[Translation for Reference and Convenience Purposes Only]

CORPORATE GOVERNANCE REPORT

Kuraray Co., Ltd.

Last Update: March 31, 2017
Kuraray Co., Ltd.
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The corporate governance of Kuraray Co., Ltd. (hereinafter "Kuraray" or the "Company") is described below.

I Basic Views on Corporate Governance, Capital Structure, Corporate Profile and Other Basic Information

1. Basic Views

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

Reasons for Non-compliance with the Principles of the Corporate Governance Code

The Company implements all the principles of the Corporate Governance Code.

Disclosure Based on the Principles of the Corporate Governance Code

[Principle 1-4: Cross-Shareholdings]

1. Coming from the viewpoint of stable and long term business operation, the Company may hold the shares of its business partners, etc. if maintaining and strengthening the relationships with such business partners are deemed to contribute to corporate value enhancement.
2. Regarding the major shares among the shares held pursuant to the preceding paragraph (hereinafter, "cross-held shares"), the Company regularly examines the effect of such holdings at the Board of Directors meetings in terms of economic rationality over the mid to long term and of maintaining and strengthening the overall relationships with such business partners.
3. Concerning the voting rights pertaining to the cross-held shares, the Company appropriately exercises such voting rights in light of the objectives of shareholdings set forth in the preceding two paragraphs, taking into consideration the business conditions of the companies and potential impact to the business operation of the Company or a subsidiary of the Company(hereinafter "the Group").

[Principle 1-7: Related Party Transactions]

The Company stipulates that transactions with competitors held by a Director, transactions between the Company and a Director, and transactions involving any conflict of interests would require the approval of the Board of Directors (with the attendance of Outside Directors and presence of Corporate Auditors).

[Principle 3-1: Full Disclosure]

(i) Company objectives (e.g., business principles), management strategies and management plans

<Company objectives (e.g., business principles)>

Based on our history and moving towards the future, we at the Company develop our corporate activities by adhering to "Our Mission" that represents how the Group should act to meet the society's expectations and make contribution thereto, and act in accordance with "Our Values" and "Our Commitment."

[Our Mission]

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

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

[Our Values]

Philosophy:

Respect for individuals,

Close cooperation to attain shared goals,

Constant creation of new value

Guiding Principles:

Safety is the cornerstone of everything we do

Customers' needs are our top priority

We act on ideas in the workplace

[Our Commitment]

We will constantly develop and provide safe, high-quality products and services.

We will maintain a sound relationship with society through good communication.

We will strive to preserve and improve the global environment, and to secure safety and health in all our workplaces.

We will value all members of the Kuraray community and respect their rights.

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

We will honor all intellectual property and secure data and information in a proper manner.

The Company formulated "The Kuraray Group Code of Conduct" as our guiding principles by breaking down "Our Commitment" and ensures that the officers and employees of the Group are fully aware of it, of which implementation status is checked as necessary.

<Management strategies and management plans>

The Company also formulated "GS-STEP," its mid term management plan that started in the fiscal year ended December 31, 2015. Details of the plan have been announced on the Company's website.

(URL: http://www.kuraray.com/ir/strategy/plan/)

(ii) Basic views on corporate governance

The Company believes that the maintenance of appropriate relationships with various stakeholders and the fulfillment of social responsibilities through establishing a corporate governance system that ensures effective and fair management would contribute to the long term and sustainable enhancement of corporate value.

(iii) Policies for determining the remuneration of Directors

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

2. Remunerations for Directors are comprised of monetary remuneration consisting of fixed remuneration by position and performance-linked remunerations, and stock option-based remunerations. However, monetary remuneration for Outside Directors does not include performance-linked remunerations.

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

(iv) Policies for the appointment of the candidates for Directors and Corporate Auditors

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

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

(v) Reasons for nominating each candidate for Director and Corporate Auditor

Regarding the reasons for nominating each candidate for Director and Corporate Auditor, please refer to the Notice of Convocation of the General Meeting of Shareholders.

[Supplementary Principle 4-1-1: Scope of the Matters Delegated to the Management]

The Company clearly defines the scope of the matters delegated to the management by specifying the matters to be judged and determined by the Board of Directors as matters to be discussed in the Board of Directors' Regulations, regarding the matters relating to the basic policies of the management and other important matters, in addition to those required by the Companies Act and the Articles of Incorporation.

[Principle 4-8: Effective Use of Independent Outside Directors]

In the light of the importance of the Outside Directors' functions in corporate governance, the Company stipulates that, two or more independent Outside Directors shall be appointed to the Board of Directors to ensure transparency and fairness in its decision making.

[Principle 4-9: Independence Standards for Outside Officers]

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

(1) A business executive of the Group

(2) A counterparty which has transactions principally with the Group, or its business executive thereof

(3) A major business partner of the Group, or its business executive thereof

(4) A major lender of the Group, or its business executive thereof

(5) A counterparty that receives a large amount of donations from the Group, or its business executive thereof

(6) A major shareholder of the Company (who possesses 10% or more of the total voting right either directly or indirectly), or its business executive thereof
(7) A business executive of the party whose major investor (who possesses 10% or more of the total voting right either directly or indirectly) is the Group
(8) A consultant, certified public accountant or other accounting professional, attorney or other legal professional who receives a large amount of monetary or other assets from the Group other than the executive remunerations (in case of a legal entity, association or other organization, a person belonging thereto)
(9) A person who belongs to an accounting firm that conducts the statutory audit of the Company
(10) A person who has fallen under the above criteria (1) in the past ten years
(11) A person who has fallen under any of the above criteria (2) through (9) in the past three years
(12) A person whose position constitutes him/her as having an Outside Officer's interlocking relationship with the Group
(13) A relative of the persons listed in the above criteria (1) through (11)
2. Even in cases where a person falls under any of the above items, if the person is deemed to be appropriate for the post of an independent Outside Officer in light of his/her personality, knowledge and other qualities, the Company may appoint him/her as independent Outside Officer on the condition that the reasons why the person is deemed appropriate for the post are explained to the public.

