

Corporate Social Responsibility Report

Kuraray CSR Report 2006

— Environmental and Social Activities —



KURARAY CO., LTD.

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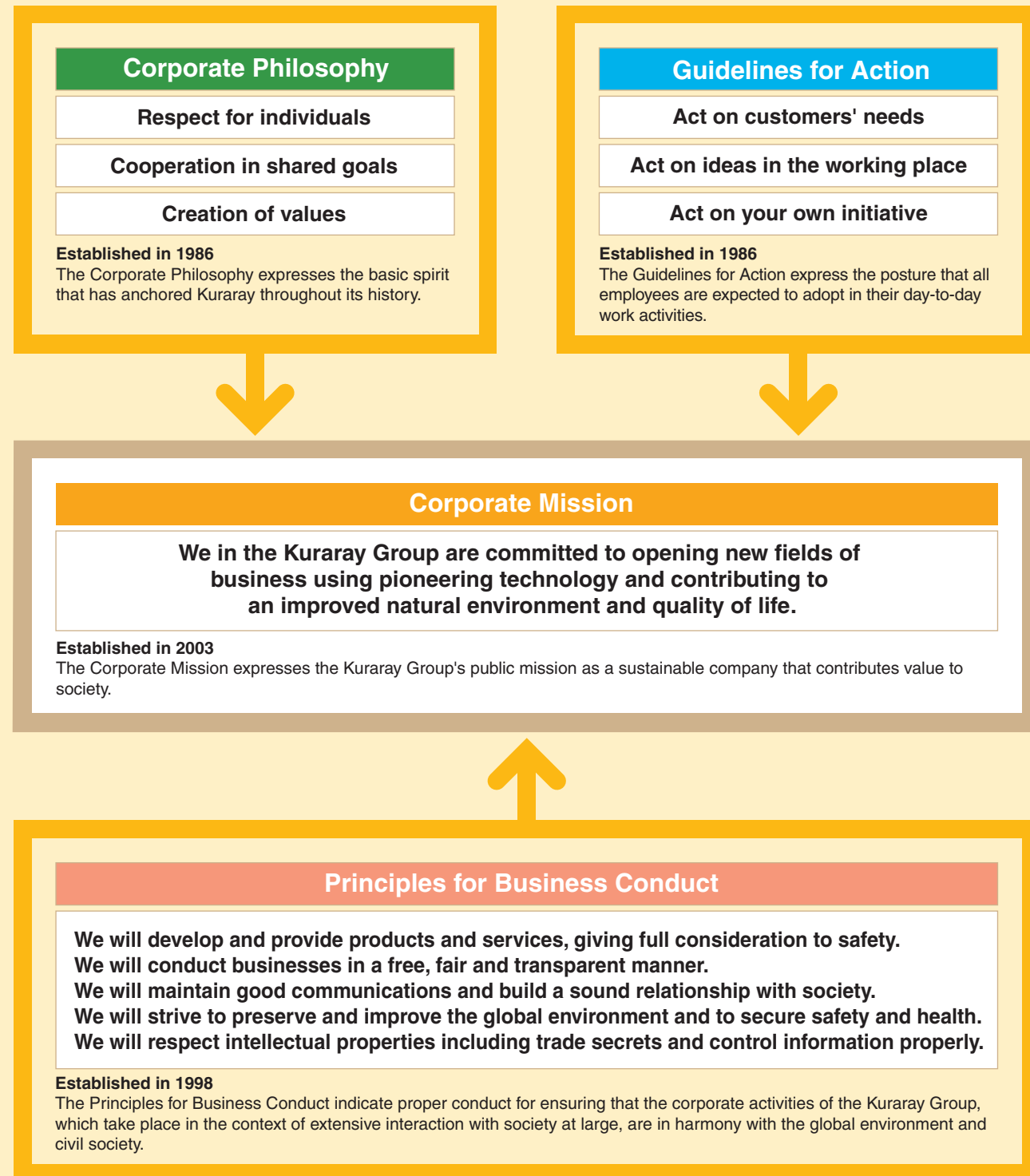
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Management Philosophy

The Management Philosophy of the Kuraray Group

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



Corporate Social Responsibility Report

Kuraray CSR Report 2006 — Environmental and Social Activities

Editorial Policy

From 1998 to 2002 Kuraray issued the Kuraray Environmental Activities Report, which focused on environmental preservation and disaster prevention activities. In 2004 the CSR Committee assumed editorial responsibility for the report and issued the first Kuraray CSR Report, which covers all corporate social responsibility (CSR) activities.

Past Publications

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

In preparing this report, we referred to the Ministry of Environment's Environmental Report Guidelines (2003 Edition) and the GRI Sustainability Reporting Guideline 2002.

The reporting period is from April 1, 2005 to March 31, 2006.

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

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

Kuraray

Kuraray Co., Ltd. (the 'Company') and its 13 affiliated companies occupying the same premises, 14 companies in total

Kuraray Group

Kuraray Co., Ltd. and its 31 principal affiliated companies, 32 companies in total

Domestic Kuraray Group companies

Kuraray Group companies other than the 7 overseas subsidiary companies, 25 companies in total

The Kuraray Group (● Affiliated companies occupying Kuraray premises)

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

* In February 2006 Kuraray Techno Nakajo Co., Ltd. was merged into Kuraray Techno Co., Ltd.

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To fulfill our obligation to society, we aim to excel at doing what others cannot do.

Top Message



Yasuaki Wakui
President and Representative Director
Kuraray Co., Ltd.

“Company earnings must be profit commensurate with contributions to society and the national economy.” This is the creed of Soichiro Ohara, the second president of Kuraray, which is an ethos at Kuraray that has continued unbroken to the present. What should be the fundamental posture of Kuraray today in its group-wide effort to discharge corporate social responsibility? From their perspective as Kuraray stakeholders, two young employees seek answers to this critical question in an interview with Kuraray President Yasuaki Wakui.

— What is the concept that forms the backbone of Kuraray's corporate social responsibility?

In the 10-Year Corporate Vision we announced in 2006, we propounded the concept ‘Contributing to the World and Individual Well-being through Actions that Others are Unable to Produce.’ This is also Kuraray's basic posture for engaging in CSR. This concept reflects the management philosophy that has imbued Kuraray since its founding: a company is not only a commercial enterprise, but also a public institution.

It is true there exists a way of thinking that a company can discharge its social responsibility by providing things that consumers require, generating profits, returning those profits to shareholders, securing employment for employees, and paying taxes. However, when we consider that a company is an important member of society, it becomes clear that these are not enough.

I feel great affinity to a saying of Soichiro Ohara, the second president of Kuraray: ‘Company profits must be earned as consideration for commensurate contributions to society and the national economy.’ This shows that as early as 1962, the president of Kuraray expounded the concept that profit only exists in return for corporate activities that benefit society. I believe that the mission entrusted to Kuraray is to act as a good corporate citizen that engages in business activities that reflect consideration of the global environment and the international community, invests the profits earned from those activities in further development and new businesses or returns them to society, and continuously creates value recognized by people.

— Kuraray is a company with a history spanning 80 years. How has the current corporate culture developed and how has it been handed down over the years?

Kuraray was founded in 1926 as Kurashiki Kenshoku Co. for the purpose of commercializing the chemical fiber rayon. From the beginning, Kuraray has always aimed to contribute to people's lives and to society through its business activities.

Rayon, Kuraray's first product, is also called ‘artificial silk.’ As a useful material that replaces a limited natural resource, it has indirectly contributed to making people's lives more fulfilling and comfortable.

In those days, Kuraray founder and first president Magosaburo Ohara, who was a social activist as well as an entrepreneur, rendered service to society by supporting orphanages, building hospitals and an art museum, or establishing scholarship systems. That is why Magosaburo is regarded as a pioneering philanthropist in Japan. As a matter of fact, I am one of many at Kuraray who joined the company out of admiration for the founder's accomplishments and the corporate culture.

Under the leadership of Kuraray's second president, Soichiro Ohara, in 1950, Kuraray became the first company in the world to successfully commercialize the synthetic fiber vinylon. This was soon after the end of the Second World War, and vinylon greatly contributed to the lives of the Japanese people as a substitute for cotton. Out of desire to benefit the people of China, Soichiro took the bold decision to export to China a manufacturing plant for vinylon before the resumption of diplomatic ties between China and Japan.

Soichiro also devoted enormous energy to the development of artificial leather *CLARINO*, which Kuraray succeeded in commercializing in 1965. This can be regarded as an example of material development that involves learning from a natural material and adding a new function.

It is impossible to consider the desire of our predecessors to create a bountiful society as a matter separate from the path that Kuraray has traveled over the years. Applying technological capabilities to create materials that benefit people's lives and providing those materials to the people who need them —The tradition of the Kuraray Group is the ethos of sincerely pursuing a public mission rather than being content with the mere pursuit of profit through these business activities. I want to carry on this precious asset handed down to us by our predecessors as our corporate DNA.

Interviewer

Yuichiro Inou
Chemical Process Technology Development Group,
Kurashiki
(Joined Kuraray in 2004)



Ayako Matsuo
Office of
Global Business Development,
Tokyo
(Joined Kuraray in 2005)



— One important task at Kuraray, an aspect of ‘doing what we can for the environment,’ is to do our utmost to reduce environmental load at the manufacturing stage. Yet another thing we can do is to develop new technologies and products that can promote environmental conservation. What are your views on this?

Although the earth resources are limited, developed countries have consumed and disposed of massive quantities of those resources. Not only that, there are the BRICs countries and other countries and regions which continue to develop, and the world's population is increasing explosively. If we continue on our present course, grave environmental risks will be actualized. Increased CO₂ emissions will add impetus to global warming and abnormal weather. Crops will be damaged and water resources will be depleted, giving rise to a critical food problem.

A sense of impending environmental crisis is the reason the 21st century is called the century of the environment. It is necessary for people everywhere to join together as one and think about sustainability at the global level.

Concern for the environment is an obvious responsibility for Kuraray, a chemicals manufacturer that uses vast amounts of raw materials, fuel, water, and air to do business. Conscious of this responsibility, Kuraray established a special department to engage in environmental preservation activities as early as in 1970. We have participated in the Japan Responsible Care Council since its establishment in 1995 and implemented numerous environmental activities, including the development of low environmental load products and processes and the development of substitutes for substances that damage the environment.

From the perspective of technology development and product development, I think *EVAL* is a good example of a product developed in recent years that can contribute to environmental conservation. Kuraray was the first company in the world to commercialize this resin, which offers the highest level of gas barrier properties among plastics. *EVAL* is being used in a variety of applications. For instance, it is possible to reduce vehicle weight and increase fuel efficiency by converting automobile gasoline tanks from metal to plastic. By adding *EVAL* to the material used to manufacture the gas tanks, atmospheric pollution caused by gasoline evaporation can be curbed. Other areas of application are steadily expanding, including use as a lightweight food packaging material to replace cans or glass bottles.

Top Message

— In fiscal 2006, Kuraray launched the new GS-21 medium-term business plan. What has been continued from the previous G-21 plan, and what has been added?

The 'G' in G-21 stands for 'Globalization, Green, Growth, and Group.' Kuraray began implementing the G-21 five-year plan group-wide in fiscal 2001 with the aim of being an eco-friendly enterprise with unique technology. As a result, we achieved record-high sales and profits, greatly improved capital efficiency, and accomplished a transformation to a highly profitable business portfolio. At the same time, we achieved a certain level of environmental results, such as reduction in emissions of substances that place a load on the environment and expansion of our eco-friendly products and environmental improvement products businesses based on our 'Medium-Term Environmental Plan'. However, my feeling is that room for improvement still remains. I see potential for further innovation.

Accordingly, I directed that the GS-21 three-year plan be implemented beginning in fiscal 2006. This three-year plan is imbued with the same values of the previous G-21 carried, pursuing the four Gs, which include 'green' for the environment, with an 'S' newly added for sustainability, a new key concept in the plan. Companies exist as members of the international society and operate in the shared environment that is our planet. Therefore, concern for environmental and social sustainability bears greatly on the very survival of a company.

We are seeking to achieve what I call 'refinement' — that is, a values transformation from quantity to quality — in our business activities. I think that the development of products that are highly functional even in small volumes and the consequent benefit of environmental load reduction will bear fruit.

— From that perspective, the development of high-quality products is the key. Do you think that priority should be placed on market needs or on environmental and societal needs when we develop products?

My view is that we should place priority on environmental and societal needs. Of course, I think that for a company a 'market in' approach — that is, making products from the customer's perspective — is important. However, that doesn't necessarily entail catering to the whims of consumers.

Products and services that lack universal value, even those that create a temporary boom, will probably eventually be weeded out of the market and have to be withdrawn. I believe it to be true beyond question that it is contribution to a sustainable society that is behind universal value in products. That's why Kuraray will not be involved with products that we judge to be detrimental to a better society, even if they have support in the marketplace.

What is important is to avoid losing sight of the goal: our public mission. I think that the means take precedence over the end: that is, the 'how' and 'through what' of a business is more important than the amount of profits that can be made.

— What are the priority areas in which you think Kuraray should engage as a corporate citizen in the coming years?

Heretofore we have emphasized response to environmental needs in our activities. However, in today's world, that can no longer be considered sufficient. We have reached the point where it is necessary to adopt viewpoints and indices from the higher dimension of CSR.



However, I want to avoid the trap of getting involved in all sorts of activities in the name of CSR in an effort to please everyone. We should always consider primarily activities that are suited to our circumstances and initiatives that take advantage of our strengths.

Kuraray has excellent assets in the area of philanthropy, which have been handed down to this date. I want to take advantage of such areas in which Kuraray has a unique contribution to make. For instance, Kuraray employees engage in volunteer activities at hospitals with which the company founder had a deep connection, or the hospitals utilize our human resources, and chemistry researchers conduct chemistry classes for young boys and girls in host communities. I want to expand activities of this nature.

When people hear the term CSR, they tend to think of things other than business activities, but I think CSR and business activities can be more closely linked. In fact, I think that we should pursue CSR in the course of business.

I would like our employees to ask themselves the question "What can I do?" in light of their own areas of responsibility and skills and come up with ideas for CSR on that basis. Of course, I want those of us in corporate management to consider what we can do for society as well and set an example for others.

— Thank you for the opportunity to hear your views on so many topics. There are still many things we would like to ask and find out about. Would it be all right if we continue to write about various topics, including our thoughts and concerns, on the Kuraray intranet?

By all means, I welcome you to do so. I think that the most important precondition for realizing CSR is the creation of workplaces where employees can work with pride and be happy. That in turn leads to the creation of corporate value that will appeal to consumers and investors and the generation of profits for investment for the future or return to society. I hope to realize this type of virtuous cycle. I would like to work hand in hand with our employees to make Kuraray a corporate group that develops and grows together with society.

∴ The Scope of the Kuraray Group's CSR Activities

Activities companies engage in to discharge social corporate responsibility span an extraordinarily broad spectrum and change with the times. What is required of companies in society today? The Kuraray Group constantly ponders this question and seeks to understand its own role. Accordingly, we will place priority on what we consider most important in light of the Group's history, the basic principles of management, and the characteristics of our businesses. On that basis, we will engage in steady, sound CSR activities.

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



∴ CSR Promotion Structure

The CSR Committee, established in 2003, plays a central role in implementing the Kuraray Group's CSR activities. The far-reaching social responsibility required of companies necessitates response across an organization. The CSR Committee is a management-level special committee that decides group-wide policies, objectives, and action plans, and puts into practice wide-ranging CSR programs with the cooperation of other Group organizations. The CSR Committee maintains the Social Responsibility and Economic Subcommittee, the Environmental and Industrial Safety Subcommittee, and the Risk Management and Compliance Subcommittee. The subcommittees maintain theme-specific working teams that focus on implementing concrete activities and ascertaining and evaluating results. The Office of CSR and Communications serves as the CSR Committee's secretariat, administering the Committee's activities and bearing responsibility for the vitalization of activities by means of two-way communication through information dissemination within the Group and beyond, information gathering, and feedback.



