

# Corporate Governance

**Kuraray believes that the maintenance of good relationships with shareholders and stakeholders is part of the fulfillment of social responsibilities. This goal is consistent with the objectives of achieving a long-term improvement in business results and sustainable growth as a company that does business globally. Kuraray believes it is a fundamental and important obligation to fulfill its responsibilities as an enterprise open to society by enhancing corporate governance functions and establishing highly transparent and fair management.**

**As a company with comprehensive auditing functions, Kuraray has established a corporate governance system centered on its board of directors and board of corporate auditors to improve the effectiveness of our supervisory and monitoring functions while maintaining management efficiency and to provide guidance for issues including management compensation, selection of new company officials, internal controls, and risk management.**

## **Board of Directors and Organizations Responsible for Business Execution**

The Board of Directors establishes the Board of Directors' Regulations, deliberates and decides important management matters, including legal matters, and supervises the execution of business. The maximum number of directors is 10, and the term of office is one year. There are currently nine board members, of which two are external board members.

As the chief executive responsible for business execution, the president exercises control over the execution of business in the Kuraray Group.

Executive officers (one-year term of office) selected by the Board of Directors are responsible for business execution in the various organizations of the Kuraray Group. As the heads of in-house companies, divisions, and major functional organizations, the executive officers bear responsibility for operations and profit. Some board members hold concurrent positions as executive officers.

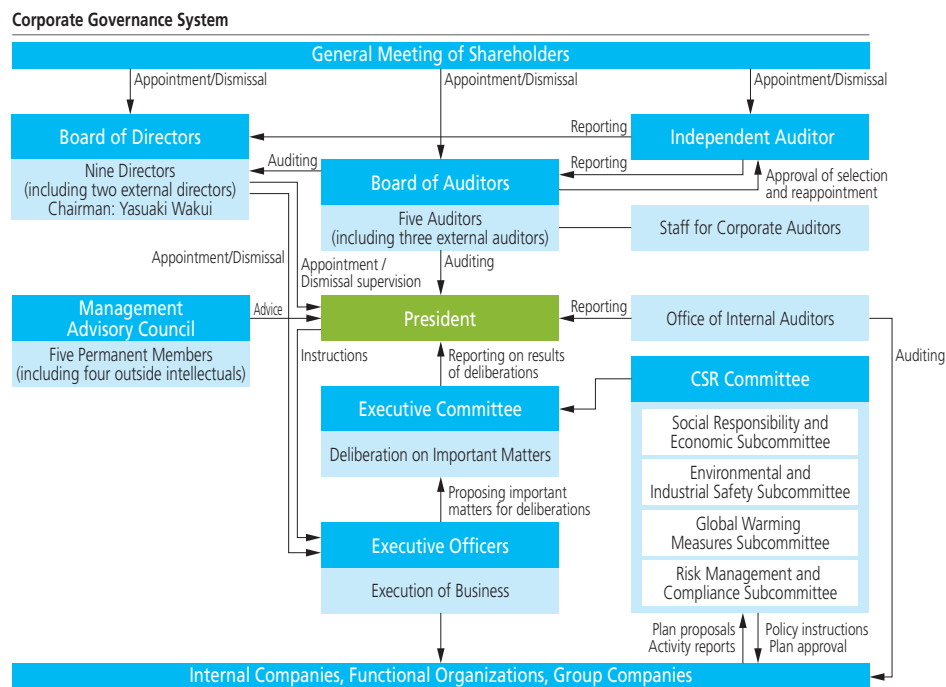
The president establishes the Executive Committee and other various councils and committees to deliberate and report on important matters concerning the Group's management policies and business execution. In principle, the Executive Committee convenes twice monthly.

## **Management Advisory Council**

Kuraray has established the Management Advisory Council to serve as a consultative body to the president from the perspectives of compliance, the protection of shareholder rights, and management transparency. The Council consists of five permanent members, four of whom are experts from outside the Group with a wealth of experience in corporate management or corporate legal affairs. The Council advises the president on such issues as important management policies and issues, succession of the president, successor candidates, and compensation. In principle, the Council convenes twice annually.