[Supplementary Principle 4-11-1: Policies on the Structure and Size of the Board of Directors]

1. The Company's Board of Directors shall be comprised of the Directors with diverse backgrounds in their knowledge, experience and expertise, and the number of Directors shall not exceed twelve as prescribed in the Articles of Incorporation in order to enable swift and bold decision making.
2. In the light of the importance of the Outside Directors' functions in corporate governance, the Company stipulates that, in its Board of Directors, two or more independent Outside Directors shall be appointed to ensure transparency and fairness in its decision making.

[Supplementary Principle 4-11-2: Status of Concurrent Posts Held by Directors and Corporate Auditors]

The Company regularly confirms the status of concurrent posts held by all of its Directors and Corporate Auditors at the Board of Directors meetings and is notified of the changes in such status in advance if any. The status of concurrent posts is also stated in the business report.

[Supplementary Principle 4-11-3: Analysis and Evaluation of the Effectiveness of the Board of Directors]

1. Analysis and Evaluation Method

The Company distributed "Questionnaire on Evaluation of the Effectiveness of the Board of Directors" (non-anonymous) to all the Directors and Corporate Auditors in December 2016 and collected responses and opinions from all members in January 2017. The secretariat of the Board of Directors aggregated the responses, and analyzed and evaluated the effectiveness of the Board of Directors based on the data.

<Questionnaire > (20 questions in total)

- Concerning Structure of the Board of Directors
- Concerning Agenda of the Board of Directors
- Concerning Operations of the Board of Directors
- Systems Outside the Board of Directors

2. Outline of Analysis and Evaluation Results

- The evaluation confirmed that the Company's Board of Directors is generally functioning properly and that the effectiveness of the Board of Directors is secured in all aspects such as its size, composition, diversity, agenda selection, the scope of matters to be discussed or reported, the timing for scheduling the Board of Directors meetings, frequency of the meetings, operations of the Board of

Directors including deliberation time, provision of additional information to the Directors, systems outside the Board of Directors such as those for providing training opportunities, etc.

- Meanwhile, proposals were also made to improve the timing of material distribution as well as the structure and content of the materials with respect to the evaluation items, namely "the timing of material distribution" and "content and quantity of materials," in an effort to further enhance the effectiveness of the Board of Directors.

In light of the results from this evaluation, the Company will examine and implement necessary measures in the future to make discussions more lively and productive at the Board of Directors meetings.

[Supplementary Principle 4-14-2: Training Policy for Directors and Corporate Auditors]

1. The Company continuously provides lectures and trainings by the internal specialist team or outside experts to its Directors and Corporate Auditors at the time when they assume their offices or when needed thereafter, regarding the Company's management strategies, organization, financial status, legal compliance, corporate governance and other important matters.

2. The Company shall provide the summary of the business and organization of the Group to its Outside Officers at the time when they assume their offices or when needed thereafter, and create opportunities of the Company's on-site tour, etc. as needed.

[Principle 5-1: Policy for Dialogue with Shareholders]

1. The Company engages in constructive dialogue with shareholders and investors with an aim to maintain its growth and enhance its corporate value and the common interests of its shareholders over the mid-term.

2. In order to promote dialogue with shareholders and investors, the Company prepares a framework based on the following policies:

(1) President or an officer responsible for investor and public relations deal with the interviews with shareholders to the extent reasonable.

(2) President and an officer responsible for investor and public relations oversee the dialogue with shareholders and the measures related thereto.

(3) An officer responsible for investor and public relations holds information exchange on a day-to-day basis among divisions responsible for corporate management planning, general affairs, finance, accounting and legal affairs to establish an organic coordination system.

(4) In addition to holding individual interviews with shareholders and investors, the Company works for a full provision of information through financial briefing sessions, explanatory meeting on mid term management plan and other means.

(5) President or an officer responsible for investor and public relations report to the Board of Directors about the opinions and concerns obtained from the dialogue with shareholders and investors as necessary.

(6) Insider information shall be strictly managed based on the internal regulations during the dialogue with shareholders and investors.

2. Capital Structure

Foreign Shareholding Ratio	30% or more

[Status of Major Shareholders]

Name / Company Name	Number of Shares Owned (Shares)	Percentage (%)
The Master Trust Bank of Japan, Ltd. (Trust account)	29,120,400	8.21
Japan Trustee Services Bank, Ltd. (Trust account)	19,555,700	5.51
Nippon Life Insurance Company	10,448,963	2.94
National Mutual Insurance Federation of Agricultural Cooperatives	10,102,700	2.85
Trust & Custody Services Bank, Ltd. (Trust collateral account)	7,280,438	2.05
Meiji Yasuda Life Insurance Company	5,969,412	1.68
NORTHERN TRUST CO. (AVFC) RE-SSD00	5,907,000	1.66
STATE STREET BANK AND TRUST COMPANY 505001	5,738,663	1.62
STATE STREET BANK WEST CLIENT - TREATY 505234	5,211,451	1.47
Japan Trustee Services Bank, Ltd. (Trust account 7)	4,917,100	1.39

Controlling Shareholders (excluding Parent Company)	—
Parent Company	None

Supplementary Explanation

The information above is the status of major shareholders as of December 31, 2016.
In addition to those stated in the Status of Major Shareholders, there are 3,363,405 shares of treasury stock (percentage: 0.95%) owned by the Company as of the same date.

3. Corporate Attributes

Listed Stock Market and Market Section	Tokyo Stock Exchange, First Section
Fiscal Year-End	December
Type of Business	Chemicals
Number of Employees (consolidated) as of the End of the Previous Fiscal Year	1,000 or more
Sales (consolidated) as of the End of the Previous Fiscal Year	¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	10 to less than 50

4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholders

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5. Other Special Circumstances which may have Material Impact on Corporate Governance

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II Business Management Organization and Other Corporate Governance Systems regarding Decision-making, Execution of Business, and Oversight in Management

1. Organizational Composition and Operation

Organization Form	Company with Corporate Auditors

[Directors]

Maximum Number of Directors Stipulated in Articles of Incorporation	12
Terms of Office Stipulated in Articles of Incorporation	1 year
Chairperson of the Board	Chairman (excluding Chairman concurrently servings as President.)
Number of Directors	10
Appointment of Outside Directors	Appointed
Number of Outside Directors	2
Number of Independent Directors	2