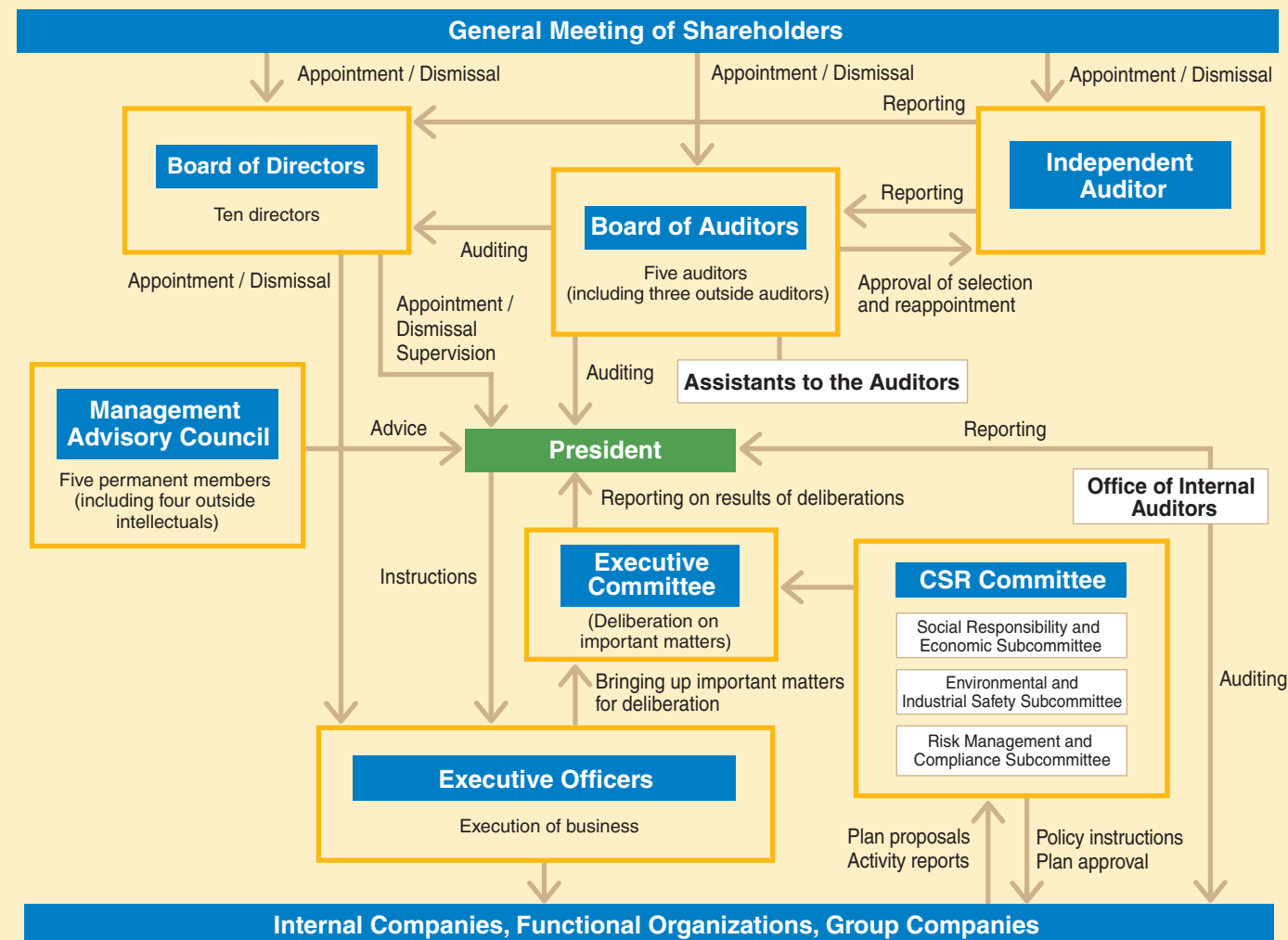
Corporate Governance

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

Corporate Governance System

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

- The Board of Directors and organizations responsible for business execution**
 - The Board of Directors establishes the Board of Directors Regulations, deliberates on and decides important management matters including legal matters, and supervises the execution of business. The maximum number of directors is ten, and the term of office is one year.
 - As the chief executive responsible for business execution, the president exercises control over the execution of business in the Kuraray Group.
 - Executive Officers (one-year term of office) selected by the Board of Directors are responsible for business execution in the various organizations of the Kuraray Group. As the heads of in-house companies, divisions, and major functional organizations, the executive officers bear operational responsibility and profit responsibility.
 - The president establishes the Executive Committee and other various councils and committees to deliberate and report on important matters concerning the Group's management policies and business execution.
- Management Advisory Council**
 - Kuraray has established the Management Advisory Council to serve as a consultative body to the president from the perspectives of compliance, the protection of shareholder rights, and management transparency. The Council, which consists of five permanent members, four of whom are intellectuals from outside the Group who have a wealth of experience in corporate management or corporate legal affairs, advises the president on issues such as important management policies and issues, succession of the president, successor candidates, and compensation.
- Board of Auditors**
 - The Board of Auditors consists of five corporate auditors, including three outside auditors from outside the Kuraray Group. The corporate auditors attend meetings of the Board of Directors and other important meetings and monitor the directors' performance of duties through inquiries conducted by such means as the examination of important documents and requests for explanations of the state of business affairs. Kuraray appoints dedicated Assistants to the Auditors to assist the auditors in the performance of their duties.



Internal Control and Risk Management

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

- The CSR Committee administers the establishment and operation of the Group's integrated compliance and risk management systems. The Office of CSR and Communications serves as the CSR Committee's secretariat, administering the Committee's business and working to inculcate compliance within the Group.
- The Office of CSR and Communications plays a central role in risk management with the functional organizations engaging in continuous management. In times of serious emergency, Kuraray puts into operation an Emergency Response Headquarters directed by the president and launches a rapid response that musters the resources of the entire organization.
- The Office of Internal Auditors, an internal audit organization that reports directly to the president, cooperates with corporate auditors and independent auditor to audit the legality, appropriateness, and effectiveness of business operations in each organization.
- To enhance these systems, Kuraray has established the Internal Controls Reform Team, which inspects and promotes establishment of group-wide internal controls.

Compliance

To ensure transparency and fairness in business activities, in addition to putting in place an effective corporate governance system, it is necessary to build an organizational culture to encourage individual employees to act appropriately on the basis of a highly developed sense of ethics. For this reason, Kuraray engages in systematic activities to strengthen compliance.

In fiscal 2005 Kuraray distributed the Compliance Handbook, an instructional guide intended for all Domestic Kuraray Group employees, held meetings to explain compliance, and incorporated compliance in employee training curricula.

History of Compliance Activities at Kuraray

1998	Establishment of the In-House Ethics Committee chaired by the president, formulation of the Principles for Business Conduct
2001	Establishment of the Kuraray Employee Counseling Room as a point of contact for disclosure of misconduct
2003	Publication by the president of the Compliance Declaration, distribution of the Compliance Card to all Kuraray employees Reorganization of the In-House Ethics Committee as the Ethics and Compliance Team under the Social Responsibility Subcommittee of the CSR Committee
2005	Strengthening of the Kuraray Employee Counseling Room system (engagement of an external attorney) Distribution of the Compliance Handbook and Compliance Card (Revised) to all Domestic Kuraray Group employees and implementation of explanatory meetings and training on compliance

Compliance Declaration

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

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

Compliance Card
The Compliance Card is a wallet-sized card printed with the Principles for Business Conduct, the Compliance Declaration, and the contact number of the Kuraray Employee Counseling Room.

Kuraray Group Compliance Handbook
The Kuraray Group Compliance Handbook is an instruction handbook in which conduct guidelines based on the Principles for Business Conduct are presented in an easy-to-understand way in the context of day-to-day work activities.

Activities to Benefit the Community and Employees

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Reading This Section

- The Close-ups introduce matters we especially wish to spotlight, such as initiatives given special effort and new experiments conducted during the reporting year.
- The Involvement with the Community section covers CSR procurement, which places importance on social considerations, in addition to green procurement.

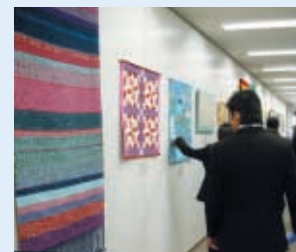
2005 Socially Beneficial Activities Close-up
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School for the Deaf, University of Tsukuba
Exhibition of Works

of Arts & Crafts Course Students



● Students in company tour attend a talk about the company structure in front of exhibited works



● Students view works on exhibit



● A commemorative photo of students in front of their creations

School for the Deaf, University of Tsukuba, Japan's only national school for the deaf, has established Advanced Vocational Courses (equivalent to a junior college program) to enable hearing-impaired students who graduate from senior high school or equivalent programs at schools for the deaf to acquire professional skills. The program attracts students from across Japan.

The aims of School for the Deaf, University of Tsukuba and Kuraray neatly coincided. The school sought to increase opportunities for public presentations and for students to interact in society before they go out into the world, while Kuraray was looking for new socially beneficial activities in the Tokyo metropolitan area. In 1999 this fortuitous situation resulted in the first of a series of exhibitions of students' works at the Kuraray Tokyo headquarters and student company tours.

The exhibitions showcase paintings, designs, textiles and other works created by students from the Arts & Crafts Course, which are prominently displayed on the reception floor for viewing by Kuraray employees and visitors. At the company tours, Kuraray supports students' job-hunting

activities by conducting a course on company structures, conducting workplace tours, and arranging gatherings with employees to enable the students to experience the atmosphere at actual workplaces. Although this activity was temporarily suspended in 2005 owing to the relocation of the Kuraray Tokyo headquarters, it was resumed in February 2006 at the new headquarters.

Although Kuraray has long engaged in socially beneficial activities mainly in the vicinity of its plants, we sought means of augmenting activities conducted at the headquarters. Kuraray intends to continue this annual event at the Tokyo headquarters on a long-term basis and further enhance the program.



● Works of design course students

Voice

Comments from a Participant

Haruna Shimpo
H. R. Division
Kuraray Co., Ltd.



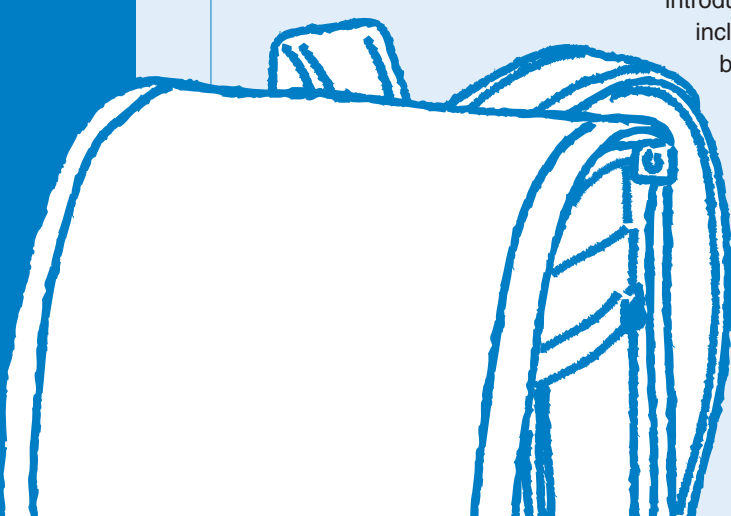
Engaging in socially beneficial activities in the course of ordinary company activities

Although holding the first exhibition following the headquarters relocation entailed many issues and preparations were very much a trial-and-error process, the resulting exhibition space was colorful and brimming with youthful vitality. Visitors and employees viewed the exhibition with great interest from the first day, and although it is not visible, I think we achieved interaction with the students of School for the Deaf, University of Tsukuba. The great attraction of this project is the ability to engage in socially beneficial activities in the course of ordinary company activities. I would like to devise means of further increasing the number of visitors as we continue the program next year and beyond.

2005 Socially Beneficial Activities Close-up
2
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(A Kuraray Campaign)
Sending School Bags Across the Sea

Thanks to the understanding and cooperation of everyone involved, in 2005 Kuraray was able to continue the Sending School Bags across the Sea campaign successfully introduced in 2004. Numerous celebrities, including Athens Olympic women's wrestling bronze medallist Ms. Kyoko Hamaguchi and 73rd All Japan Figure Skating Championships women's singles champion Ms. Miki Ando, attended a January kickoff event for the campaign. In 2005, 12,120 school bags were donated to children in Afghanistan and 1,560 school bags to children in Mongolia.



● Collected school bags undergo inspection



● Kickoff event participants



● A courtesy call from representatives of the United Medical Center for Afghans



● Children in Afghanistan receive their school bags

Socially Beneficial Activities

Policies

As set forth in the Corporate Mission, the Kuraray Group's primary mission is to create new businesses by means of pioneering technology and to benefit society through superb products and services.

At the same time, as a good corporate citizen, we devote effort to wide-ranging interaction with society and socially beneficial activities, especially in the host communities with which we are closely involved through our business activities.

We engage in steady, community-based initiatives in the areas of education, healthcare, and social services, placing importance on activities that take advantage of the imagination and ingenuity of our employees, activities in which everyone can participate on their own initiative, and activities that can be continued over time.

Activities

Chemistry Classes for Boys and Girls

In 1992 Kuraray began the Chemistry Classes for Boys and Girls program with the goal of enabling children in a higher grade at elementary school to experience the fun of chemistry. On school holidays, young Kuraray employees volunteer to serve as instructors or assistants to conduct classes at special classrooms on plant premises and at local elementary schools and public facilities. In 2005, Kuraray conducted 18 classes in which 640 children in total participated. Many children have emerged from the program with great enthusiasm for science, and no doubt many are today playing active roles as members of society.

Sponsor	Class name	No. of classes to date	No. of participants to date
Kurashiki Plant	Fun Chemistry House	49	1,479
Kuraray Saijo	Exciting Chemistry Class	41	1,206
Niigata Plant	Wondrous Laboratory	31	949
Kashima Plant	Fun Chemistry Class	4	311
Okayama Plant	Fun Chemistry Class	23	775
Total		148	4,720

Kuraray also participates and conducts chemistry classes at the "Dream Chemistry-21" event (held by the Chemical Society of Japan with cooperation from the Tsukuba Research Laboratories), the Youngsters' Science Festival Niigata Convention (held with cooperation from the Niigata Plant), the Okayama Research Park's Interesting Experience event (held with cooperation from the Okayama and Kurashiki Plants), and other events. Kuraray will continue to provide venues to enable as many children as possible to encounter and experience the fun of chemistry.



● Dream Chemistry-21



● Exciting Chemistry Class

Kuraray Fureai Fund Raising (Matching Gift)

Since 1992, Kuraray has engaged in a matching gift program by which employees donate a small fraction of their pay to benefit community social services and the Company matches the amount. Once again in fiscal 2005, these funds were donated to the Japan National Council of Social Welfare and the nursing care facilities in the host community for use in purchasing nursing care articles.



● Presentation of a momiji-bako to the Japan National Council of Social Welfare



● A Kuraray employee wearing the momiji-bako to simulate old age

Momiji-bako

This is a simulator developed in nursing care education to enable people to experience the effects of old age.

Kurashiki Central Hospital (Okayama Prefecture)

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

Ishii Memorial Aizen-en Aizenbashi Hospital (Osaka City)

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

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

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

Disaster Relief Activities

Fiscal 2005 was the second consecutive year of numerous typhoons, earthquakes, and other major natural disasters around the world. Kuraray made monetary contributions through the Red Cross Society for disaster relief for the victims of hurricane Katrina, a major hurricane that struck the southern part of the United States at the end of August, and the victims of the Pakistan-India earthquake, which struck the northern part of Pakistan in Early October to return to their previous way of life as soon as possible. The Kuraray Group will continue to actively engage in relief activities to aid victims in times of natural calamities.

Contributing to Society Through Social and Medical Services

Kuraray contributes to society through social and medical services. We provide support for Kurashiki Central Hospital (Okayama Prefecture), Aizenbashi Hospital (Osaka City), and Saijo Central Hospital (Ehime Prefecture), hospitals with which the Kuraray Group has historically maintained close ties, including involvement in their establishment. To contribute to addressing nursing care problems facing local communities, which will become an increasingly pressing issue as the aging of society progresses, we utilize idle employee welfare facilities at our plants to operate a communal assisted-living facility and a geriatric nursing facility.

On the second Wednesday of each month, employees of the Osaka headquarters volunteer their time to enable residents of special elderly nursing home adjacent to Aizenbashi Hospital to enjoy the atmosphere of a Japanese-style pub. Each month the residents, their families, and workers at the facility look forward to this event, which has been conducted since September 2001.



● Aizen Japanese pub at a nursing home adjacent to Aizenbashi Hospital



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

The Kuraray Group intends to continue to be responsive to the desires of our host communities and expand our activities to areas not sufficiently covered by government institutions.

Voice



Seiko Mori
Corporate
Communications Group
Kuraray Co., Ltd.

I was puzzled at first when I tried to take orders from users at Aizen Japanese pub but received no answer. I'm still not able to satisfactorily communicate with users in the skillful manner of the facilities staff. However, I understood that if I were able to sense what the residents wanted from me as they enjoyed themselves in the pub, I could instinctively act. The users and staff welcome us warmly each time we go. I want to cherish and maintain the spirit of doing whatever I can to the utmost of my ability.

Nursing Care Facilities Operated or Supported by the Kuraray Group

1 Fruits-no-ie (Saijo City, Ehime Prefecture)	Group home (capacity for 41) / Day-care service (capacity for 10) / In-home care support / Home visit care and nursing
2 Mori-no-ie (Saijo City, Ehime Prefecture)	Group home (capacity for 18)
3 Tulip-en (Tainai City, Niigata Prefecture)	Group home for elderly people with senile dementia (capacity for 18) / Small-scale multifunctional care (capacity for 12) / In-home care support



Action Points

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

Communication

Policies

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

Activities

Internal and External Communication

● Information Dissemination and Exchanges Targeting Shareholders and Investors

Kuraray regards the ordinary general meeting of shareholders held in June of each year as a venue for dialog and interaction with shareholders. We deepen understanding of the current state of affairs at Kuraray by providing a visual presentation of business results. The reception following the meeting is an event where shareholders enjoy relaxed conversation while viewing displays of representative Kuraray products and listening to explanations from company officers and employees.

Kuraray also employs various means to provide information such as financial information and management vision to investors in Japan and overseas.



● Reception desk at the general meeting of shareholders



● Product display at the reception following the general meeting of shareholders

● Dissemination of Business Information and Consumer Information

Kuraray actively publishes news on the latest business trends, new product development, and other matters of interest and engages in activities to communicate the current situation at Kuraray in real time. We also provide information obtained through our business activities in the form of practical lifestyle information. For instance, we compile information obtained from a questionnaire of school bag 'CLARINO' purchasers in the article 'Careers Children Want to Pursue, Occupations Parents Want Children to Pursue,' which we distribute via news release and post on our Website.



● Event to introduce 'TIRRENINA' man-made leather

● Provision of Information on Risks and Negative Occurrences

Kuraray strives for appropriate disclosure not only of business-related information, but also of information of a negative nature such as reports of accidents and disasters. In response to the occurrence of a plant explosion accident in fiscal 2005 (see P.23 for details), we worked to rapidly provide information to local residents through press conferences and other means.