## **Board of Auditors**

The Board of Auditors consists of five corporate auditors, including a majority of three outside auditors independent from the Kuraray Group. The company and external corporate auditors have no personal, capital, transactional or other type of relationship that would present a conflict of interest. The corporate auditors attend meetings of the Board of Directors and other important meetings, and monitor the directors' performance of duties through inquiries conducted by such means as the examination of important documents



and requests for explanations of the state of business affairs. In principle, the Board of Auditors convenes monthly.

The Board of Auditors regularly convenes with accounting officers and corporate auditors and the Operations Auditing Office (nine auditors), which conducts internal audits, to receive reports on audit content and to share information concerning audit planning, implementation, and related matters.

The Board of Auditors also serve as auditors of core subsidiary companies to ensure subsidiary company audits are performed appropriately and attend periodic Group Auditor Liaison Meetings of auditors of each of the Group companies to deepen their understanding of each company.

Kuraray has entered into an agreement with each outside corporate auditor, limiting their responsibility for damage compensation in accordance with Article 1, Paragraph 427 and Article 1, Paragraph 423 of the Japanese Corporate Law. The relevant agreements limit the liability to an amount provided by law. However, the limits on liability are only approved when the applicable external board member executed the duties that caused the liability with good intentions and no significant negligence. Kuraray appoints dedicated assistants (four individuals) to the auditors to assist the auditors in the performance of their duties.

## Internal Control

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

The Office Rules and Regulations establish company standards regarding the company composition, segregation of administrative duties and positions, and authority with the objective of creating coordinated and efficient management of our operations. These rules and regulations include the Segregation of Duties concerning the content and scope of business throughout the company organization, and the Table of Authority defining the authority invested in each administrative position. These regulations establish a Management Committee to deliberate important matters involving the execution of operations. The specific activities of the Management Committee are stipulated in the Management Committee Administrative Regulations and Group Business Standards.

Group companies are administered by the Affiliate Company and Overseas Business Control Office in line with the Group Company Operating Standards.

The CSR Committee organizes the Environmental and Industrial Safety Subcommittee, Global Warming Measures Subcommittee, Risk Management and Compliance Subcommittee, and Social Responsibility and Economic Subcommittee. To promote integrated risk management throughout the Group, the CSR Headquarters and specific risk management committees evaluate the management conditions for risk from the perspective of the entire organization and implement risk prevention and response measures.

In preparation for times of crisis, Kuraray maintains a system for establishing an Emergency Response Headquarters directed by the president and implementing swift action.

As part of our effort to conform with all laws and regulations, Kuraray ensures all Group directors and employees are familiar with the Principles for Business Conduct, which are also disclosed publicly. The Company maintains the Kuraray Employee Counseling Room to function as an internal reporting system for incidents contrary to law or the company's Principles for Business Conduct and to provide a channel for immediate reporting of misconduct in confidence of full protection under the Whistleblower Protection Act.

The Office of Internal Auditors, an internal audit organization that reports directly to the president, cooperates with corporate auditors and independent auditors to audit the legality, appropriateness, and effectiveness of business operations in each organization of each of the Group companies.

As an internal control for financial reporting, in fiscal years 2006 and 2007 Kuraray established the Internal Controls Reform Team to inspect and promote establishment of Group-wide internal controls. The Office of Internal Auditors in April 2008 commenced a comprehensive review of the internal controls throughout the Group.

## **Compliance**

To ensure transparency and fairness in business activities, in addition to putting in place an effective corporate governance system, it is necessary to build an organizational culture that encourages individual employees to act appropriately on the basis of a highly developed sense of ethics.

For this reason, The Kuraray Group engages in systematic activities to strengthen compliance.

Kuraray complete revised its Insider Trading Control Regulation in fiscal year 2007, and established a unified system for information and insider trading control management. To promote employee awareness, the company presented seminars on insider trading regulations led by instructors from stock exchange operators.

We also prepared and published the Compliance Handbook for the United States, and are preparing similar handbooks for Europe and China covering laws and regulations in each country.

## **Compliance Declaration**

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

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

## **Internal Reporting System**

### **(Kuraray Employee Counseling Room)**

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