Outside Directors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Tomokazu Hamaguchi	From another company											○
Jun Hamano	From another company										○	

* Categories for "Relationship with the Company"

* "○" When the person currently falls or has recently fallen under the category
"△" When the person fell under the category in the past

* "●" When a close relative of the person currently falls or has recently fallen under the category
"▲" When a close relative of the person fell under the category in the past

a. Executive of the Company or its subsidiaries
b. Non-executive director or executive of a parent company of the Company
c. Executive of a fellow subsidiary company of the Company
d. A party whose major client or supplier is the Company or an executive thereof
e. Major client or supplier of the Company or an executive thereof
f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as a director
g. Major shareholder of the Company (or an executive of said major shareholder if the shareholder is a legal entity)
h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which the Company's Outside Directors/Corporate Auditors are mutually appointed (the director himself/herself only)
j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)
k. Others

Outside Directors' Relationship with the Company (2)

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
Tomokazu Hamaguchi	○	—	Mr. Tomokazu Hamaguchi has been appointed as Outside Director based on the judgment that his wealth of experience and broad insight gained as a management executive of NTT DATA Corporation would allow him to provide opinions and suggestions that would be useful for helping further improve the Company's corporate governance. In addition, he has been designated as Independent Director based on the judgment that there would be no conflict of interest with ordinary shareholders.
Jun Hamano	○	Mr. Jun Hamano is concurrently serving as President of The Ohara Memorial Institute for Science of Labour. The Ohara Memorial Institute for Science of Labour was established by Mr. Magosaburo Ohara, the Company's first president, in 1921 with the purpose of promoting sound business management, enhancing the welfare of the laborers and contributing to the improvement and development of social welfare. As a part of its CSR activities, the Company pays annual membership fee to support the research activities of the Institute.	Mr. Jun Hamano has been appointed as Outside Director based on the judgment that his wealth of experience and broad insight gained through economic administration and other roles at the Economic Planning Agency of Japan and the Cabinet Office would allow him to provide objective opinions and suggestions that are useful for the Company's management. In addition, he has been designated as Independent Director based on the judgment that there would be no conflict of interest with ordinary shareholders.

Name	Designation as Independent Director	Supplementary Explanation of the Relationship	Reasons of Appointment
		The amount of annual payment of the said membership fee is less than 1 million yen.	

A Discretionary Committee Corresponding to a Nomination Committee or Remuneration Committee	Yes

Committee's Name, Composition, and Attributes of Chairperson

	Committee's Name	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Outside Experts	Other	Chairperson
Committee Corresponding to Nomination Committee	The Management Advisory Committee	7	0	1	0	4	2	Other
Committee Corresponding to Remuneration Committee	The Management Advisory Committee	7	0	1	0	4	2	Other

Supplementary Explanation

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

[Corporate Auditors]

Establishment of the Board of Corporate Auditors	Established
Maximum Number of Corporate Auditors Stipulated in Articles of Incorporation	5
Number of Corporate Auditors	5

Cooperation among Corporate Auditors, Accounting Auditors, and Internal Audit Department

The Corporate Auditors regularly have meetings with the Accounting Auditor receive reports on audit planning, implementation status and audit content. Also, the Corporate Auditors receive reports on internal audit results by the Internal Auditors Office (consisting of nine members). The Corporate Auditors also serve as corporate auditors of core subsidiaries to conduct subsidiary audits as needed and attend periodic Group Auditor Liaison Meetings consisting of the subsidiary auditors to deepen their understanding of each company.

Appointment of Outside Corporate Auditors	Appointed
Number of Outside Corporate Auditors	3
Number of Independent Corporate Auditors	3

Outside Corporate Auditors' Relationship with the Company (1)

Name	Attribute	Relationship with the Company (*)												
		a	b	c	d	e	f	g	h	i	j	k	l	m
Mie Fujimoto	Attorney													○
Yoshimitsu Okamoto	From another company										△			
Mikio Nakura	From another company													○

* Categories for "Relationship with the Company"

* "○" When the person currently falls or has recently fallen under the category
"△" When the person fell under the category in the past

* "●" When a close relative of the person currently falls or has recently fallen under the category
"▲" When a close relative of the person fell under the category in the past

a. Executive of the Company or its subsidiary
b. Non-executive director or accounting advisor of the Company or its subsidiaries
c. Non-executive director or executive of a parent company of the Company
d. Corporate Auditor of a parent company of the Company
e. Executive of a fellow subsidiary company of the Company
f. A party whose major client or supplier is the Company or an executive thereof
g. Major client or supplier of the Company or an executive thereof
h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as a Corporate Auditor
i. Major shareholder of the Company (or an executive of said major shareholder if the shareholder is a legal entity)
j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the Corporate Auditor himself/herself only)
k. Executive of a company, between which the Company's Outside Directors/Corporate Auditors are mutually appointed (the Corporate Auditor himself/herself only)
l. Executive of a company or organization that receives a donation from the Company (the Corporate Auditor himself/herself only)
m. Others

Outside Corporate Auditors' Relationship with the Company (2)

Name	Designation as Independent Auditor	Supplementary Explanation of the Relationship	Reasons of Appointment
Mie Fujimoto	○	—	Ms. Mie Fujimoto has been appointed as Outside Corporate Auditor because she has a wealth of experience in and highly professional knowledge of corporate legal affairs through her service as an attorney. In addition, she has been designated as Independent Corporate Auditor based on the judgment that there would be no conflict of interest with ordinary shareholders.
Yoshimitsu Okamoto	○	Mr. Yoshimitsu Okamoto has served as Director of Sumitomo Mitsui Auto Service Company, Limited (former SB Auto Leasing Company), one of the Company's business partners, in the past. The sales of Sumitomo Mitsui Auto Service Company to the Company for the most recent fiscal year were less than 0.1% of the company's net sales for the same period.	Mr. Yoshimitsu Okamoto has been appointed as Outside Corporate Auditor because he has a wealth of experience at financial institutions and broad insight in management in general, as well as track record at other companies as outside auditor. In addition, he has been designated as Independent Corporate Auditor based on the judgment that there would be no conflict of interest with ordinary shareholders.
Mikio Nakura	○	Mr. Mikio Nakura has served as President and Chief Executive Officer of NIPPON STEEL KOWA REAL ESTATE CO., LTD. (former KOWA REAL ESTATE CO., LTD.) in the past. There are no transactions between NIPPON STEEL KOWA REAL ESTATE CO., LTD. and the Company during the most recent fiscal year.	Mr. Mikio Nakura has been appointed as Outside Corporate Auditor because he has a wealth of experience at financial institutions and broad insight, as well as track record at other companies as outside auditor. In addition, he has been designated as Independent Corporate Auditor based on the judgment that there would be no conflict of interest with ordinary shareholders.