● Internal Communication

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



Activities

Environmental Communication

In addition to devoting effort to eco-friendly product development, Kuraray is bolstering communications to popularize eco-friendly products. In fiscal 2005, we exhibited products at the Eco-Products (Tokyo) and New Earth (Osaka) exhibitions, deepening understanding of our environmental initiatives among many visitors, including the general public.

● Eco-Products 2005 (Held December 15 to 17, 2005 at Tokyo Big Sight. Attended by 140,461 visitors.)

The Kuraray Group introduced representative environmentally conscious products in three thematic genres: Water, Air, and Resources. We held a quiz rally at the booth to entertain visitors.



● New Earth 2005 (Held October 26 to 29, 2005 at International Exhibition Center Osaka (INTEX Osaka). Attended by 46,405 visitors.)



● Introduction of fungi that degrade polymer films

Kuraray announced the latest research results concerning polymer biodegradation.



● Pamphlets and the Website

In addition to the CSR Report, Kuraray provides information to its diverse stakeholders by publishing a variety of pamphlets and operating a fully featured Website.

Principal Publications

Publication name	Contents	Language	Month of publication
Corporate Guide	Coverage of Kuraray products and basic information on Group companies	Japanese	June
		English, Chinese	August
Annual Report	Comprehensive management and financial information for overseas investors	English	August
Factbook	Easy-to-read summary of the latest financial information	Bilingual in Japanese and English	May
Kuraray Tsushin	Business report for shareholders	Japanese (semiannual)	June, December
CSR Report	Activities of the CSR Committee	Japanese	July
		English	August



Website

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



Communication

Activities

Communion with Local Communities

Kuraray engages in a wide range of activities to promote interaction with residents of our host communities and intends to continue to seek out opportunities to actively deepen relations with the communities in which we operate.

●Interchange Activities

Each year since 1992, Kuraray Saijo Co., Ltd. has held a Cherry Blossom Viewing Party on its premises. In fiscal 2005, about 4,400 people attended this festive event to enjoy the splendor of cherry blossoms in spring.

The Kurashiki Plant (Tamashima) held the Christmas Fantasy event again last year which it resumed following a three-year hiatus in response to the enthusiastic requests of local residents in fiscal 2004, illuminating a splendidly decorated giant Himalayan cedar on its grounds at Christmastime.

The Okayama Plant opened its baseball field to the public to hold a Summer Festival at which employees performed an Illusion Show for about 3,000 visitors.



● Cherry Blossom Viewing Party



● Christmas Fantasy

●Sports Meets

Kuraray opens gymnasiums and grounds at its plants to the public and holds a number of sports meets. In fiscal 2005, more than 500 people participated in Kuraray Saijo's Fifth Grand Golf Tournament and the Tenth Gateball Tournament, events held during cherry blossom season. The Kaetsu Area Junior High School Soft Tennis Tournament held by the Niigata Plant is regarded as a gateway to tennis success for area junior high school students.



● Tenth Gateball Tournament



● Kaetsu Area Junior High School Soft Tennis Tournament

●Dialog with Host Communities

The plants of Kuraray Co., Ltd., Kuraray Plastics Co., Ltd., and Kuraray Chemical Co., Ltd. hold various events to foster better communication with host community residents, including plant tours and briefing sessions mainly for local residents. At those events, to increase host community trust in Kuraray, we provide explanations of the environmental effects of our business activities and environmental protection measures on the basis of the environmental reports prepared by each plant. We make use of comments and opinions from participants to improve our plants.

Number of Visitors

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Local residents	2,013	2,075	1,618	1,551	1,303
Others	926	904	1,256	1,214	1,321

Note: Figures for fiscal 2004 and 2005 include Kuraray Plastics Co., Ltd. and Kuraray Chemical Co., Ltd.

Action Points

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

CSR Procurement

Policies

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

CSR Procurement Policy

●Respect for human rights

- 1) Respect for human rights and individuality
- 2) Observance of the International Labor Organization's core labor standards
 - Guarantee of freedom of association and the right of collective bargaining
 - Prohibition of compulsory labor
 - Prohibition of child labor

●Compliance

- Compliance policy
- Compliance systems
- Compliance education program

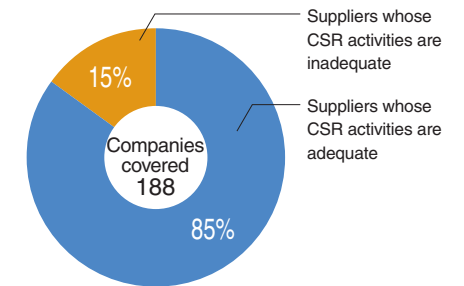
●Promotion of green procurement

- Preparation of environmental policies and environmental reports
- Green procurement implementation plan and implementation apparatus
- ISO14001 certification
- Education and awareness campaign for green procurement

Activities

Kuraray has communicated the CSR Procurement Policy to 188 principal suppliers, ascertained the status of CSR activities at those suppliers, and requested their cooperation in continuing to actively engage in CSR activities. We will continue to request cooperation of suppliers whose CSR activities are inadequate.

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



●Green Purchasing

With the aim of enhancing CSR procurement activities, Kuraray seeks to purchase green products on the basis of its own Green Purchasing Guidelines. In fiscal 2006, we will update the work clothes worn by plant employees and the uniforms worn by women employees at the headquarters to mark the 80th anniversary of the founding of Kuraray. The new work clothes consist of more than 50% recycled PET resin, and women's uniforms are to be recovered as solvent after they are discarded, to reduce environmental load.

Status of Green Purchasing

Area	Item	Purchase value (million yen)	Green purchasing rate			
			Fiscal 2004	Fiscal 2005		
1	Paper (recycle)	5 items	Copier paper, forms, printing paper, sanitary paper, business cards	54	100%	100%
2	Stationery (recycle)	47 items	Mechanical pencils, ballpoint pens, markers, pencils, others	5	99%	99%
3	Furnishings (reuse)	8 items	Chairs, desks, shelving, cabinets, low partitions, bulletin boards, chalkboards, whiteboards	1	80%	100%
4	Office equipment (energy conservation)	4 items	PCs, printers, copiers, facsimile machines	165 (leasing fees)	100%	100%
5	Appliances (energy conservation)	4 items	Refrigerators, air conditioners, televisions, video tape recorders	2	88%	88%
6	Lighting (energy conservation)	2 items	Fluorescent light fixtures, fluorescent tubes	4	100%	100%
7	Automobiles (pollutant reduction)	1 item	Automobiles	89 (leasing fees)	100%	100%
8	Uniforms and work clothes (recycle)	2 items	Uniforms, work clothes	—	—	—
9	Work gloves (recycle)	1 item	Work gloves	1	50%	50%

Action Points

Kuraray will strive to ensure that the 29 suppliers (15% of the total) whose CSR activities were found to be inadequate in the survey of principal suppliers enhance their CSR activities to meet the requirement as soon as possible by once again communicating the import of the CSR Procurement Policy, continuing to request their cooperation and other efforts.

HR Policies

Policies

The Kuraray Group aims for fair and highly transparent personnel system under which independent individuals can work with energy and vigor. To that end, in April 2006 Kuraray newly established the Kuraray Group Global HR Policy. The purpose of the policy is to ensure shared understanding throughout the Kuraray Group of thinking and policies concerning personnel and provide a basis for the formulation and implementation of all future personnel policies.

The Kuraray Group Global HR Policy

The Responsibility and Goal of H. R. Division (Objective)

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

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

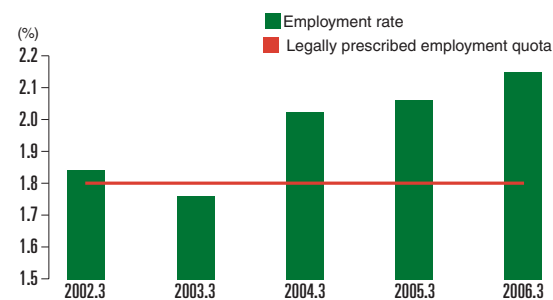
Activities

Diversity and Equal Opportunity

Kuraray respects human rights and has a policy of employing and promoting diverse human resources and placing importance on ability without discrimination according to race, nationality, gender, or other personal attributes. The collective labor agreement clearly stipulates hiring and treatment according to fair assessment.

We actively engage in employment of disabled people and rehiring of the elderly. As of March 2006, the rate of employment of disabled people was 2.15%, and in fiscal 2005, the number of elderly people rehired was 58.

Employment of Disabled People at Kuraray



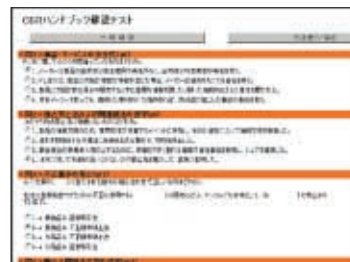
The Kuraray Workshop in Niigata provides disabled people who desire employment the opportunity for participation in society.

Respect for Human Rights

Kuraray strives to raise awareness of the importance of respect for human rights by distributing the Compliance Handbook to all employees and by conducting a human rights education program in its internal training. In fiscal 2005, we conducted compliance training for managers and held the Sexual Harassment Prevention Seminar for managers at the Tokyo headquarters.



A lecture at the Sexual Harassment Prevention Seminar



A computer screen from the Compliance Handbook comprehension test

Activities

A Fair, Impartial, Transparent HR System

Kuraray believes that designing a remuneration system that rewards people in proportion to their efforts increases employees' motivation and leads to improvement in business results. Kuraray has eliminated seniority and personal attributes as criteria and introduced a merit-based remuneration system. Close communication between supervisors and subordinates is an essential prerequisite to the operation of a merit system satisfactory to employees. Accordingly, Kuraray has introduced a Management By Objectives system and mandates supervisor-employee interviews to ensure that supervisors and employees proceed to the next step on the basis of mutual consent. Through this process, we aim to promote employee growth and development. Each year we conduct evaluator training for managers to improve interviewing skills.

Support for Socially Beneficial Activities

To support the diversification of employee perception of socially beneficial activities, the Kuraray has introduced systems to enable employees to take Special Leave for the purpose of socially beneficial activities in addition to annual paid holiday.



Special Leave

I took advantage of Special Leave to participate in a volunteer afforestation project run by an NPO which promotes environmental protection around the world. Because of its suffer from many floods, Bangladesh, the country I visited for the project, is one of the countries said to be likely to sink first due to the impact of the global warming. As such, reforestation of mangrove forests is an urgent task. Although what I was able to achieve in this project was limited, I will not forget the wonderful colleagues who warmly welcomed me in Bangladesh and the beautiful eyes of the children who planted trees together. This one-week experience surely made me feel that I had taken the first step forward.



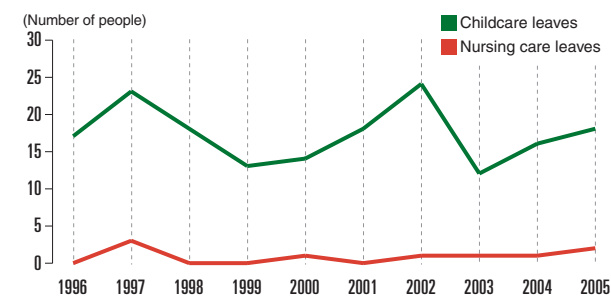
Hirohisa Ishihara
New Business
Development Division
Kuraray Co., Ltd.



Support for Childcare and Nursing Care

Kuraray provides support for childcare and nursing care in terms of employee welfare and of supporting the nurturing of future generations. We have leave of absence programs such as childcare leave and nursing care leaves that exceed legal requirements. At the same time, to ensure that employees can productively take leave, we strive to create a working environment that makes it easy to utilize the systems and publicize them to the employees.

Childcare Leaves and Nursing Care Leaves at Kuraray



Childcare Leave

I took leave for one year under the Childcare Leave System in 2005, and now I am utilizing the Childcare Reduced Working Hours System to balance career and childrearing. Because my manager and colleagues show understanding about my reduced working hours and necessity to take annual paid holiday when my child suddenly becomes sick, I am able to work without concerns. The number of people who are considering taking childcare leave seems to be rising. I think that as the number of precedents increases, it will become easier for others to take childcare leave and the environment will improve even further. The understanding of the company is essential and among the greatest forms of support for working mothers. I am very grateful.



Yoshimi Fukunaga
Chemicals Company
Kuraray Co., Ltd.

Flexible Employment Systems Adapted to Diverse Workstyles

To realize efficient labor at a time when work is diversifying, Kuraray responds flexibly to employee requirements. We have introduced in our employment systems Discretionary Work System, De-Facto Working Hours System and the Staggered Commuting System. We post manuals concerning these systems on the Kuraray intranet and work to familiarize employees with them. In fiscal 2005, Kuraray did not received guidance from the Labor Standards Inspection Office concerning working hours control.

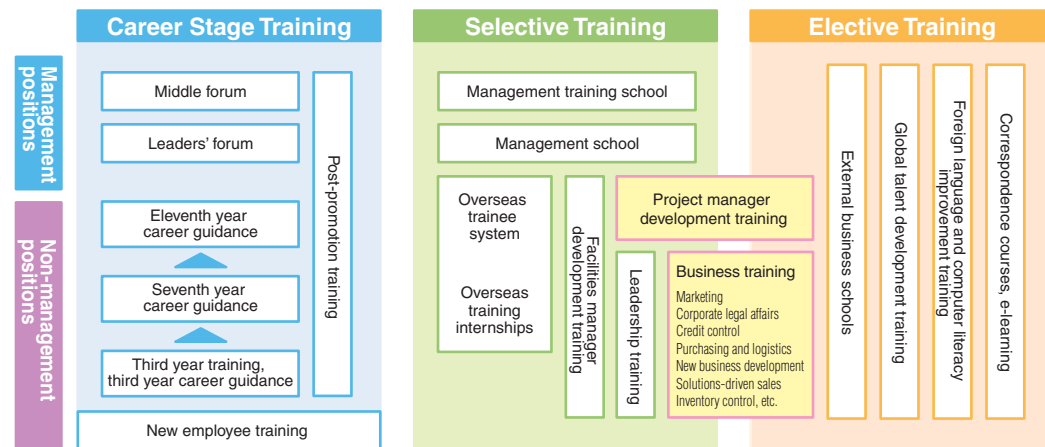
HR Development

Activities

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

Training Scheme

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



Measures to Support Independent Career Development

Overseas Trainee System

This is a system by which employees are dispatched to overseas universities, Group companies, or vendors as trainees to learn local business practices and customs. In fiscal 2005 two employees were sent overseas as trainees.



Keisuke Morikawa
New Business Development Division
Kuraray Co., Ltd.

A Participant in the Overseas Trainee System

I spent three months at a joint research partner university in the U.S. for the purpose of synthesizing a new polymer and engaging in exchanges with world-class researchers. My experiments did not proceed smoothly, and midway through my stay, I struggled through a succession of sleepless nights. Nevertheless, by engaging in a series of deep discussions, I was able to achieve my objective. I still haven't forgotten the feeling of elation when a professor at the university said "Good job" and shook my hand. Looking back, I was able to have a valuable experience thanks to the support of my managers, senior colleagues, and fellow researchers. In particular, the discussions in English, interchanges with high-level students, and cross-cultural experience are valuable assets.

OJT Support System

Kuraray is sequentially preparing its own Career Development Plan for identifying current skills and development plans. The Environmental, Industrial Safety and Technology Division has taken the lead in commencing personnel development utilizing Competency Modeling.

Commendation System and Patent Incentive System

Commendation System

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

- Commendations and awards**
- Outstanding Achievement Award
 - Special Annual Proposal Award
 - Social Contribution Award
 - Distinguished Service Award
 - Special President's Award
 - Length of Service Award

Patent Incentive System

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

Creating an Open Work Environment - Dialog and Counseling -

Activities

Dialog with Top Management

To communicate the state of affairs in the Kuraray Group and the thinking of executive management, Kuraray creates many opportunities for direct dialog between top management and employees during employee training, plant visits, and round-table-gatherings. Also, the President Room, a president's page, has been opened on the Kuraray intranet as a mechanism for employees to directly ask questions or make proposals.



A gathering for new employees and executive management

Dialog with the Labor Union

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



Points of Contact for Employee Counseling

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

Kuraray Employee Counseling Room

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

Sexual Harassment Consultation Contact

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

Stock Options Grants and the Employee Stock Ownership Plan

The Kuraray Group grants stock options to about 6,500 eligible employees at Group companies in Japan and overseas. The grants reflect management's belief that improvement in the Group's business performance is the result of the combined efforts of individual employees. By March 31, 2006, a total of 836 employees had exercised options. Kuraray also operates an employee stock ownership plan to foster awareness of corporate value and the company's share price and a sense of participation in management among employees.

Action Points

In fiscal 2006, Kuraray will continue to implement activities in accordance with the Law for Measures to Support the Development of the Next Generation and strive to achieve planned results. We will verify the competency model-based OJT system currently implemented by the Environmental, Industrial Safety and Technology Division as a test case and consider deploying it in other departments.

Environmental and Safety Activities

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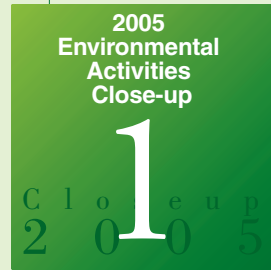
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Reading This Section

- The Close-ups provide an easy-to-understand introduction to Kuraray's measures to prevent global warming and also introduce Special Safety Promotion Activities based on our learning from the plant accident, which occurred in fiscal 2005.
- In the environmental section, we allocated space for Protection of Natural Environment to introduce our activities for biodiversity. In addition, Disaster Prevention and Occupational Safety and Health introduce company-wide safety activities.



