditor, and two outside members of prominent standing. The committee provides advice on a regular basis on important management policies and issues such as the nomination, selection and compensation of the president.

(3) Establishing internal control and risk management systems

Kuraray is striving for transparent and efficient management through business management regulations, including the segregation of duties and decision-making authority in accordance with established standards, and ensures that organizational operations are thoroughly guided by management policies through the Group's medium-term and annual plans. In addition, Kuraray has established committees to study important management policies, strategies, and management risks.

The Corporate Ethics and Compliance Team has been established within the CSR Committee to standardize compliance and risk management throughout the Kuraray Group.

The Office of Internal Auditors, which is responsible for independent audits of internal organizations, has ties with corporate auditors and independent auditors. In addition to ensuring the reliability of the Kuraray Group's financial data, it is concerned with auditing internal controls and risk management to ensure the appropriateness and effectiveness of business operations.



Steps Taken to Strengthen Corporate Governance

During the past year, the Management Advisory Committee has met twice, and the CSR Committee four times.

In April 2005, corporate functions were strengthened and management systems were reviewed Groupwide. Legal, environmental protection and risk management functions were combined in the Office of CSR, and a Business Process Innovation Team was established to drive business