[Independent Directors/Corporate Auditors]

Number of Independent Directors/ Corporate Auditors	5

Matters relating to Independent Directors/Corporate Auditors

The Company has appointed all Outside Officers as Independent Directors /Corporate Auditors, insofar as they meet the qualifications thereof.

[Incentives]

Status of the Measures Regarding Incentives for Directors	Introduction of a Performance-linked Remuneration System, Introduction of a Remuneration-Type Stock Option Scheme

Supplementary Explanation

(1) Introduction of a performance-linked remuneration system: the Company abolished the prior bonus scheme to Directors and introduced a performance-linked remuneration system in July 2006, thereby strengthening the incentive for increasing the Company's corporate value. In addition, to respond to the increase in the amount of performance-linked remuneration in conjunction with the improved business performance, it was resolved to increase the maximum amount of annual remunerations to Directors from ¥450 million to ¥800 million (including ¥100 million annually for Outside Directors) at the Company's 131st Ordinary General Meeting of Shareholders held on June 22, 2012.

(2) Calculation method of performance-linked remuneration: as a short term performance incentive, the performance-linked remuneration for the President shall be the amount that is obtained by multiplying the amount of actual consolidated net income for the prior fiscal year with a predetermined coefficient. The performance-linked remuneration for Directors shall be determined by dividing the said amount in proportion to the index corresponding to each position of Directors. The Company does not have a performance-linked remuneration system for Outside Directors based on the above calculation method.

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

Recipients of Stock Options	Inside Directors, Outside Directors, employees, directors of subsidiaries, employees of subsidiaries and others

Supplementary Explanation

Separately from the stock option scheme mentioned in preceding (3), the Company granted stock options in October 2002, October 2003 and October 2010 with the purpose of raising the sense of participating in the Group's management and boosting the willingness and motivation towards improving the performance.

[Director's Remuneration]

Disclosure of Individual Director's Remuneration	No Individual Disclosure

Supplementary Explanation

Details of the disclosure status are as follows:

・Total amount of remuneration paid by classification, amount of monetary remuneration paid by type of remuneration, and the number of eligible Directors and Corporate Auditors, as well as the method for determining the remuneration, etc. for Directors and Corporate Auditors are disclosed on the securities report.

(Reference) Page 50 of the securities report dated March 24, 2017 for the 136th fiscal period (Status of corporate governance)

http://www.kuraray.co.jp/ir/library/pdf/securities/136_y_jp.pdf (Japanese Only)

・Total amounts of remuneration by classifying Inside Director and Outside Director, and number of Directors and Corporate Auditors paid are disclosed on the business report.

(Reference) Page 16 of Notice of Convocation of the 136th Ordinary General Meeting of Shareholders (Total Amounts of Remuneration, etc., Paid to Directors and Corporate Auditors)

http://www.kuraray.com/ir/presentation/pdf/meeting_136_01_en.pdf

Policy on Determining Remuneration Amounts and Calculation Methods	Established

Disclosure of Policy on Determining Remuneration Amounts and Calculation Methods

Details of the policy on determining remuneration amounts paid to Directors and Corporate Auditors and the method for determination are as follows:

In respect to remunerations for Directors and Corporate Auditors, the Company has designed its standards and structure to be commensurate with the responsibilities of each Director and Corporate Auditor under the basic recognition and policy that such remuneration is a remuneration for achieving the long term and sustainable improvement in business performance and corporate value.

・ Type of remuneration paid to Directors and Corporate Auditors

Remuneration to Directors is comprised of monetary remunerations (fixed remuneration by position and performance-linked remuneration) and stock option-based remunerations.

・ Maximum amount of annual remunerations to Directors

Regarding the maximum amount of annual remunerations to Directors of the Company, the following was resolved at the 125th Ordinary General Meeting of Shareholders of the Company held on June 28, 2006 and the 131st Ordinary General Meeting of Shareholders of the Company held on June 22, 2012.

<1> Amount of annual remunerations to Directors: under ¥800 million resolved at the 131st Ordinary General Meeting of Shareholders

<2> Amount of stock option-based annual remunerations to Directors (aside from <1> above): under ¥90 million resolved at the 125th Ordinary General Meeting of Shareholders

・ Calculation method of remuneration, etc. paid to Directors and Corporate Auditors

The President, as authorized by the Board of Directors, determines the remuneration for each Director within the limit of the total amount above, based on a certain criteria defined by the Board of Directors. The calculation method of the remuneration by type is as following. The remuneration for the President which serves as the basis is determined after the deliberation at the Management Advisory Committee led by outside experts.

Fixed remuneration by position: Fixed remuneration by position, in principle, is the amount obtained by multiplying the amount of fixed remuneration by position for the President which serves as the basis with the coefficients predetermined according to each position.

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

Stock option-based remunerations: As a mid to long term incentive, stock options with the exercise price of ¥1 per share are granted (the exercising period is limited to a certain predetermined period after retirement). The number of stock options to be granted is determined based on the base amount defined by the positions.

(Reference) Page 50 of the securities report dated March 24, 2017 for the 136th fiscal period (Status of corporate governance)

http://www.kuraray.co.jp/ir/library/pdf/securities/136_y_jp.pdf (Japanese Only)

[System for Supporting Outside Officers]

The information is shared among Outside Officers through distributing and explaining in advance the proposals to be deliberated at the regular and extraordinary meetings of the Board of Directors. Three members of Secretariat Group, General Affairs Department assist in the sharing of this information to the Outside Directors. The Company appoints staff for Corporate Auditor to assist Corporate Auditors including Outside Corporate Auditors. The staff collects and provides information necessary for auditing activities and offers other forms of support.