Measures to Prevent Global Warming

Targeting a 10% Reduction in Carbon Dioxide Emissions Per Unit of Output

Of the gases that contribute to global warming (CO₂, CH₄, N₂O, HFC, PFC, and SF₆), Kuraray focuses on reducing emissions of CO₂, which accounts for an overwhelmingly high percentage of emissions volume. Kuraray aims to reduce CO₂ emissions per unit of output in fiscal 2010 by 10% from the fiscal 1990 level. To achieve this target, we have established a reduction plan involving three key measures: energy conservation, fuel conversion, and introduction of new energy sources. We have steadily achieved results in line with the targets in the plan.

Fiscal 2005 Highlights

- Conversion of Boilers at the Okayama Plant from Heavy Oil to Natural Gas**
In an effort to reduce emissions of CO₂, a greenhouse gas, we are partially converting the fuel used at the power plant at the Okayama Plant from heavy oil to natural gas, an environmentally friendly, clean energy source. Two heavy-oil boilers are being converted to natural gas, the first of which began operation using natural gas in January 2006. The second boiler is currently being converted and is scheduled to start burning natural gas in January 2007. This will result in reduction of 0.04 tons of CO₂ per ton of output (19,000 tons of CO₂ per year). In this way, Kuraray successfully implemented a forward-thinking measure at a time of heightened interest in global warming.



A natural gas storage facility at the Okayama Plant

- Installation of a Condensing Turbine Generator at the Niigata Plant**

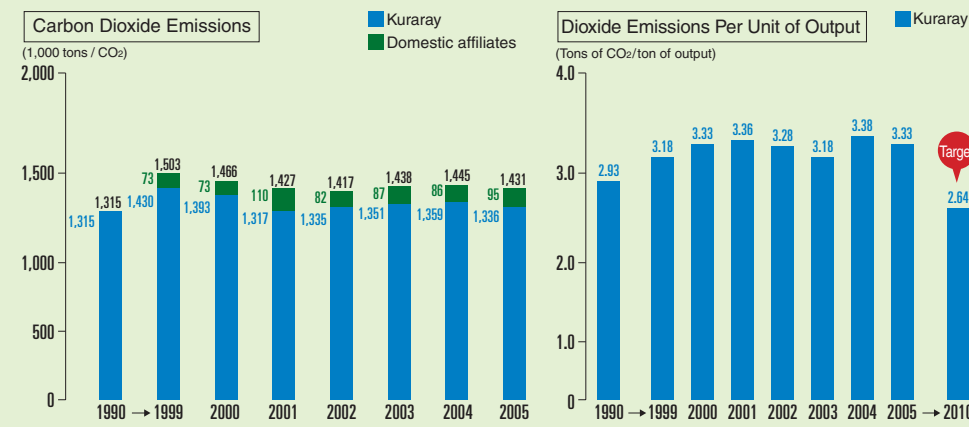
To cope with an increase in demand for electricity, the Niigata Plant installed a condensing turbine generator (output of 10,000 kW). The generator, which commenced operation in August 2005, will result in reduction of 0.08 tons of CO₂ per ton of output (33,000 tons of CO₂ per year).

Note: Condensing turbine generation is a method for more efficiently generating electricity by decompressing steam to a vacuum state.

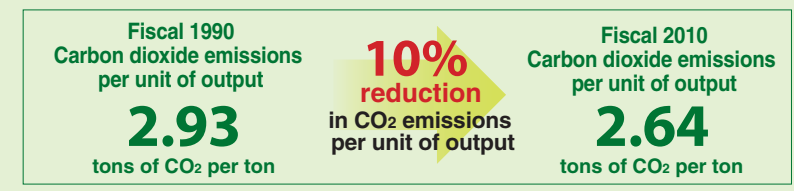


Condensing turbine generator at the Niigata Plant

Change in Carbon Dioxide Emissions and Carbon Dioxide Emissions Per Unit of Output



Global Warming



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

Voice

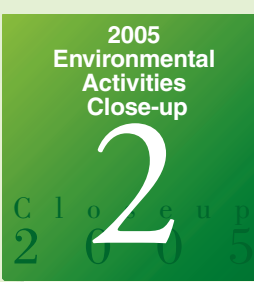
Comments from staff in charge



Hisashi Asai
Utility Section,
Niigata Plant
Kuraray Co., Ltd.

Change of Scenery at the Niigata Plant

The enormous white clouds of steam and deafening din that people have come to expect at the Niigata Plant are a thing of the past. This activity (installation of a condensing turbine generator) has transformed the landscape of the plant.



Safety Is the Cornerstone of Everything We Do

The year 2004 brought a spate of small fires, chemical leaks, occupational accidents resulting in loss of work, and other accidents that, while minor, could not be disregarded. In response, Kuraray stepped up preparedness and preventative measures. Despite these precautions, in 2005, an explosion at the Okayama Plant and a fatal accident at the Niigata Plant occurred.

We regarded this situation as an alarm sounding a warning of a threat to the very existence of the Kuraray Group. Realizing the need to urgently reestablish safety and trust, the president of Kuraray Co., Ltd. issued the emergency proclamation Safety Is the Cornerstone of Everything We Do. In accordance with the emergency proclamation, Kuraray has designated 2006 as the "Year of reestablishment of safety and trust." In addition to conducting an analysis of the root cause of the accident and precautionary inspections of other facilities, Kuraray will devise and implement fundamental safety measures based on the following basic policies as Special Safety Promotion Activities.

- Thoroughly renew awareness among all employees of the principle that safety is the cornerstone of a company's continued existence.
- Analyze safety risk factors and devise radical countermeasures in an urgent and focused way. Allocate management resources (human resources and funds) to measures to ensure safety in a planned and focused manner.
- Recognize anew that it is the power of people that ensures safety and strengthen education and awareness activities.

Explosion at the Okayama Plant

On September 9, 2005, an explosion and fire occurred during a vinyl acetate* manufacturing process at the Okayama Plant. Kuraray sincerely apologizes for the great inconvenience and troubles to area residents, customers, and other concerned parties caused by the accident. Immediately after the accident, Kuraray established an Accident Investigation Committee and conducted an exhaustive investigation of the cause of the accident. The accident is thought to have occurred when an operating error during testing of safety equipment led to an increase in the oxygen concentration inside a reactor system, and static electricity ignited explosive gas that was generated. Taking this accident as a lesson learned, Kuraray is earnestly engaged in measures to prevent reoccurrence of the accident, including a group-wide review of facilities and systems, a review of safety checklists, and safety education. The Okayama Plant mounted an all-out effort to resume the affected manufacturing process under the guidance of the competent authorities, partially resumed operation in October, and returned to normal operation at the end of December.



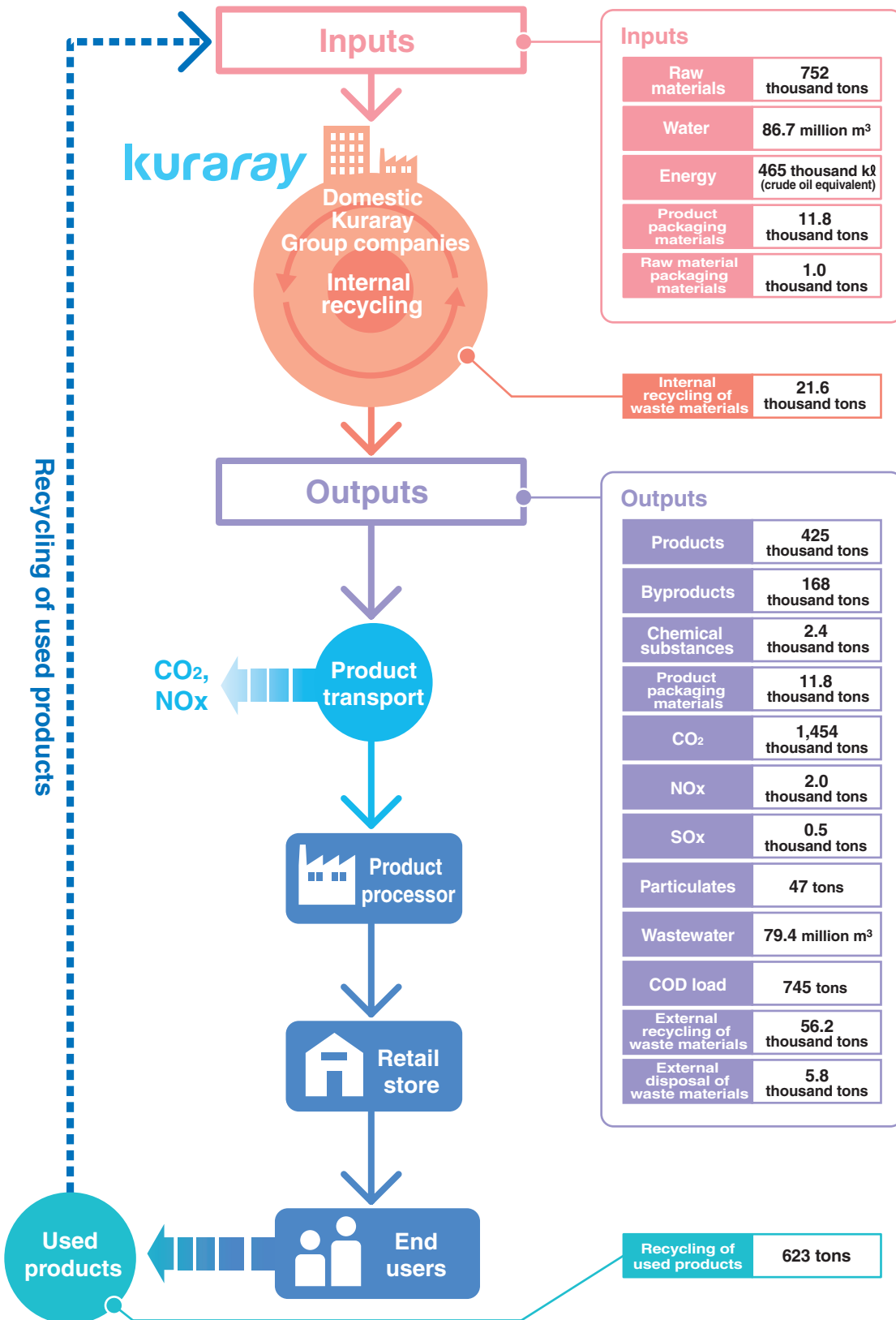
The vicinity of a reactor damaged in the explosion

*Vinyl acetate is a raw material used in poval resin, EVAL resin, and vinylon fiber.

Environmental Impact of Business Activities

Materials Flow in the Kuraray Group

The Kuraray Group uses substantial quantities of energy, chemical substances, and water resources in its business activities. Because these business activities consequently exert various effects on the environment, Kuraray steadily works to minimize their environmental load. The flowchart below depicts the flow of materials in business activities in fiscal 2005.



Environmental and Safety Policies

Basic Responsible Care Policies

In line with the provisions of the Principles for Business Conduct (established in 1998; see P.2), the following three policies embody the most basic concepts of environmental preservation and industrial safety promotion at Kuraray.

Basic Policy Concerning Global Environmental Problems

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

Basic Policy on Disaster Prevention and Occupational Safety

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

Basic Policy on Product Safety

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

Responsible Care

The term 'responsible care' refers to responsible activities on the part of companies that handle chemical materials to preserve the environment, ensure safety, and promote health at every stage of the product lifecycle, from product development through manufacturing, use, and disposal. Kuraray has participated in the Japan Responsible Care Council since its establishment in April 1995.

Kuraray Group Action Guidelines for the Global Environment

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

Basic Policy

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

Kuraray puts this basic policy into practice by engaging in the following activities.

- 1) Business activities that place the highest priority on the environment and safety
- 2) Permanent global environmental improvement activities
- 3) The development of technologies and products that contribute to improving the global environment

Principles of conduct

- 1) Continuous reduction of emissions of designated chemical substances into the environment
- 2) Reduction in emissions of greenhouse gases and greater energy efficiency to contribute to the prevention of global warming
- 3) Promotion of resource conservation, reuse, and recycling
- 4) Development and provision of technologies for improving the environment and low-environmental-load products
- 5) Use of environmentally friendly products
- 6) Public disclosure of environmental information and dialog with the community
- 7) Raising the level of environmental consciousness and environmental management

Medium-Term Environmental Plan

Policies

The Kuraray Group has established the Medium-Term Environmental Plan as part of G-21 Medium-Term Business Plan (covering the years from fiscal 2001 to 2005) and is actively engaged in environmental preservation activities in line with specific numerical targets set forth in the plan. We are also reviewing the plan in accordance with legal and regulatory trends and progress to date.

High-Priority Tasks

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

Numerical targets

- (1) Reduction of 10% in carbon dioxide emissions per unit of output in fiscal 2010 from the fiscal 1990 level
- (2) Increase of 6 percentage points in energy efficiency in fiscal 2005 from the fiscal 1999 level
- (3) Reduction of 90% in emissions of Japan Chemical Industry Association's PRTR-designated substances in fiscal 2007 from the fiscal 1999 level
- (4) Reduction of 90% in the external disposal volume of unutilized industrial waste in fiscal 2005 from the fiscal 1999 level
- (5) Increase of at least 30 percentage points in the effective waste utilization rate in fiscal 2006 from the fiscal 1999 level (60 → 90%)

Progress with Numerical Targets in the Medium-Term Environmental Plan

Target	Unit	Base year	Fiscal 2005	Target fiscal year	Activities in fiscal 2005			
Reduction of 90% in emissions of PRTR-designated substances	Kuraray	All substances	3,545(100%)	2,064(58%)	<ul style="list-style-type: none"> • Installation of a cover for a wastewater pool (prevention of methanol evaporation) 			
		PRTR-designated substances	1,361(100%)	570(42%)				
	Domestic affiliates	All substances	889(100%)	382(43%)				
		PRTR-designated substances	475(100%)	8(2%)				
Total	All substances	4,434(100%)	2,446(55%)	Fiscal 2007				
	PRTR-designated substances	1,836(100%)	578(31%)	184(10%)				
Reduction of 90% in external disposal volume of unutilized industrial waste	Kuraray		9.6	3.6	<ul style="list-style-type: none"> • Start of use of a gasification fusion furnace • Conversion of film scraps into fuel • Effective utilization of other individual waste materials • Reduction in the quantity of coal ash effectively utilized (negative impact) 			
	Domestic affiliates	1,000 tons	5.0	2.2				
	Total	Fiscal 1999	14.6(100%)	5.8(39%)		Fiscal 2005		
Increase of 30 percentage points or higher in effective waste utilization	Kuraray		63	87	<ul style="list-style-type: none"> • Start of use of a gasification fusion furnace • Conversion of film scraps into fuel • Effective utilization of other individual waste materials • Reduction in the quantity of coal ash effectively utilized (negative impact) 			
	Domestic affiliates	%	16	68				
	Total	Fiscal 1999	60	85		Fiscal 2006		
Reduction of 10% in CO ₂ emissions per unit of output	Kuraray	Tons CO ₂ /ton	Fiscal 1990	2.93(100%)	3.33(112%)	Fiscal 2010	2.64(90%)	<ul style="list-style-type: none"> • Boiler fuel conversion • Expanded use of biomass fuel
Increase of 6 percentage points or higher in energy efficiency (one point per year)	Kuraray	%	Fiscal 1999	—	—	Fiscal 2005	6	<ul style="list-style-type: none"> • Energy efficiency improvement at a power plant

Summary of Target Achievement During the Term of G-21 and Action Points

- With regard to improvement in the effective utilization of industrial waste, owing to the early achievement in fiscal 2002 of the initial target reduction of 20 percentage points, the target was revised to reduction of 30 percentage points (effective utilization rate of 90%). We aim to achieve the revised target in fiscal 2006 (actual result of 85% in fiscal 2005). We will continue to implement utilization measures, including the conversion of waste into fuel.
- With regard to the target of a reduction of 90% in external disposal volume of unutilized industrial waste, achievement in fiscal 2005 was only about 60%. We will redouble our efforts to curb the volume of waste generated.
- With regard to the target of a reduction of 90% in emissions of PRTR-designated substances, emissions have been sharply reduced since fiscal 1999 and we will engage in capital investment to achieve further reductions.
- With regard to measures to prevent global warming (reduction of CO₂ emissions), we have engaged in various energy conservation measures and moved forward with the use of biomass fuel. We have installed photovoltaic power generation facilities at Tsukuba Research Laboratories as a new energy source. We will expand use of photovoltaic power generation and consider the introduction of new energy sources such as wind power generation.

Environmental Management

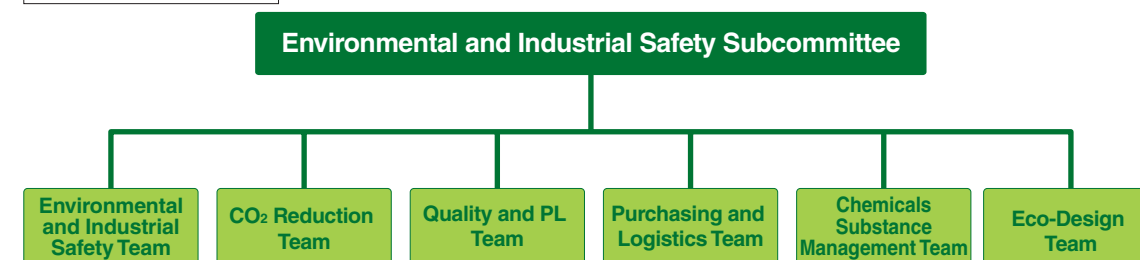
Policies

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

Implementation Structure

The Kuraray Group treats environmental management as a group-wide issue and has established the Environmental and Industrial Safety Subcommittee of the CSR Committee as an organization subordinate to the Executive Committee to engage in environmental preservation activities from a medium-term and long-term perspective. The Environmental and Industrial Safety Subcommittee maintains several specialized teams that implement the Kuraray Group's environmental preservation activities. Kuraray has also established the Environmental, Industrial Safety and Quality Management Center at corporate headquarters and the Environmental, Industrial Safety and Quality Management Department/Section at the plants as organizations responsible for environmental and industrial safety.

Implementation Structure



RC Activities Verification Meeting

Kuraray has participated in the Japan Responsible Care Council since its establishment in 1995 and engages in numerous responsible care (RC) activities. The term 'responsible care' refers to responsible activities on the part of companies that handle chemical materials to preserve the environment, ensure safety, and promote health at every stage of the product lifecycle, from product development through manufacturing, use, and disposal. To ensure steady implementation of RC activities, each year Kuraray conducts internal RC audits, holds the Kuraray Group Responsible Care Convention and the RC Activities Verification Meeting, and operates a PDCA cycle to raise the level of RC activities.



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

The common themes selected for fiscal 2005 were Occupational Safety and Health and Disaster Prevention, and Kuraray Plastics Co., Ltd was newly included in the scope of verification. Topics covered at the fiscal 2005 RC Activities Verification Meeting included Facilities Aging and Corrosion Countermeasures, Risk Assessment and Change Management, and Response to the Asbestos Problem.

Environmental Management Systems

Since 1998, the Kuraray Group has worked to acquire ISO 14001 certification to increase the effectiveness of our environmental preservation activities. As a result, all domestic plants and research laboratories were certified by December 2001. Among the domestic affiliates, in fiscal 2005, Kuraray Trading Co., Ltd. newly obtained the certification, following Techno Soft Co., Ltd., Kuraray Plastics Co., Ltd., Magictape Co., Ltd.

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

Zero Emissions of Industrial Waste

Policies

Zero Emissions

Zero Emissions is a concept advocated by the United Nations University for an industrial structure that does not produce waste. The goal of this concept is for wastes and by-products of one industry to be used as resources by a new field, so that overall there is no waste produced. It is generally used in the sense of promoting recycling by thoroughly separating all waste, and reducing levels of waste disposed of through incineration and landfilling.

The Kuraray Group engages in improving production processes and developing methods to effectively utilize waste for a reuse and recycling purpose with the aim to achieve zero emissions of industrial waste.

In the Medium-Term Environmental Plan implemented until fiscal 2005, we engaged in activities with the objective of achieving in fiscal 2005 an increase of at least 20 percentage points in the effective waste utilization rate and a reduction of 90% in the volume of unutilized externally-processed industrial waste from the fiscal 1999 base year levels. As the target for effective waste utilization was achieved ahead of schedule in fiscal 2002, we established a revised target of an increase of at least 30 percentage points in the effective waste utilization rate in fiscal 2006 from the fiscal 1999 level.

In the newly established Medium-Term Environmental Plan covering the period from fiscal 2006 to fiscal 2008, we have increased the fiscal 2006 target for the effective waste utilization rate to 90%. We are working to maintain this level of waste utilization and engaging in other activities to achieve zero emissions.

Current State of Activities

Progress in Achieving Zero Emissions

In fiscal 2005, the Kuraray Saijo Co., Ltd. achieved zero emissions, joining Kashima Plant, Okayama Plant, Nakajo Plant, and the Kuraray Trading Co., Ltd. Okayama Plant to become the fifth Kuraray Group plant to reduce industrial waste emissions to zero.

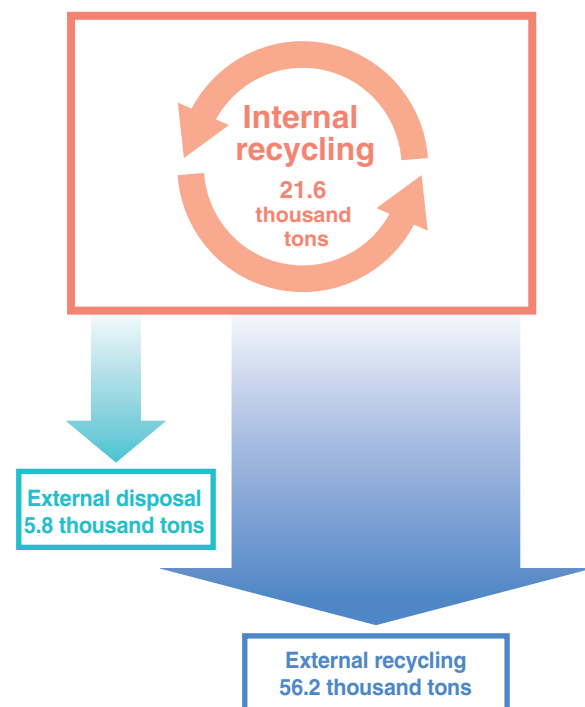


●Kuraray Saijo Co., Ltd.

The Kuraray Group's Definition of "Zero Emissions"

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

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



Thermal Recycling

Thermal recycling involves reuse of recycled resources as fuel or another heat source. This differs from material recycling, the conversion of used products into resources and creation of new products from them.

Decomposition of Waste Using a Gasification Fusion Furnace

A high-temperature gasification fusion furnace is used to decompose industrial waste into flammable gases, molten metal, and molten slag. This makes it possible to use the flammable gases as fuel, the molten metal as metal resources, and the molten slag as soil stabilization materials.

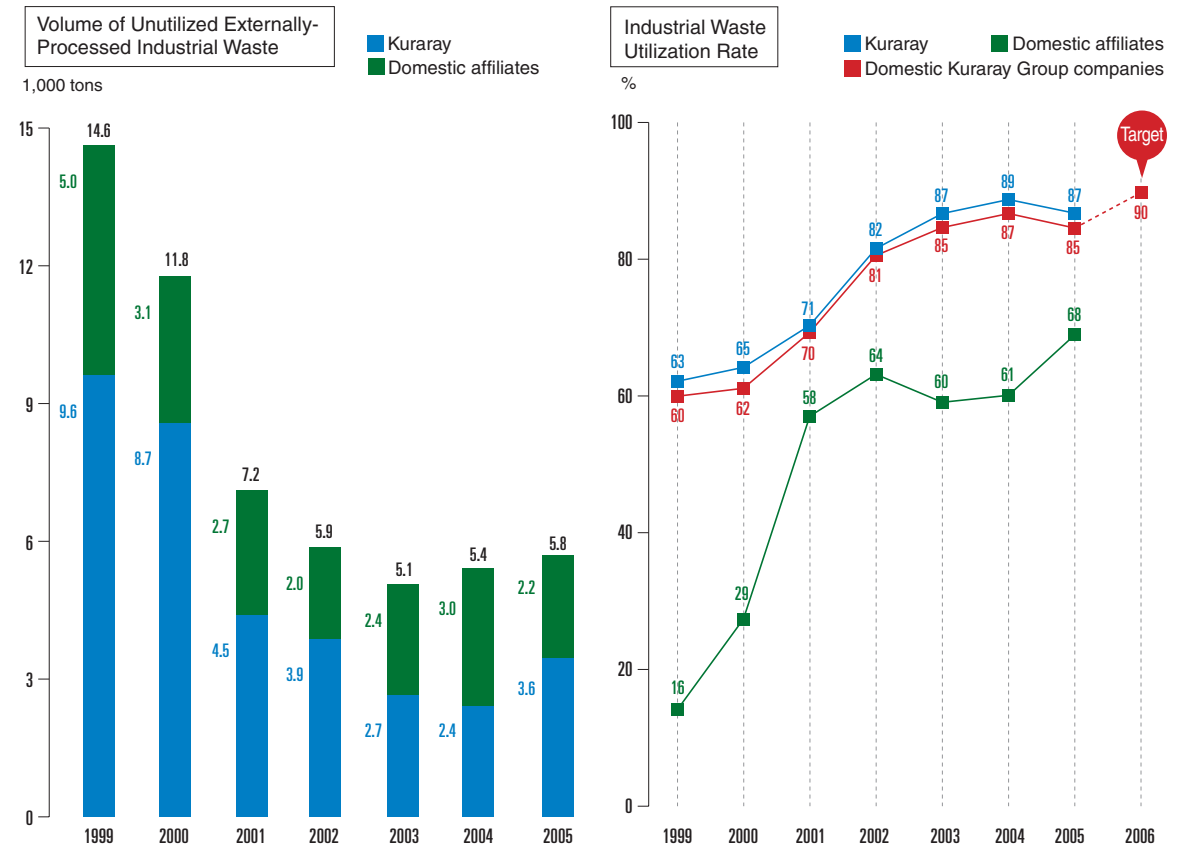
Activities in the Medium-Term Environmental Plan

The Kuraray Group engaged in following activities in the Medium-Term Environmental Plan covering a period from fiscal 2001 to fiscal 2005.

- ① Efficient use of materials and reuse of packaging materials
- ② Development of a zero surplus sludge system for use in treating wastewater
- ③ Effective utilization of waste through waste separation
- ④ Development of methods for the effective utilization of individual types of waste
- ⑤ Thermal recycling of waste plastic
- ⑥ Decomposition of waste using a gasification fusion furnace

As a result of these activities, the industrial waste utilization rate in fiscal 2005 for domestic Kuraray Group companies was 85%, an increase of 25 percentage points from the fiscal 1999 base year level. Although the 5,772 tons of unutilized externally-processed industrial waste in fiscal 2005 represents a 60% reduction from the fiscal 1999 level, it fell short of the target of 90% reduction from the fiscal 1999 level set forth in the Medium-Term Environmental Plan. The shortfall against the target is attributable to landfilling owing to a reduction in the volume of coal boiler ash reutilized and a higher than anticipated volume of waste generated owing to brisk production during the term of the Medium-Term Environmental Plan, which offset the beneficial effects of the conversion of film scraps into fuel and the conversion of waste generated in the activated charcoal manufacturing process into raw materials for iron production.

According to the Ministry of the Environment of Japan, the total industrial waste production in fiscal 2003 was approximately 412 million tons, of which 201 million tons (48.8%) was recycled. (This information was obtained from material published on the Ministry of the Environment website.)



Action Points

Although we have nearly reached the goal of finding new effective applications for coal ash, we will continue to promote the effective use of industrial waste through waste separation and the development of new methods of effectively using waste to further reduce the volume of unutilized externally-processed waste. In fiscal 2006, we aim for an industrial waste utilization rate of 90%. To reduce the volume of industrial waste generated, we will promote the effective use of resources through various means, including product yield increases and the development of a zero surplus sludge system for use in treating wastewater.

Management of Chemical Substances

Policies

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

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

Activities

Activities to Reduce Chemical Substance Emissions

Kuraray has participated in the PRTR program of the Japan Chemical Industry Association (JCIA) since its inception and ascertains the volume of emissions of chemical substances such as substances designated by the Pollutant Release and Transfer Register Law (PRTR Law). The JCIA's PRTR program covers 480 substances (including 354 PRTR Law-designated substances), 80 of which are handled by Domestic Kuraray Group companies.

The Kuraray Group has worked to reduce emissions of these chemical substances on the basis of the Medium-Term Environmental Plan. As a result of a revision to the Medium-Term Environmental Plan, we now aim to achieve a reduction of 90% in emissions of PRTR Law-designated substances under the JCIA program in fiscal 2007 from the fiscal base year 1999 level.

In fiscal 2005, emissions of these substances were 2,446 tons (including 570 tons of PRTR Law-designated substances), a 45% reduction from the fiscal 1999 level but only a 3% reduction from the previous year. Although we implemented emissions reduction measures such as the introduction of equipment to recover methanol emitted in the Poval manufacturing process at the Okayama Plant and the Niigata Plant, all of this equipment will go into operation in fiscal 2006.

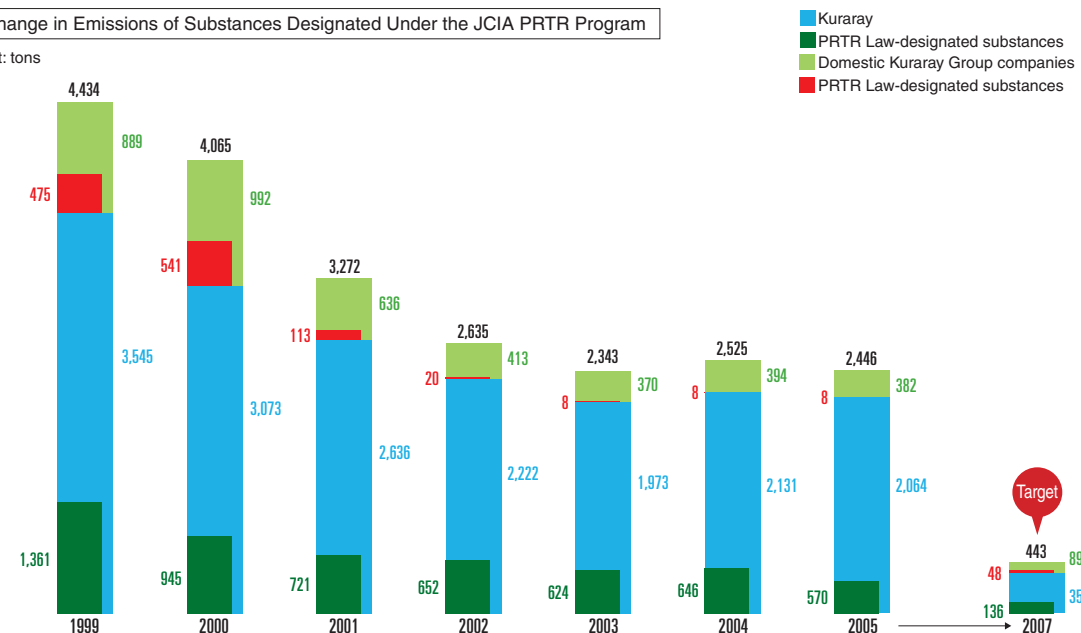
In fiscal 2006, we plan capital investment for projects such as the installation of exhaust incineration facilities in the SEPTON manufacturing process at the Kashima Plant and the installation of systems to absorb isoprene emitted from tanks at the Kashima Plant. We will continue to engage in long-term initiatives to reduce emissions, placing priority on comparatively harmful substances.

Pollutant Release and Transfer Register Law (PRTR Law)

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

Change in Emissions of Substances Designated Under the JCIA PRTR Program

Unit: tons



Action Points

VOC

An abbreviation for Volatile Organic Compounds, gaseous organic compounds discharged or dispersed into the atmosphere, excluding, however, suspended particulate matter and substances that do not cause the formation of oxidants stipulated separately by a government ordinance.

In fiscal 2006, volatile organic compounds (VOC) regulations come into force in accordance with the provisions of the Air Pollution Control Law. Emissions reduction measures are required at some facilities at the Kuraray Group subject to the regulations, and we plan to implement reliable measures. Although we expect to be able to achieve reductions through voluntary control as part of chemical substances emissions reduction activities implemented to date, we will conduct a review to coincide with the preparation of voluntary control programs by the industry and others.

Asbestos Countermeasures

Because asbestos has adverse effects on human health, its use in Japan is totally prohibited except for exceptional applications such as use for sealing materials at chemical plants. Although some domestic Kuraray Group companies use asbestos for special sealing materials at their chemical plants, we are working to identify alternative materials and eliminate its use as soon as possible. Some facilities at Kuraray plants built before current asbestos regulations were enacted use asbestos as an insulating material. We are systematically engaging in removal and other countermeasures, taking adequate means to prevent asbestos dispersion.

Preservation of the Natural Environment

Policies

In 2004, Kuraray established the Activities Policies Concerning Preservation of Biodiversity, setting forth corporate initiatives to preserve biodiversity. The framework of the policies is described below.

1. Promotion of Protection

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

2. Awareness Activities and Education

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

3. Support for Activities

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



2006 Kuraray Calendar
Each year, Kuraray works to raise awareness of environmental preservation among the Kuraray Group companies including their customers and related companies by producing and distributing an original calendar on a conservation theme.

Current State of Activities

Kuraray Saijo Co., Ltd. has constructed a fishway to assist natural sweetfish to swim upstream in the nearby Kamo River. With regard to the critical issue of biodiversity preservation, employees of the Tokyo head office came up with an activity in which they can participate based on the idea of starting with the enjoyment of contact with nature at a nearby location. Taking advantage of the headquarters location in Otemachi, they engage in nature observation activities at the Ninomaru Garden of the Imperial Palace on their lunch breaks in cooperation with the Nature Conservation Society of Japan.



Action Points

Kuraray will provide opportunities for employees and their families to participate in nature observation and more advanced nature conservation activities. A key task is ongoing engagement in activities not only at the Tokyo headquarters, but also at the plants in various locations.