2. Matters on Functions of Business Execution, Auditing, Oversight, and Decision-Making of Nomination and Remuneration (Overview of Current Corporate Governance System)

(1) Board of Directors and business execution body

The Board of Directors (convenes at least once a month), according to the Board of Directors' Regulations, deliberates and decides important management matters, including legal matters, and supervises the execution of business. The maximum number of Directors is 12 in order to promote agile management decision-making by the Board of Directors, and the term of office is one year to clarify their responsibilities to the shareholders. There are currently 10 incumbent Directors including two Outside Directors with wealth of experience in and broad insight into economy, finance, management and other fields. These two Outside Directors are supervising the management from an independent third-party standpoint.

No personal, capital, transactional or other relationship that would present a conflict of interest exists between the Company and the Outside Directors.

・ Mr. Tomokazu Hamaguchi is providing opinions and suggestions that are useful for helping further improve the Company's corporate governance based on a wealth of experience and broad insight gained as a management executive of NTT DATA Corporation. He is supervising the management of the Company and is providing useful opinions and suggestions as Outside Director.

・ Mr. Jun Hamano supervises the management from an objective standpoint as Outside Director and is providing opinions and suggestions based on his wealth of experience and broad insight gained through economic administration and other roles at the Cabinet Office, etc.

Pursuant to Article 427, Paragraph 1 of the Companies Act, the Company has entered into contracts with Outside Directors which limit their liability for damages under Article 423, Paragraph 1 of the same Act. The

maximum liability amount under such contracts shall be the amount stipulated in laws and regulations. However, the aforementioned liability limitation shall be applied only in cases where such Outside Directors performed their duties in good faith and without gross negligence. As the chief executive responsible for business execution, the President appointed by the Board of Directors exercises control over the execution of business in the Group. Every executive officer (one-year term of office) appointed by the Board of Directors is responsible for business execution in the Group organization. As the heads of internal companies, divisions and major functional organizations, the executive officers bear responsibilities for operations and business results. In this way, the Company clearly separates the responsibilities of Directors, that is, decision-making and supervision on the management, from the responsibilities of business execution. Some Directors hold concurrent positions as executive officers. The President has established the Executive Committee (in principle, convenes twice a month) and various other councils and committees to deliberate and report on important matters concerning the Group's management policies and business execution.

(2) Board of Corporate Auditors and Internal Audit

2) Board of Corporate Auditors and Internal Audit

The Board of Corporate Auditors consists of five Corporate Auditors, of which four are males and one is female, and three of them are independent Outside Corporate Auditors, the majority thereof. The current number of Corporate Auditors is five, including three Outside Corporate Auditors with extensive experience in and broad insight into areas such as finance, law and management, who perform their duties from an independent third-party standpoint.

No personal, capital, transactional or other relationship that would present a conflict of interest exists between the Company and the Outside Corporate Auditors.

・Ms. Mie Fujimoto conducts audit as Outside Corporate Auditor based on her broad experience and professional knowledge in corporate legal affairs gained during her service as an attorney.

・Mr. Yoshimitsu Okamoto conducts audit as Outside Corporate Auditor based on his wealth of experience in financial institutions, broad insight into the overall management and achievements as outside auditor of other companies.

・Mr. Mikio Nakura conducts audit as Outside Corporate Auditor based on his wealth of experience and broad insight at financial institutions and achievements as outside auditor of other companies.

Corporate Auditors attend meetings of the Board of Directors and other important meetings, and monitor the Directors' performance of duties through inquiries conducted by such means as the examination of important documents and requests for explanations of the state of business affairs. In principle, the Board of Corporate Auditors convenes monthly.

The Corporate Auditors regularly have meetings with the Accounting Auditor receive reports on audit planning, implementation status and audit content. Also, they receive reports on internal audit results by the Internal Auditors Office (consisting of nine members). The Corporate Auditors also serve as corporate auditors of core subsidiaries to conduct subsidiary audits as needed and attend periodic Group Auditor Liaison Meetings consisting of the subsidiary auditors to deepen their understanding of each company.

Pursuant to Article 427, Paragraph 1 of the Companies Act, the Company has entered into contracts with Corporate Auditors which limit their liability for damages under Article 423, Paragraph 1 of the same Act. The maximum liability amount under such contracts shall be the amount stipulated in laws and regulations. However, the aforementioned liability limitation shall be applied only in cases where such Corporate Auditors performed their duties in good faith and without gross negligence.

(3) Status of Accounting Auditor

No special interests exist between the Company and the Accounting Auditor, PricewaterhouseCoopers Aarata, or the engagement partners of the auditing firm who audit the Company. In addition, the auditing firm voluntarily takes steps to ensure the engagement partners are not involved in audits of the Company for longer than the prescribed period of time. The names of the certified public accountants who engaged in the duties of accounting auditor and the composition of assistants of audit engagement during the fiscal year ended December 31, 2016 were as follows:

Names of the certified public accountants who engaged in the duties of accounting auditor:
Appointed engagement partners: Akio Kobayashi (continuous audit years: 4 years) / Takeshi Shioya (continuous audit years: 4 years)

Composition of assistants of audit engagement:
Nine certified public accountants; five assistant certified public accountants; and twelve other staff

3. Reasons for Adoption of Current Corporate Governance System

The Company has adopted the structure of “a company with the board of corporate auditors,” whereby the fairness and transparency in the management is deemed to be secured, by having Outside Corporate Auditors who offer a wealth of management experience and professional knowledge added to the existing structure where Outside Directors are elected to provide valuable opinions and suggestions to the management also from an objective perspective.

III Implementation of Measures for Shareholders and Other Stakeholders

1. Measures to Vitalize the General Meeting of Shareholders and Smooth Exercise of Voting Rights

	Supplementary Explanation
Early Notification of General Shareholder Meeting	We dispatch the notification of General Shareholder Meeting, in principle, three weeks prior to the meeting. The convening notice for the 136th Ordinary General Meeting of Shareholders (held on March 24) was dispatched on March 2.
Scheduling of General Meeting of Shareholders Avoiding the Peak Day	We hold the General Meeting of Shareholders in March to avoid the peak season of other companies' shareholders meetings.
Electronic Exercise of Voting Rights	The exercise of voting rights via electromagnetic means has been introduced from the 126th Ordinary General Meeting of Shareholders held on June 20, 2007.
Participation in Electronic Voting Platform	An electronic voting rights exercise platform for institutional investors operated by ICJ, Inc. (Investors Communication Japan) can be used.
Provision of the Convocation Notice in English	The convening notice of the General Meeting of Shareholders is prepared in English and posted on the Company's website and the electronic voting rights exercise platform.
Other	Video of the General Meeting of Shareholders is available on the Company's website on the following day of the meeting. From the 135th Ordinary General Meeting of Shareholders held on March 29, 2016, the convening notice for the General Meeting of Shareholders was posted on the Company's website prior to dispatching by postal mail.

2. IR Activities

	Supplementary Explanation	Presentation by Representatives
Preparation and Publication of Disclosure Policy	Disclosure policies were prepared and announced in 2007. It is currently disclosed on the Company's website: http://www.kuraray.com/disclosure.html	
Regular Investor Briefings for Individual Investors	Investor briefings for individual investors are regularly held.	None
Regular Investor Briefings for Analysts and Institutional Investors	The Company holds meetings for analysts and institutional investors twice a year. Video archives of such meetings are available (English version also available) on the Company's website on the same day to eliminate the information gap between the analysts and institutional investors who can attend the briefings and those who cannot due to location in remote areas.	Available

	Supplementary Explanation	Presentation by Representatives
Regular Investor Briefings for Overseas Investors	The Company holds investor briefings mainly in Europe and the United States three times or thereabouts a year in principle. The Company also participates in conferences held by securities companies several times a year.	None
Posting of IR Materials on Website	In addition to financial results, materials for timely disclosure, press releases, videos and materials of the results briefings, explanatory materials of mid term management plan, status of corporate governance and stock information, etc., other materials such as dividend policy, past business performance data (in excel format), contents to provide the Company's overview and other materials are posted for the convenience of investors.	
Establishment of Department and/or Manager in Charge of IR	IR-related services are handled by Corporate Communications Department, Corporate Management Planning Office.	

3. Measures to Ensure Due Respect for Stakeholders

	Supplementary Explanation
Stipulation of Internal Rules for Respecting the Position of Stakeholders	Internal rules for respecting the position of stakeholders are set forth in “Our Commitment” and “The Kuraray Group Code of Conduct” and have been announced.
Implementation of Environmental Activities and CSR Activities, etc.	In 2003, Kuraray instituted the CSR Committee by integrating the Philanthropy and Environment Committee and In-house Ethics Committee, and bolstered its CSR promotion structure on a Group level. Under the CSR Committee are arrayed three subordinate committees as specialized units on the management level (the Social Responsibility and Economic Subcommittee, Environmental and Industrial Safety Subcommittee, and Risk Management and Compliance Subcommittee). These committees examine Company-wide policies and propose important policies to management. The theme-specific working groups making up the subordinate committees collaborate with various organizations of the Group in addressing their respective themes based on the CSR policies issued by the management. The results of these CSR activities are disclosed as CSR Report on an annual basis.
Development of Policies on Information Provision to Stakeholders	The policies on information provision to stakeholders are set forth in the Disclosure Policy of the Kuraray Group and the Company Disclosure Guidelines.
Other	Policies on and measures for the active participation by female employees: By formulating the Kuraray Group Global Human Resources (HR) Policy, the Company is promoting the employment of not only females but also foreigners, persons with disabilities and seniors under the policies to ensure non-discrimination on any ground such as gender, race and nationality, and to respect diversity and individuality (Transferring contract workers to full-time permanent employees is also actively underway.) In particular, for female employees, we have been preparing the systems to help them continue working. The efforts include our own monetary support system during their leave, in addition to formulating the systems for leave for childcare and nursing care that exceed the statutory requirements and short time working system. We also established a scheme through which the employees are given temporary leave, allowing them to accompany their spouse when their spouse is assigned to overseas posts, and re-employment system for retirees who left due to family reasons, both of which are achieving actual results. Also, based on the Act on Promotion of Women’s Participation and Advancement in the Workplace which went into full effect on April 1, 2016, we formulated and announced the business owner action plan with the purpose of raising the ratio of female employees in the managerial positions by April 2020 to more than double that of the fiscal year ended December 31, 2015. The Company is promoting related actions including the measure for refining working style so that the female staff will be able to develop careers inclusive of promotion, advancement, and broader range

	Supplementary Explanation
	of positions, while balancing work with childcare and other household chores. Under the workplace management with the focus on work-life balance, the total annual average working hours of the employees remains around 1,800 hours, while the rate of taking yearly paid vacations is moving around just under 80%.

IV Matters Related to the Internal Control System

1. Basic Views on the Internal Control System and the Progress of System Development

(Basic Views on the Internal Control)

Recognizing that developing and operating the internal control system is an important management issue, the Group has determined at its Board of Directors the Basic Policy for Establishment of an Internal Control System as following:

1. Systems to ensure compliance of execution of duties of Directors and employees with laws, regulations and the Articles of Incorporation
   (1) The Board of Directors, based on the Articles of Incorporation, Regulations of Board of Directors, and other internal regulations, will make decisions concerning important management items of the Group, in addition to supervising the execution of duties by Directors and Executive Officers. To strengthen the supervisory functions of the Board of Directors, Outside Directors will be elected.
   (2) The Management Advisory Committee will be established, comprised of outside experts with broad experience in corporate management and corporate law, and it will provide advice on the execution of duties of the President from the viewpoint of complying with laws and regulations, protecting shareholder rights, and ensuring transparency of management.
   (3) To promote corporate activities from the standpoint of CSR, a CSR Committee will be established at the management level, and the subordinate bodies of the Social and Economic Subcommittee, Environmental and Industrial Safety Subcommittee, and Risk Management and Compliance Subcommittee will be established.
   (4) Policies regarding compliance with laws and regulations will be defined as The Kuraray Group Code of Conduct, and systematic development and operation of a compliance structure will be conducted as the Group.
   (5) In order to discover unfair and illegal actions and unethical actions within the Group at an early stage and aim for independent resolution, a Kuraray Group Employee Counseling Room (Internal Reporting System) will be established.
   (6) The Internal Auditors Office, in compliance with the Internal Audit Regulations, will audit the conditions of business execution within the Group.
   (7) Based on the Financial Instruments and Exchange Act, an internal control system will be established to ensure propriety of financial reporting, and will be operated appropriately.
   (8) The Kuraray Group Code of Conduct will prescribe that the Group will deal with Anti-social forces and groups in a firm manner, and will not have any association with such forces and groups, thoroughly disseminating the rules throughout the Group.
2. Systems concerning storage and management of information regarding execution of duties of Directors
   Records regarding execution of duties of Directors such as approval documents, request documents, etc., and minutes and materials of General Meetings of Shareholders, Meetings of Board of Directors, and other main meetings will be stored and managed appropriately in accordance with laws and regulations and internal regulations.
3. Regulations and other systems regarding management of risk of loss
   (1) Based on the Group Risk Management Regulations, systematic risk management will be conducted throughout the Group.