Reducing Environmental Load During Transport

Policies

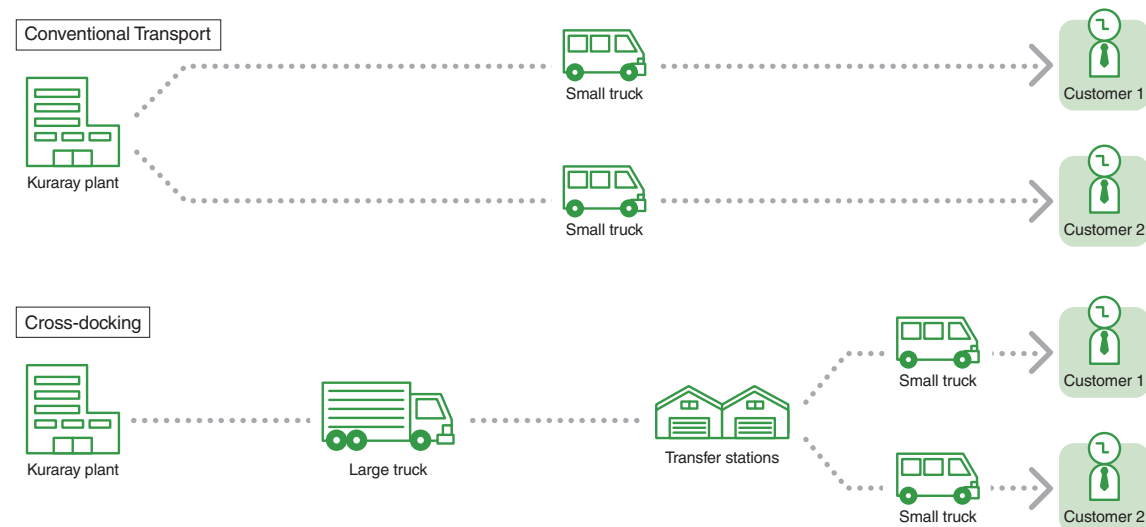
To reduce emissions of carbon dioxide (CO₂), nitrogen oxides (NO_x), and other substances that place a load on the environment during transport, Kuraray is increasing transport efficiency and implementing a modal shift to more efficient modes of transport. To comply with the Revised Law concerning the Rational Use of Energy, which went into effect in April 2006, we will strive to expand the scope of application of CO₂ emissions calculation, increase the accuracy of calculations, and continue to engage in broad-based emissions reduction activities, not only in our own operations, but also jointly with logistics partners.

Activities

- Under the Revised Law concerning the Rational Use of Energy, responsibility of shippers for energy conservation measures related to transport has increased. Reporting of CO₂ emissions volume to the competent minister and the issuance of specific plans and measures for CO₂ emissions reduction are mandatory. Since fiscal 1999 Kuraray has voluntarily calculated and used CO₂ emissions volume as an index in evaluating activities to reduce environmental load during transport. In fiscal 2005 we mounted a group-wide effort to tackle this problem; we created a CO₂ emissions volume measurement system, worked to expand the scope and increase the accuracy of emissions calculation, and thoroughly familiarized the marketing and sales organizations with the purport of the Revised Law concerning the Rational Use of Energy.
- In fiscal 2005 we worked to achieve further reductions in environmental load through greater efficiency in transport, the implementation of a modal shift, and initiatives targeting logistics partners. The principal measures were as follows:
 - Implementation of coastal vessel feeder transport of freight containers
 - Increases in truck and container load efficiency from changes in product packaging specifications
 - A switch from trucks to JR containers for the transport of products between Kuraray plants
 - Expansion of cross-docking
- We continued to evaluate the environmental friendliness of our logistics partners from the perspective of whether they engage in measures to increase the efficiency of transport modes (such as joint shipping and the use of low-pollution vehicles) for the purpose of energy conservation, resource conservation, and the curbing of exhaust emissions in accordance with the Green Purchasing Guidelines. In fiscal 2005 the "greenness" of our logistics partners increased substantially from the previous year to 85%. We will continuously implement initiatives to encourage all logistics partners to conform to the Green Purchasing Guidelines.

●Cross-Docking

Cross-docking is a transport method that involves consolidating small and medium-sized lots of products subject to short delivery schedules and using transfer stations near customer locations to break bulk. Cross-docking makes it possible to curb the use of energy-inefficient small vehicles, such as four-ton trucks.



Action Points

There are limits to what Kuraray alone can do to expand initiatives to reduce environmental load. We aim to implement wide-ranging measures, including joint logistics within the Kuraray Group and with other companies and greater collaboration with logistics partners.

Disaster Prevention

Policies

In keeping with the Basic Responsible Care Policies, the Kuraray Group regards the prevention of fires, explosions and other forms of disaster at plants, safety assurance, and the provision of a sense of security to host communities and society at large as a critical management task. Accordingly, Kuraray engages in disaster prevention activities. To ensure basic facilities safety, Kuraray has established the Equipment Safety Design Guidelines and Safety Inspection Standards. When facilities are newly installed or rebuilt or when there is a major change in operating conditions, to prevent accidents or disasters we conduct safety inspections at four stages: during design, during construction, before commissioning, and after startup. We also maintain a disaster response system and are improving systems to provide information to surrounding areas in the event a disaster occurs. Although Kuraray has continued to earnestly engage in such disaster prevention measures, in fiscal 2005 an explosion occurred at a chemical facility of the Okayama Plant and a leakage accident occurred at the Kashima Plant. In response to the president's emergency proclamation Safety Is the Cornerstone of Every Activity issued on the occasion of these explosion and leakage accidents and major occupational accidents, we will continue to work to maintain and further strengthen disaster prevention systems as part of Special Safety Promotion Activities established and implemented group-wide.

Activities

● Disaster Preparation and Mitigation

●Natural Disaster Preparation and Mitigation

To prepare for a potential increase in natural disasters owing to abnormal weather attendant on global warming, the Kuraray Group is investing to increase resistance against natural disasters. In 2004 some plants incurred tidal-wave damage due to Typhoons 19, 20, and 21. In light of this experience, in fiscal 2005 we installed a tide wall at the Okayama Plant to protect against tidal waves. In fiscal 2006 we plan to reinforce the tide wall at the Kurashiki Plant.



●Disaster Prevention Drills

To guard against accidents, each Kuraray plant maintains a disaster prevention organization unit and engages in periodic drills. In fiscal 2005, the plants conducted disaster prevention drills to prepare for emergency situations, including fire, earthquake, leakage, and nighttime emergency. Representatives from the Kurashiki Plant and Okayama Plant disaster prevention units participated in firefighting technique training conventions held by the fire departments in their respective cities and received commendations for excellent results.

●Fire Brigade

As some Kuraray Group plants use large quantities of flammable hazardous materials in their production activities, to guard against fire we maintain firefighting facilities at all sites that handle hazardous materials and organize independent fire brigades at each plant. The Kurashiki Plant (Tamashima) is a member of the Tamashima Joint Disaster Prevention Brigade (fire brigade) of the Mizushima Industrial Complex area. In fiscal 2005, the Okayama and Kurashiki Plants updated a total of three firefighting vehicles to maintain and enhance fire response capabilities.



Action Points

To engage in cause analysis and preventative measures from a new perspective in response to the recent spate of fire, explosion, and leakage accidents, Kuraray will strive for effective implementation of facilities management systems based on the PDCA cycle to counter corrosion and aging and will allocate management resources (personnel and funds) in a systematic and focused way. We will engage in risk assessment to expose and evaluate critical locations and implement appropriate countermeasures.

Occupational Safety and Health

Policies

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

Safety Initiatives

Kuraray Group Responsible Care Convention

Kuraray holds the Responsible Care Convention to raise the level of responsible care (RC) by having employees introduce advanced case examples related to RC. In fiscal 2005 the convention was sponsored by the Office of CSR, which was newly inaugurated in April. The main theme of the convention was occupational accident recurrence prevention. The participants engaged in panel discussions, presented case examples, and discussed continuous activities.



Experiential Education in Occupational Hazards

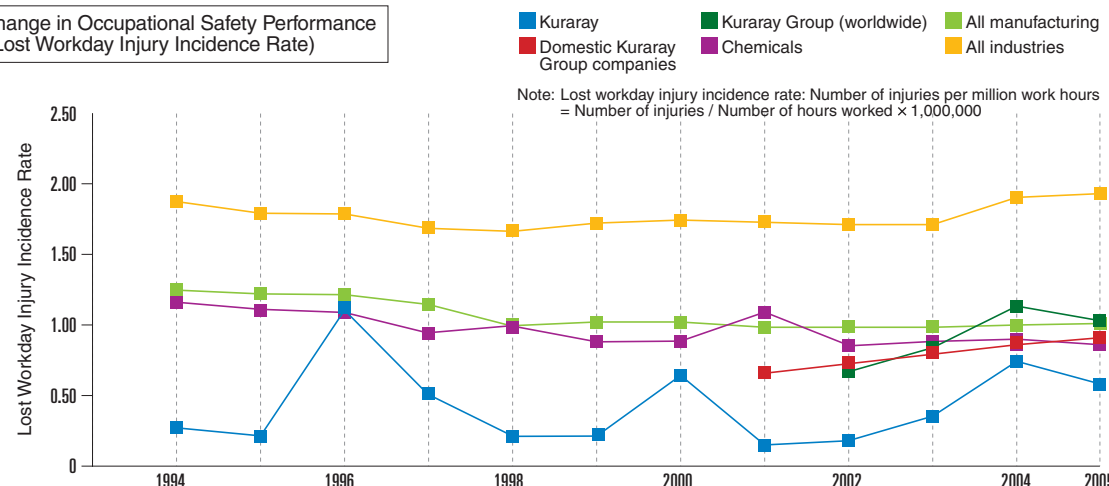
In addition to classroom learning about the hazards posed by the equipment and chemicals workers handle in their day-to-day work, the Kuraray Group continuously provides experiential education in occupational hazards conducted by external educational institutions. In fiscal 2005, a course on the themes 'Pinched and Entangled' and 'Spouting and Suffer from a splash.' About 440 participants experienced the importance of accident prevention.



Special Safety Activities

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

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



Action Points

Despite the numerous occupational safety activities described above, in fiscal 2005 a fatal accident occurred. Recognizing that Kuraray faces the most serious crisis since its founding, the president issued the emergency proclamation Safety Is the Cornerstone of Everything We Do. To establish and implement group-wide "back to basics safety measures, Kuraray established the Special Safety Promotion Committee, has designated 2006 as the "Year of reestablishment of safety and trust," and is engaged in safety activities.

Health Initiatives

One aspect of the Kuraray Group global HR policy is to maintain work environments in which people can safely work in good physical and mental health. In fiscal 2005 Kuraray formulated an annual policy based on the Basic Policy on Occupational Health and worked to maintain and promote employee health and create pleasant, comfortable workplaces through workplace improvement and continuous occupational health activities.

Principles for Business Conduct

See P.2 for details on the Kuraray Group's Principles for Business Conduct.

Basic Policy on Occupational Health

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

Fiscal 2005 Annual Occupational Health Policy

- Review of the occupational health management organization
- Implementation of mental health care activities
- Implementation of health promotion measures
- Preparation of an occupational health management manual

Augmenting Mental Health Care

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

Understanding of Mental Health

Kuraray works to prevent mental health problems by conducting training and lectures on mental health.

Early Detection

Kuraray makes available to employees the services of an external EAP company with which the Kuraray Health Insurance Association has a contract. Each plant maintains its own internal and external points of contact for employee counseling so that employees can freely seek consultation. The plants conduct their own employee stress surveys, and the plant occupational physicians conduct interviews at sections where stress is high and consider countermeasures.

EAP

EAP stands for employee assistance program, a program for providing consultation and advice about mental health. Employees or family members can obtain health advice by telephone or seek counseling in personal interviews.

Return to the Workplace Following Leave

In fiscal 2005 Kuraray added to the collective labor agreement procedures to follow when employees on leave request reinstatement to enable employees who take leave for medical care to return to work without anxiety.



Mental health training

Implementation of Health Promotion Measure

Medical Examinations

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

Health Guidance and Exercise Instruction

The Safety and Health Committee plays a central role in a program by which the plants engage in activities adapted to their individual workplace circumstances. In the area of health guidance, the plants provide guidance based on the results of medical examinations, maintain smoking and non-smoking areas, hold lectures, and engage in other activities. They also provide exercise instruction such as the encouragement of exercise to prevent lower back pain and the organization of inter-departmental sports competitions.



Promoting health through yoga

Action Points

- In fiscal 2006 Kuraray will continue to augment its health initiatives, focusing on mental health care.
- We will study a system to enable employees to engage in simple self-examinations for stress.
 - In addition to training for managers and supervisors, we will systematically conduct self-care training for ordinary employees.
 - We will conduct an employee awareness survey as part of mental health care.

Quality Assurance and Product Safety

Policies

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

I. Basic Policy on Product Safety

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

II. Action Guidelines for Product Safety

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

Implementation Structure

PL (Product Liability)

Product liability is the liability for damages that a manufacturer or processor of a product bears when a product defect causes harm to life, limb, or property. From the standpoint of consumer protection, if a product defect can be demonstrated the manufacturer is liable regardless of whether the defect is the result of error or omission.

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



Quality Assurance

The Kuraray Group is acquiring certifications in the ISO 9001 international quality management system and engages in quality assurance activities based on a PDCA cycle. We have established Customer Information Management Regulations. Strictly protecting customer personal information, we ascertain customer wants and needs for Kuraray Group Products through interview and questionnaire surveys and strive to reflect the findings in product quality.

Sites That Have Obtained Quality Management System Certification

Kuraray Niigata Plant	Kuraray Okayama Plant	Kuraray Kashima Plant	Kuraray Saijo Co., Ltd.	Kuraray Tamashima Co., Ltd.
Kuraray Chemical Co., Ltd.	Kuraray Plastics Co., Ltd.	Kuraray Techno Co., Ltd.	Kuraray Fastening Co., Ltd.	Kuraray Medical Inc.
Eval Company of America	SEPTON Company of America	EVAL Europe N.V.	Kuraray Specialities Europe GmbH	

Product Safety

Material Safety Data Sheet (MSDS)

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

Kuraray has established independent safety standards including the Product Safety Management Standards for the R&D Stage, Product Safety Management Standards up to Market Launch, and Handling Instructions Production and Management Guidelines. In creating products we carefully consider their impact on the environment, health, and safety at every stage of the product lifecycle, from R&D to final disposal. When a problem is anticipated in the safety assessment process, we ensure product safety by changing materials or production processes.

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

In the event that a product liability-related incident (a product liability incident or a complaint or quality problem that could lead to a product liability incident) occurs in the Kuraray Group, we take rapid and appropriate action in accordance with the Kuraray Group Product Liability-Related Accident Response Regulations.

Product Complaints

The Kuraray Group strives to rapidly and properly handle customer complaints in connection with product quality in accordance with the Quality Complaint Handling Regulations. The Quality and PL Team and its subordinate organizations strive to reduce the number of quality complaints by providing departments in the Company with support for activities to prevent complaints and avoid their reoccurrence.

Action Points

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

Logistics Safety

Policies

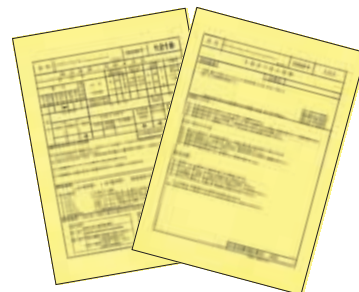
The domestic Kuraray Group companies have established Distribution Safety Management Standards and the Distribution Safety Management Standards Implementation Procedures to rigorously ensure safety management during the physical distribution of chemical products. On the basis of these standards, Kuraray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

Current State of Activities

Through the Logistics Safety Conference and other means, distribution safety supervisors periodically provide employees involved with physical distribution and contract distribution companies with education and guidance necessary to maintain product quality and ensure safety during handling.

In fiscal 2005 Kuraray established the Response Policy at the Time of Major Logistics Accidents Outside Plants and put in place a rapid deployment system within the Group. In this way, even should a major accident occur we mount an appropriate response and minimize the impact on society.

Yellow Cards (emergency response cards) contain information about the hazardous nature and toxicity of the chemical products being transported, emergency contact information, and emergency response procedures. To increase the effectiveness of Yellow Cards, we revised the Guidelines for the Control of Yellow Cards. We added container yellow card regulations and newly formulated Yellow Card Preparation Guidelines to make safety control procedures easier to understand.



Action Points

Logistics activities are becoming increasingly diversified owing to changes in customer needs and the social environment. Kuraray will anticipate new safety risks likely to arise and improve safety management systems to cope with those risks.

Environmental Data

* Information for individual sites is posted on the Kuraray website.

Environmental Accounting

Environmental Preservation Costs

Category		Investments	Costs	Principal Activities
Costs within the Sites	Pollution prevention costs	553	2,534	Environmental facilities operating costs Prevention of chemical substance emissions
	Global environmental conservation costs	1,528	848	Boiler fuel conversion (from heavy oil to natural gas) Electric power generator efficiency improvements (installation of turbines, etc.)
	Resource recycling costs	3	287	Waste reduction and recycling
	Total	2,084	3,669	
Upstream and downstream costs		—	172	Recycling and reuse of packaging materials, improvement of container packaging
Administrative costs		—	122	ISO 14001, environmental measurement, environmental education
Research and development costs		—	208	Development of eco-friendly products
Social activity costs		—	1	Afforestation, beautification, provision of environmental information to host community residents
Environmental damage costs		—	0	
Total		2,084	4,172	

• Total investment during the reporting period: ¥19,500 million (Totalled in accordance with the scope of environmental accounting)
 • Total R&D costs during the reporting period: ¥10,200 million (Same as above)
 • Beginning in fiscal 2005, the amount of environment-related investment is the actual amount of investment in facilities for which construction was completed and operation began during the reporting period. (In previous years the planned amount in the facilities investment plan for the reporting period was used.)

Environmental Preservation Effects

Category		Unit	Fiscal 2004	Fiscal 2005	Variance
Pollution prevention effect	SOx emissions	1,000 tons	0.59	0.50	-0.09
	NOx emissions	1,000 tons	1.93	1.83	-0.10
	Particulate emissions	Tons	67	38	-29
	Emissions of substances covered under the JCIA voluntary PRTR management program	Tons	2,131	2,064	-69
	COD load	Tons	734	741	+7
Global environment preservation activities	CO2 emissions	1,000 tons of CO2 equivalent	1,359	1,336	-23
	Energy consumption	1,000kl (crude oil equivalent)	468	451	-17
Resource recycling activities	Unutilized industrial waste disposed of in external landfills	1,000 tons	2.4	3.6	+1.2
	Industrial waste utilization efficiency	%	89	87	-2
	Water resource use	Million m ³	84.7	84.6	-0.1
	Total wastewater	Million m ³	79.4	77.5	-1.9

1 Basis for environmental accounting calculations

- Reporting period: April 1, 2005 to March 31, 2006
- Scope covered: Kuraray Co., Ltd.