(2) Based on the Company Emergency Headquarters Operational Regulations, in the event of a significant crisis regarding the business activities of the Group, the Company Emergency Headquarters will be established headed by the President to deal with the issue.
(3) Assuming a significant crisis such as a large-scale natural disaster, etc., a business continuity plan (BCP) will be defined on a per-division basis to minimize any interruption of business, and the BCP will be reviewed regularly.

4. Systems to ensure efficient execution of duties by Directors
(1) For decisions made by the President or requests of approvals by the Board of Directors regarding significant management items of the Group, preemptive deliberations will be held by the Executive Committee and various committees, aiming for swift management decision-making and efficient business execution.
(2) Authority to operate businesses as managers of Companies, Divisions, and key organizations will be delegated to Executive Officers, etc., appointed by the Board of Directors, and execution of business at each organization will be made in an appropriate and efficient manner.

5. Systems to ensure the propriety of business operations at the corporate group, composed of the Company and subsidiaries
(1) Business operation of each Kuraray Group company will be conducted according to the management policies of the Group as a whole, as defined in the mid term management plan and annual management plan. Based on the Domestic Affiliated Companies Management Standards and the Overseas Affiliated Companies Management Standards, each Kuraray Group company will seek approval and report to the Board of Directors or Executive Committee of the Company concerning important items.
(2) Decision-making standards will be defined for each Kuraray Group company within the Domestic Affiliated Companies Management Standards and the Overseas Affiliated Companies Management Standards, and will be managed appropriately and efficiently. Additionally, to promote unified operations through aiming for communication of views within the Group, a liaison meeting will be held as required between the President of the Company and the Presidents of each Kuraray Group company.
(3) Based on The Kuraray Group Code of Conduct, the system will be put in place to enable appropriate execution of duties by Directors and employees of each Kuraray Group company. In addition, officers will be seconded from the Company to each Kuraray Group company, to supervise business execution by Directors and employees of each company, and the Internal Auditors Office will conduct internal audits in accordance with the Internal Audit Regulations.

6. Independence from Directors of employees assisting the duties of Corporate Auditors and items regarding ensuring the effectiveness of instructions given to these employees
Staff for Corporate Auditor will be assigned to assist the duties of Corporate Auditors. Staff for Corporate Auditor will receive direction and orders from Corporate Auditors, and concerning personnel affairs and salary of Staff for Corporate Auditor, decisions will be made after deliberations between the Director supervising personnel affairs and the Corporate Auditor.

7. Systems regarding reporting to Corporate Auditors of the Company and systems to ensure persons who make reports do not receive detrimental treatment as a result of making a report
(1) Corporate Auditors will attend Meetings of Board of Directors and receive reports concerning conditions of business execution at the Company and each Kuraray Group company through liaison meetings, etc., with Presidents of significant subsidiaries.
(2) The Internal Auditors Office will periodically report to the Board of Corporate Auditors

concerning conditions of internal audits at the Company and each Kuraray Group company.

(3) Upon discovering important issues regarding significant violations of laws and regulations or other compliance issues, Directors and officers of the Company and each Kuraray Group company will swiftly report to Corporate Auditors. Corporate Auditors may request reports regarding these items as required from employees of the Company and the Group.

(4) Regarding persons who make the above reports, internal regulations will stipulate that persons who make reports do not receive detrimental treatment on the grounds of making the report.

8. Items regarding prepayment of expenses, procedures for reimbursement, and policies regarding processing of other expenses and liabilities arising from execution of duties by Corporate Auditors

When Corporate Auditors request prepayment or reimbursement, etc., for expenses arising during the course of execution of duties, unless the contents are especially unreasonable, payment will be processed without delay.

9. Other systems to ensure that audits by Corporate Auditors are made effectively

In order to exchange opinions regarding challenges facing the Company, important audit issues, etc., Corporate Auditors will periodically meet with the Representative Directors, and implement interviews with Directors, Executive Officers, and important employees.

(Progress of the System Development for Internal Control and Risk Management)

1. Initiatives relating to compliance

(1) The revised edition of the Compliance Handbook was distributed to all employees at domestic and overseas Group companies, and e-learning comprehension tests were also implemented for employees of domestic group companies.

(2) A global compliance structure was established, with compliance supervisors selected at control companies in each region.

(3) Taking seriously the fact that the Company was investigated by the Japan Fair Trade Commission in March 2016 in connection with bidding involving the procurement of textile products supplied to Japan's Acquisition, Technology & Logistics Agency (the Ministry of Defense of Japan), the Company revised its internal guidelines on compliance with antitrust laws, sent messages about compliance in the name of the President to all employees of the Kuraray Group, held training for managers and employees in sales roles, and implemented various other measures to ensure thorough awareness of compliance.

(4) The Internal Auditors Office implemented audits for the Group in accordance with the Internal Audit Regulations, and reported the results to the President and the Board of Corporate Auditors.

2. Initiatives relating to risk management

(1) Self-assessment of risks was implemented at each domestic and overseas organization based on the Group Risk Management Regulations. Following discussions with the Risk Management and Compliance Subcommittee and CSR Committee, the President specified significant business risks, selected supervisors to oversee each risk, and implemented measures to avoid and reduce such risks.