2 Environmental conservation cost calculation criteria

- Depreciation: Straight-line method
- Standard for allocating costs: In principle 100% of costs are allocated to environmental individual conservation items. However, a portion of costs are allocated on a pro rata basis.

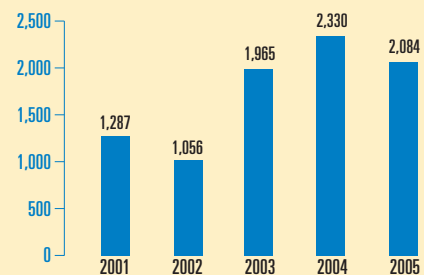
3 Standard for calculating environmental preservation effects

- Effects are calculated in a simple comparison with the total environmental load of the previous fiscal year and are not adjusted for production volume.

4 Standard for calculating economic effects (benefits) of environmental preservation measures

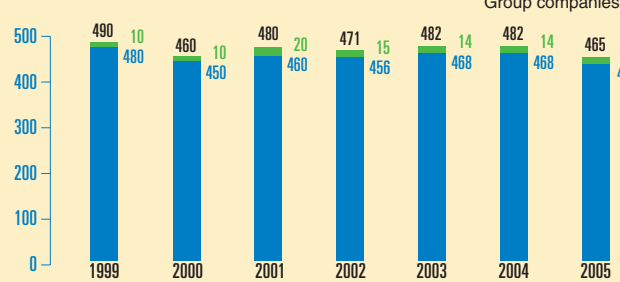
- Although material effects such as income from recycling are known, benefits are deducted from environmental preservation costs.

Investment in Environmental Facilities (Million yen)

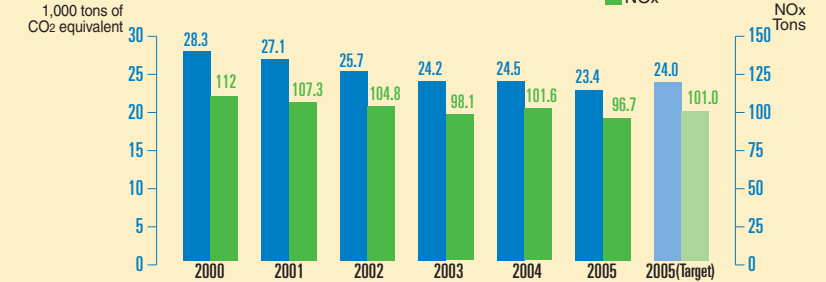


Global Warming Prevention

Energy Consumption (1,000kl crude oil equivalent)

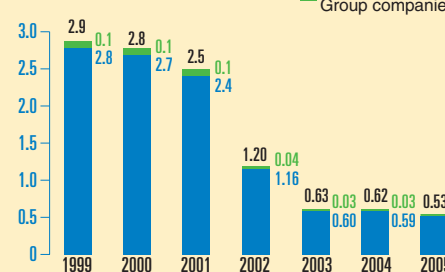


CO2 and NOx Emissions During Transport

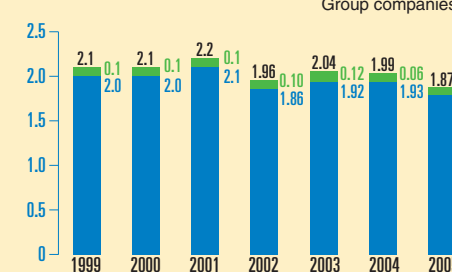


Air Pollution Prevention

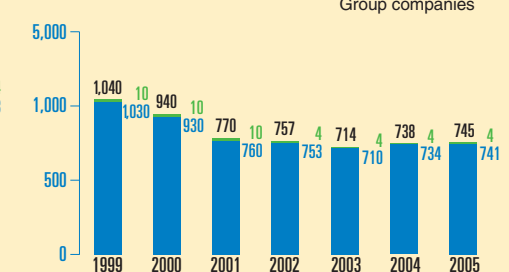
SOx Emissions (1,000 tons)



NOx Emissions (1,000 tons)



COD Load (Tons)



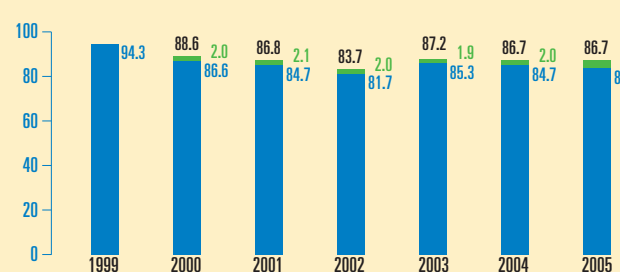
Management of Ozone Layer Depleting Substances

Emissions of Principal Ozone Layer Depleting Substances (Tons)

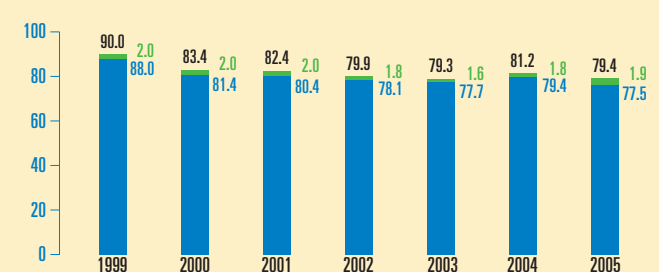
	Ozone depleting potential	Emissions					CFC equivalent				
		FY2001	FY2002	FY2003	FY2004	FY2005	FY2001	FY2002	FY2003	FY2004	FY2005
Hydrochlorofluorocarbons (HCFC-123)	0.02	0.93	1.52	0.31	0.97	3.84	0.02	0.03	0.01	0.02	0.08
Chlorofluorocarbons (CFC-11)	1.00	0.50	0.46	0.20	0.03	0.18	0.50	0.46	0.20	0.03	0.18
Carbon tetrachloride	1.10	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01	0.01
1,1,1-Trichloroethane (Methylchloroform)	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Three specified halons	3.0~10.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Hydrobromofluorocarbons	0.1~14.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Methyl bromide	0.60	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total		1.44	1.99	0.52	1.01	4.03	0.53	0.50	0.22	0.06	0.27

Resource Conservation

Water Use (Million cubic meters)



Wastewater (Million cubic meters)



The Kuraray Group at a Glance

Kuraray was established in 1926 for the purpose of commercializing the chemical fiber rayon. In 1950, soon after the Second World War, Kuraray became the first company in the world to successfully commercialize the synthetic fiber vinylon. Kuraray has always maintained a basic management stance of contributing to society through product development grounded in creative technological innovation. Embodying this stance are the many products the Kuraray Group provides worldwide that are world firsts, unique, or global market share leaders. These products, even those whose production volume or sales are small, provide value essential to people's lives and to industry.

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

Corporate Profile

Company name: Kuraray Co., Ltd. Head offices: Tokyo, Osaka
 Date of establishment: June 1926 Plants and laboratories: Kurashiki, Okayama, Niigata, Kashima, Tsukuba
 Capitalization: 89 billion yen (as of March 31, 2006) Group companies: 35 consolidated subsidiaries, 9 equity method affiliates
 Net sales (consolidated): 375.1 billion yen (fiscal 2005) Overseas operations: USA, Germany, Belgium, China, Singapore
 Number of employees: 6,842 (as of March 31, 2006)

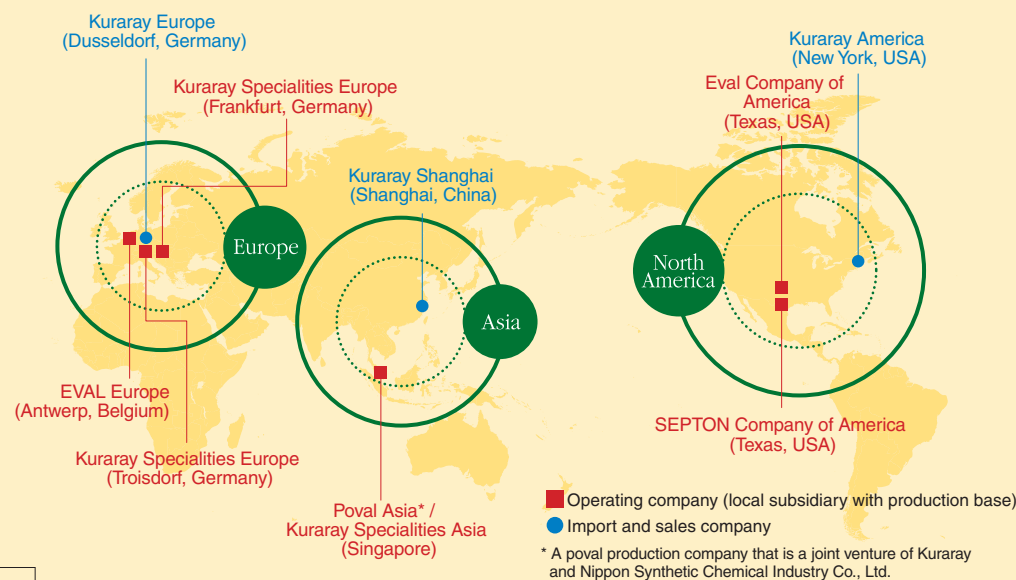
Global Rankings of Kuraray Group Products

No. 1 in Global Market Share	<ul style="list-style-type: none"> Poval (polyvinyl alcohol resin) Poval film (polarizing film materials for liquidcrystal displays) EVAL (EVOH gas barrier resin) 	<ul style="list-style-type: none"> Vinyon (polyvinyl alcohol fiber) CLARINO (micro fiber man-made leather)
No. 2 in Global Market Share	<ul style="list-style-type: none"> SEPTON (hydrogenated styrenic thermoplastic elastomer) 	
World-First Product	<ul style="list-style-type: none"> GENESTAR (highly heat-resistant nylon resin) 	

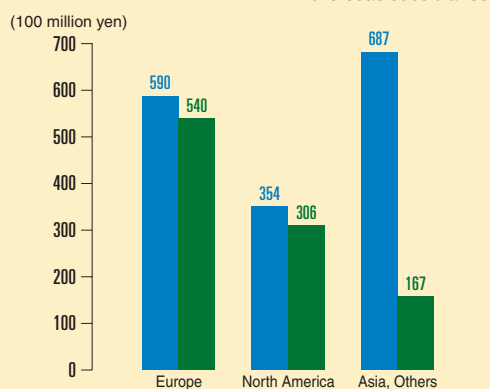
(Based on a Kuraray study)

Overseas Operations

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



Overseas Sales Fiscal 2005



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

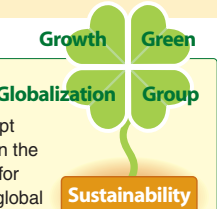
FY2001	FY2002	FY2003	FY2004	FY2005
30.2	38.4	41.3	42.3	43.5

The GS-21 Medium-Term Business Plan

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

What is GS-21?

The term "GS-21" is a combination of the 4G concept (Growth, Green, Globalization, Group) proclaimed in the previous G-21 medium-term business plan and "S" for Sustainability. It expresses the sustainability of the global environment and the Kuraray Group's sustained growth.



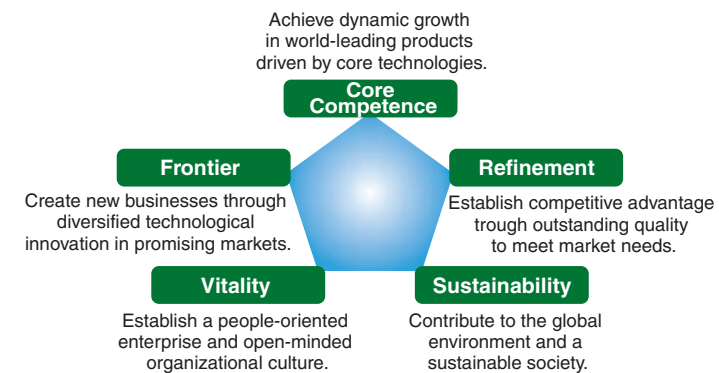
The 10-Year Corporate Vision

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

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

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

Five Basic Policies



The GS-21 Medium-Term Business Plan

In GS-21, the Kuraray Group has formulated a concrete management strategy from 2006 to 2008 in order to achieve the 10-Year Corporate Vision.

Performance Targets

	Fiscal 2005 actual results	Fiscal 2008	
		Commitment	Stretch target
Net sales	375.1 billion yen	450.0 billion yen	550.0 billion yen
Operating income	38.3 billion yen	50.0 billion yen	60.0 billion yen
ROA (Ratio of operating income to total assets)	8.2%	9.0%	10.0%
ROE (Ratio of net income to shareholders' equity)	6.5%	7.0%	8.0%

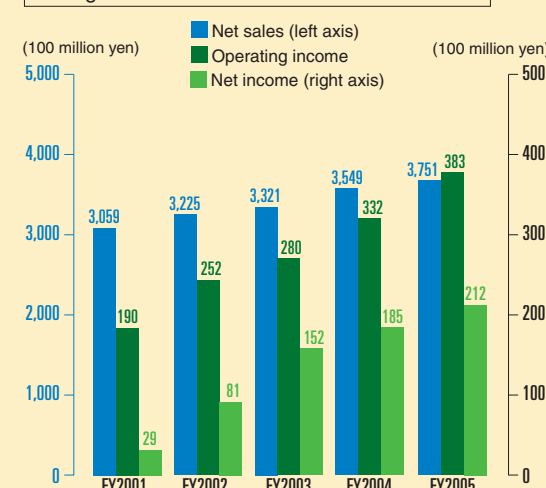
Stretch targets: Targets that factor in business expansion from the creation of new businesses and M&A activities

Priority Tasks

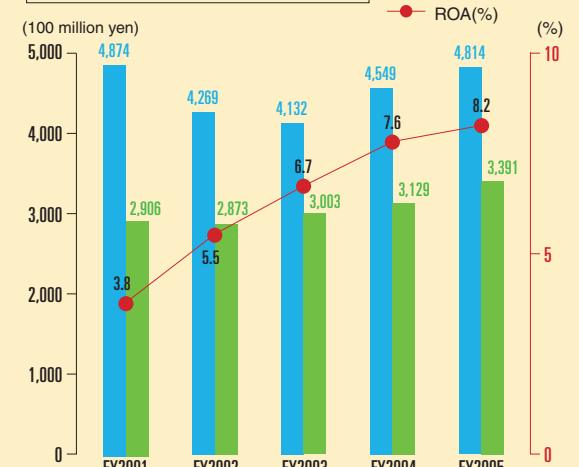
- Accelerate the development of new businesses and product in new growth fields.
- Pursue globally effective, rapid management.
- Nurture and strengthen human resources, the driving force for growth.
- Contribute to the sustainability of the global environment and corporate growth.

Financial Highlights

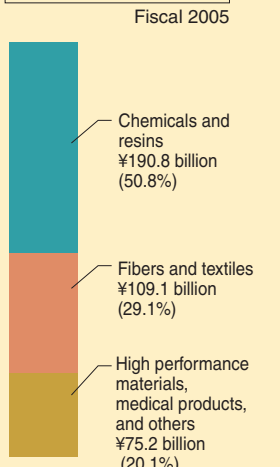
Change in Consolidated Business Performance



Change in Consolidated Total Assets, Shareholders' Equity, and ROA



Consolidated Net Sales by Segment Fiscal 2005



The Kuraray Group's Environmental Businesses

The Kuraray Group devotes effort to eco-friendly product development that takes advantage of its technological capabilities as a chemicals manufacturer. This undertaking is at the same time an aspect of Kuraray's corporate social responsibility initiatives to address environmental problems and an arena for creating new businesses. In this section, we introduce representative examples of the Kuraray Group's eco-friendly products using three themes: Water, The Atmosphere, and Resources.

(The products shown in this section were exhibited at Eco-Products 2005. See P.15.)

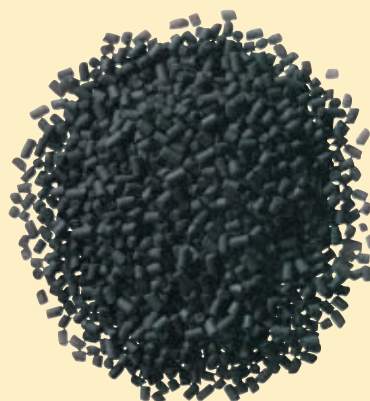
水 Kuraray Group Products That Protect Water



High-performance membrane for industrial use
Kuraray manufactures membrane filters that purify water by removing micro particles. These filters are used in the semiconductor industry and other high-tech industries, as well as at water purification plants, playing an important role in providing the water essential to our lives.



PVA Gel
PVA Gel contributes to environmental preservation by harnessing the power of microbes to clean wastewater at activated sludge treatment facilities.



KURARAY COAL activated carbon
Activated carbon, which absorbs odor-causing substances and other invisible water pollutants, is widely used in applications ranging from the production of treated tap water to home water purifiers.

資源 Kuraray Group Products That Protect Resources



EcoTalk* Recycle
EcoTalk Recycle is a system for recovering and recycling used work uniforms (chemical recycling). Recovered products are thermally decomposed in a furnace, reconstituted as useful chemical materials or coke, and reused.
*Brand name used only in Japan



MAGIC TAPE hook-and-loop fastener
MAGIC TAPE is a familiar component of countless clothing items and household products. When applied as a package bundling material that can be attached and detached at a single touch and reused over and over, MAGIC TAPE contributes to resource conservation and waste reduction.



Plastic products
Kuraray Plastics Co., Ltd. uses olefin polymer substitutes for vinyl chloride resin, Kuraray-developed SEPTON thermoplastic elastomer, and other substances to produce readily recyclable hoses and molding compounds.
Photo: Energy-saving temperature-sensitive hoses

大気 Kuraray Group Products That Protect the Atmosphere



EVAL high-performance resin
Plastic fuel tanks are becoming increasingly widespread as a means of reducing the weight of automobiles and conserving energy. However, the use of ordinary plastic entails a problem of atmospheric emissions of volatile constituents in gasoline. Kuraray's EVAL resin offers excellent gas barrier properties and is widely used in the barrier layer of fuel tanks, thus contributing to protection of the atmosphere.



Vynlon synthetic fiber
The use of asbestos, which has adverse effects on the human body when dispersed in the air, is increasingly regulated. Kuraray was the first company in the world to commercialize the PVA fiber vynlon, which is widely used as a substitute for asbestos as a cement reinforcing agent in construction slate and other materials.



GEODYNA* polylactic acid material
GEODYNA is a carbon-neutral plastic made from a renewable plant (corn), not from oil. It is expected to be widely applied in many forms, including as a fiber, a film, and a molding compound.
Photo: Paper bag handles using GEODYNA
*Brand name used only in Japan



TIRRENINA man-made leather
Developed as a next-generation material following on CLARINO, a leading brand of man-made leather, TIRRENINA is produced using an innovative process. The use of a water-soluble polymer unique to Kuraray as the fiber in TIRRENINA has eliminated the need for organic solvents in the extraction process.
Photo: Car seats using TIRRENINA

Growth in Environmental Businesses

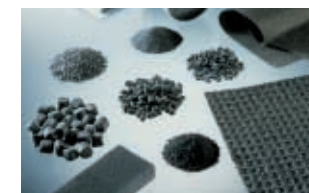
In the G-21 medium-term business plan, the Kuraray Group set forth four strategic business domains and focused management resources on the expansion of those businesses. In fiscal 2005, the final year of the plan, the business scale of the four strategic business domains had increased to 1.5 times the level before the plan was implemented. Although this result was slightly below the target, the groundwork has been laid for future growth.



Electronics and information
Resins, film, precision molded products, and other materials that support the development of the digital equipment field



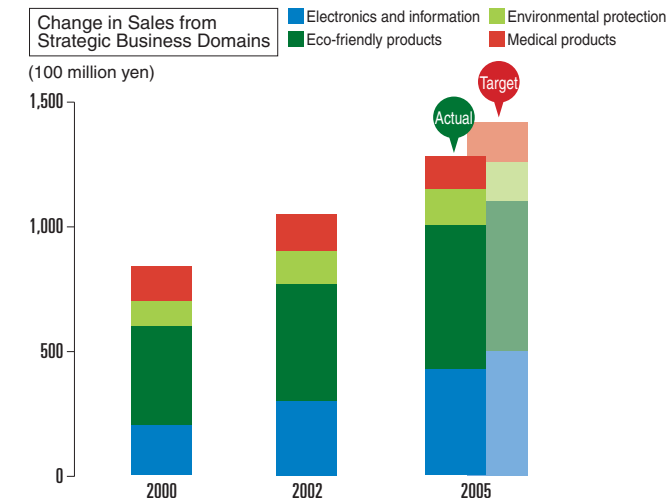
Eco-friendly products
Low environmental load substitute materials such as gas barrier resins that take the place of metals and glass



Environmental protection
Products that contribute to maintaining and improving the environment, such as activated carbon used in water treatment



Medical products
Businesses that contribute to the advancement of medical science, such as dental filling materials and artificial organs



Two of the four strategic business domains bear on the environment. Kuraray anticipates further growth from these businesses in fiscal 2006 and beyond.

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

Reader Questionnaire Responses

Environmental and Safety Activities Social Service Activities

- 1970** ■ Dedicated organizations responsible for environmental and safety activities are established at the head office and production plants.
- 1977** ■ The Environmental and Safety Management Regulations are established.
- 1991** ■ The Philanthropy and Environment Committee is established. The Philanthropy and Environment Committee's Ecology Subcommittee and Philanthropy Subcommittee begin activities.
- 1992** ■ The first Chemistry Class for Boys and Girls is conducted at the Kurashiki Plant and Saijo Plant (Ehime Prefecture).
■ The Matching Gift system (a system by which employees donate a small fraction of their pay to benefit community social services and the Company matches the amount) is established.
- 1993** ■ Kuraray Action Guidelines on the Global Environment are established. (The guidelines are expanded to encompass the entire Kuraray Group in 2001.)
- 1995** ■ Participation in responsible care activities begins.
- 1997** ■ The Nakajo Plant's work center is established at Niji-no-ie social welfare house (Nakajo, Niigata Prefecture).
- 1998** ■ The In-House Ethics Committee is established.
■ Activities to obtain ISO 14001 certification for all production plants and research laboratories begin.
■ Publication of the Kuraray Environmental Activities Report begins.
- 2000** ■ ISO 14001 certification is obtained by the Kashima, Okayama, Nakajo and Kurashiki Plants, Techno Soft Co., Ltd., Kuraray Tamashima Co., Ltd., Kuraray Saijo Co., Ltd., Eval Company of America, and Kuraray Specialities Europe.
■ The Fruits-no-ie shared residence is opened after conversion of unused company housing at the Saijo Plant.
- 2001** ■ The Medium-Term Environmental Plan is established.
■ The functions of the Environmental, Industrial Safety and Quality Management Department are upgraded and the department is renamed the Environmental, Industrial Safety and Quality Management Center.
■ The RC Activities Verification Meeting is inaugurated.
■ Certification of the Tsukuba Research Laboratories marks the completion of ISO 14001 certification at all Kuraray plants and research laboratories in Japan.
- 2003** ■ The CSR Committee is established and the Environmental and Industrial Safety Subcommittee, Economic Subcommittee, and Social Responsibility Subcommittee begin activities. (The In-House Ethics Committee and Philanthropy and Environment Committee are dissolved and reorganized.)
■ The one hundredth Chemistry Class for Boys and Girls is held.
■ Kuraray Plastics Co., Ltd., Magictape Co., Ltd. (currently Kuraray Fastening Co., Ltd.), and SEPTON Company of America obtain ISO 14001 certification.
- 2004** ■ The Tulip-en assisted-living facility opens in an unused employee welfare facility at the Nakajo Plant.
■ A campaign to donate used school bags to children in overseas countries begins.
■ Kuraray begins full-scale utilization of renewable energy (such as expansion of biomass fuel use), expanding the scale of renewable energy use.
- 2005** ■ The CSR Committee is reorganized (the Kuraray Group Risk Management Conference is integrated), and the Environmental and Industrial Safety Subcommittee, the Social Responsibility and Economic Subcommittee, and the Risk Management and Compliance Subcommittee are established.
■ The Compliance Handbook is distributed to all Domestic Kuraray Group employees.
■ Kuraray Trading Co., Ltd. obtains ISO 14001 certification.
■ The Kuraray Group Global HR Policy is established.

We received completed questionnaires from 41 readers of Kuraray CSR Report 2005. The following is a summary of the results.

Sections Readers Found Especially Interesting

(Multiple answer question)

1	Measures to Prevent Global Warming	23 responses
2	Zero Emissions of Industrial Waste	21 responses
3	Socially Beneficial Activities	17 responses
4	Sending School Bags Across the Sea	16 responses
5	A Message from the President	14 responses
5	Third-Party Evaluation	14 responses

The section in which readers indicated the most interest was Measures to Prevent Global Warming, which appeared in the Environmental Activity Highlights. Now that global-level sustainability is a matter of serious concern, the activities of individual companies and their results seem to be in the public eye. The next most frequently mentioned section was Zero Emissions of Industrial Waste, which has to do with the effective utilization of resources. With regard to the Involvement with the Community section, interest centered on socially beneficial activities in general and on Sending School Bags Across the Sea in the Social Service Activities Highlights in particular. We regard this as an expression of reader empathy for an international charitable activity involving the CLARINO school bags loved by schoolchildren all over Japan.

Kuraray Activities Thought "Good"

1	Socially Beneficial Activities	26 responses
2	Measures to Prevent Global Warming	21 responses
2	Zero Emissions of Industrial Waste	21 responses
4	Reducing Environmental Load During Transport	16 responses
5	Quality Assurance and Product Safety	14 responses

Kuraray Activities Thought "Insufficient"

1	Green Procurement	6 responses
2	Communication	5 responses
2	Measures to Prevent Global Warming	5 responses
2	Zero Emissions of Industrial Waste	5 responses
5	Other	4 responses

(Both questions were multiple answer questions.)

The CSR initiative that garnered the strongest reader support was socially beneficial activities, followed by measures to prevent global warming, and zero emissions initiatives. Readers also expressed approval of the modal shift and other measures to reduce environmental load during transport and assurance and product safety activities to ensure the delivery of safe products to our customers. The area most frequently mentioned as being insufficient was green procurement. Accordingly, in fiscal 2005 we commenced CSR procurement, which places importance on social considerations in addition to environmental considerations to strengthen procurement-related activities.

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

- Q** The most important thing for Top Management is to ensure that the company measures up in the eyes of its shareholders. How will you improve business results and increase the share price?
A Increasing corporate value for shareholders is a company's greatest responsibility. To that end, Kuraray applies itself each day to continuous product development, market expansion, and cost reduction efforts. Kuraray believes that it is necessary to discharge its corporate social responsibility in environmental preservation, safety assurance, human rights, and other areas. We are convinced that remaining a company in harmony with the environment and society will bring about continuing, sustainable growth for the company and shareholder rewards.
- Q** Companies these days are actively developing products that contribute to people's well-being. I would like for Kuraray to put effort into this area.
A The Kuraray Group devotes effort to the development of products that contribute to people's welfare. One example is Magic Tape, a fastener that can be operated more easily than buttons or hooks. We are developing applications of this product that will benefit the elderly and disabled people, such as plaster casts and clothing for people who require nursing care.
- Q** I don't clearly understand the standards for green purchasing.
A The Law Concerning the Promotion of Procurement of Eco-Friendly Goods and Services by the State and Other Entities (the Green Purchasing Law) went into effect in April 2001. In October 2001, Kuraray established the Green Purchasing Guidelines using the law as a reference. To cite a specific instance, we use copy paper that consists of 70% to 100% recycled pulp. On the basis of these guidelines, we engage in green procurement by classifying purchased items into nine categories (such as paper, stationery, and automobiles) and purchasing eco-friendly products.

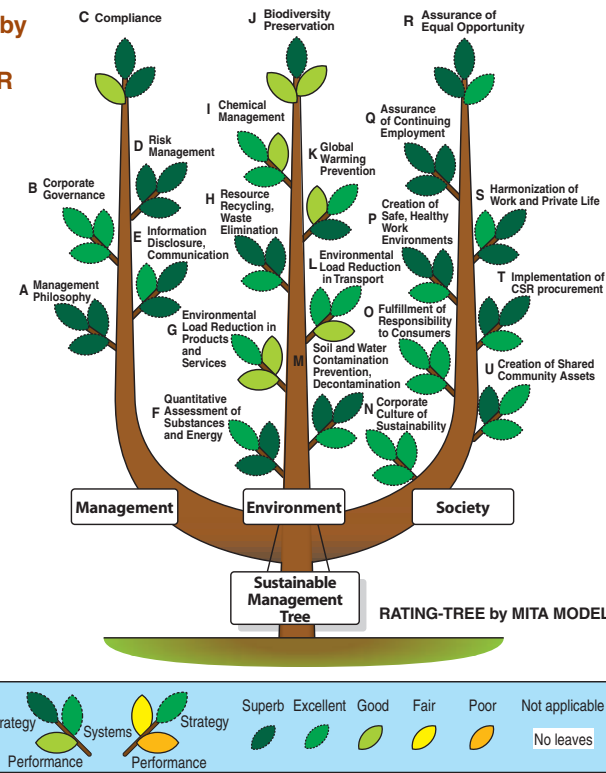
We plan to continue to reflect reader opinions in our corporate social responsibility activities and strive to improve communication. We ask you to assist us by providing your opinions and impressions of this report.

URL <http://www.kuraray.co.jp/en/csr/report/index.html>

Please access the CSR page of the Kuraray website to fill in a questionnaire.

Third-Party Evaluation

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



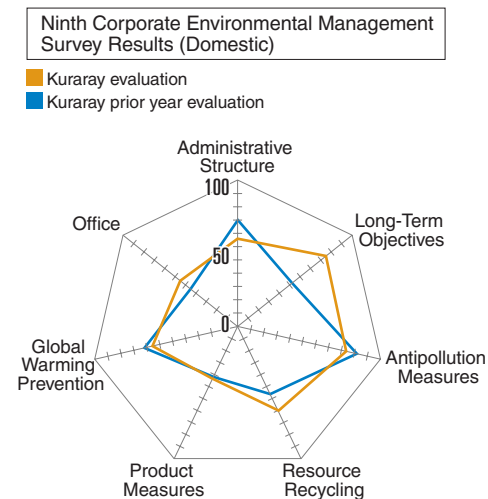
Kuraray participated in the Sustainable Management Rating conducted by the Sustainable Management Rating Institute and received the evaluation shown in the illustration to the right. This year we secured a favorable evaluation for Support for Supplier Environmental and Social Activities, an evaluation item for which the previous rating was inadequate. The improvement is attributable to the establishment in fiscal 2005 of the CSR Procurement Policy and initial efforts to obtain the cooperation of principal suppliers. Although no item was rated lower than Fair in this year's evaluation, room for improvement remains for several items. We will consider measures to address items for which improvement is indicated, such as the setting of targets for eco-friendly products and services and their development, the enhancement of chemical substances risk management, and global warming prevention awareness and education activities.

Corporate Environmental Management Survey Ranking

The Nihon Keizai Shimbun's Ninth Corporate Environmental Management Survey

- Domestic ranking**
Kuraray ranked 199th out of 558 companies (192nd out of 590 companies the previous year)
- Overseas ranking**
Kuraray ranked 137th out of 241 companies (241 of the 558 companies that include overseas production sites in environmental management and meet certain conditions) (65th out of 260 companies the previous year)

Evaluation items for which scores increased from the previous year were Long-Term Objectives, Resource Recycling, and Office. The decrease in the score for Administrative Structure and the low score for Product Measures are issues to be addressed.



FTSE4Good

FTSE4Good is a benchmark index for Socially Responsible Investment (SRI) established by the FTSE (a joint venture between the Financial Times and London Stock Exchange). The index is used extensively in Europe, where the SRI market is growing markedly, especially in Scandinavia and the U.K. It is also a closely watched index in Japan.

Kuraray has been included in the FTSE4Good Global Index for four consecutive years (as of May 2006 the index consisted of 735 issues, 190 of which were Japanese companies). Selection is based on three factors: environmental criteria, social and stakeholder criteria, and human rights.



Message to Our Readers

We are pleased to present Kuraray CSR Report 2006, the third issue of the report since we included the term 'CSR' in the title. In 2003 Kuraray established the CSR Committee. I feel that three years since the beginning of full-scale CSR activities, a form of CSR distinctively suitable to Kuraray is finally taking shape. Our task is to carry on the deep understanding of and concern for society and the powerful sense of mission to stake the future of the company on new business creation that Kuraray has developed during its long history and to discharge the far-reaching corporate responsibility required in today's world.

It is regrettable that several major accidents occurred in fiscal 2005, and we are reviewing our safety assurance measures in response. Moreover, the risks that companies face are diversifying. Accordingly, corporate governance systems, internal controls, and compliance are attracting public attention and scrutiny, and transparency in organization and administration are required.

In these circumstances, we plan to focus on safety, compliance, and risk management as priority action themes. The Kuraray Group has launched the GS-21 medium-term business plan and is poised to advance to a new growth stage. These three themes are of the utmost importance for the creation of the social value called for in the business plan. We will seek to engage in voluntary environmental and

social activities built on the foundation of these objectives on a long-term, continuing basis. We wish to establish a corporate culture of keen awareness of CSR and imbue the company with that culture to the point that we can confidently state that our day-to-day business activities themselves are CSR activities.

Communication is an important element in the continuous practice of CSR, and we regard the issuance of this report as one aspect of that communication. Nevertheless, no matter how excellent communications activities may be, they are pointless if communication is a one-way street. We wish to emphasize two-way information exchange through this report and other communications activities. I request and encourage our readers to provide us with unvarnished opinions, questions, and reactions to this report.



Fumio Ito
Managing Director
Chairman, CSR Committee

Editor's Postscript

Since the first issue of the Kuraray CSR Report in 2004, the report has been produced and issued thanks to the cooperation of various organizations in the Kuraray Group, with the CSR Committee playing a central editorial role.

We believe that CSR isn't something for a specific department implements as a specialized task, but something that every department must realize in day-to-day business affairs. Similarly, in the communications vehicles that convey information on CSR activities to stakeholders, information is more accurately communicated when the people in the organizations involved in those activities relate those

activities themselves. For this reason, we have included a greater number of employee photos and comments in this report than in the previous edition.

The Office of CSR and Communications established in April 2006, serves as the CSR Committee's secretariat. We anticipate engaging in more and more vigorous activities having CSR and communication as interrelated driving forces.

CSR Committee Secretariat
(CSR Report Editorial Staff)