(2) Emergency drills and other trainings were conducted assuming that offices and plants were damaged by large-scale natural disasters, and emergency response systems were reviewed.

(3) Based on the Group Risk Management Regulations, the BCP (business continuity plan for disasters) was updated and reviewed.

3. Initiatives relating to internal control of the corporate group

By defining in the Regulations of Board of Directors the obligation to discuss in meetings of the

Board of Directors the Basic Policy on Corporate Governance, matters relating to corporate restructuring, and significant matters relating to operation of group companies, the supervisory function of the Board of Directors was strengthened.

4. Initiatives relating to audit systems of Company Auditors

It was specified in the employment regulations that, in the event a material violation of laws or regulations or other serious compliance-related problem is discovered, the Company shall not treat unfavorably those who reported the matter to the Corporate Auditors for the reason of the report.

5. Basic Views on Eliminating Anti-Social Forces and the Progress of System Development

The Kuraray Group declares in Corporate statement, “Our Commitment” how the Group fulfills its accountability and responds to the expectation from the society in regard with the diverse connections to the society. In the Kuraray Group Code of Conduct, which embodies “Our Commitment,” we have pledged that we take a resolute stance against, and will not associate with, anti-social groups or organizations. In order to ensure that its Directors and employees comply with this code of conduct, the Company strives to familiarize them with this code through creating and distributing Kuraray Group Compliance Handbook, which offers explanations of the Kuraray Group Code of Conduct, and holding training on corporate ethics. In addition, the Company separately stipulates the prohibition of illegal profit offering and handling of donations, etc. and is working on educational activities on a Group-wide basis to maintain a sound relationship with the society. In case of any unreasonable demands, etc. made by anti-social forces, the Company has a system in place whereby General Affairs Department of the Head Office, the responsible division, collects and collates information, and Manager of General Affairs Department deals with the case as a person in charge of preventing unreasonable demands through coordinating with the relevant external authorities including the police and attorneys.

V Other

1. Adoption of Anti-Takeover Measures

Adoption of Anti-Takeover Measures	Adopted

Supplementary Explanation

The Company abolished the countermeasures to large-scale purchases of the Company’s shares (takeover defense) (the “Old Plan”) introduced on June 22, 2012 and introduced the countermeasures to large-scale purchases of the Company’s shares (takeover defense) (the “Plan”) by partially amending the Old Plan, by receiving the approval of the majority of voting rights of shareholders present at the Company’s General Meeting of Shareholders held on March 27, 2015.

The Plan limits the period within which the Large-scale Share Purchaser (as defined in 1. below) is required by the Board of Directors to provide information to a maximum of sixty (60) business days, in principle, in order to ensure the prompt implementation of the Large-scale Share Purchase Rules (as defined in 1. below). In addition, the New Plan sets forth that, if the Board of Directors has passed a resolution to trigger the countermeasures upon the Special Committee’s recommendation, the Board of Directors must promptly disclose the content of such resolution to the shareholders. Other than those, there is no substantial change from the content of the Old Plan.

The summary of the Plan is as follows.

1. The summary of the Company’s Basic Policy and Purpose of the Introduction of the Plan

Recently, it has become obvious that a large-scale purchase of shares may be undertaken “hostilely” and suddenly without benefiting from sufficient discussion or a process of agreement with the management of the target company. It cannot be denied that some of such unilateral large-scale purchases of shares may materially damage the Company’s corporate value and the shareholders’ common interests if; for example, (i) the shareholders do not receive sufficient information and will effectively be forced to sell their shares; (ii) the shareholders are not given enough time to consider the conditions, method, etc. of such purchases and the Board of Directors is not given enough time to present alternative proposals, etc.; or (iii) the large-scale purchasers do not intend to manage the Company in a reasonable and serious manner, etc.

The Company believes that the person controlling the Company’s decisions over financial and business affairs should be someone who fully understands the corporate philosophy of the Company and its important and various management resources from which the Company’s corporate value is generated. Moreover, such person should sincerely intend to protect and enhance the Company’s corporate value and the shareholders’ common interests for both the mid and long term. Therefore, the Company has decided that any person who commences a large-scale purchase of shares that may materially damage the Company’s corporate value and the shareholders’ common interests will be deemed to be inappropriate as a person controlling the Company's decisions over financial and business affairs.

The Plan sets out the procedures (the “Large-scale Share Purchase Rules”) for the Large-scale Share Purchase (Note) by a purchaser and purchase offeror (collectively, the “Large-scale Share Purchaser”), as an effort to prevent the Company’s decisions over financial and business affairs from being controlled by inappropriate persons in light of the basic policy above, which will permit shareholders to receive necessary information for their determination and to secure there is sufficient time to evaluate and examine, etc. the substance of the proposed Large-scale Share Purchase for the purpose of protecting and enhancing the Company’s corporate value and the shareholders’ common interests.

2. Effective Date and Effective Term of the Plan

・The effective term of the Plan is three (3) years until the closure of the Company’s 137th Ordinary General Meeting of Shareholders to be held in 2018.

3. Outline of Large-scale Share Purchase Rule

・Prior to initiating a Large-scale Share Purchase, a Large-scale Share Purchaser will be required to submit a statement of intention to the Company containing a pledge by the Large-scale Share Purchaser to comply with the Large-scale Share Purchase Rules and other specified matters.

・Within ten (10) business days of receipt of the Statement of Intention, the Board of Directors will send a list to the Large-Scale Share Purchaser specifying the information required by the Board of Directors. The Large-scale Share Purchaser will be required pursuant to such information request to provide the Board of Directors with necessary and sufficient information for the shareholders’ determination and for the Board of Directors’ evaluation and examination, etc. (the “Large-scale Share Purchase Information”). If Large-scale Share Purchase Information is not provided even after sixty (60) business days from the day on which the list is sent, communication with the Large-scale Share Purchaser will be terminated, and the Board of Directors will commence evaluation and examination, etc. However, if an extension is requested by the Large-scale

Share Purchaser based on reasonable grounds or if it is deemed necessary by the Board of Directors, said period may be extended by up to thirty (30) business days.

・If the Board of Directors objectively and reasonably determines that the Large-scale Share Purchase Information is complete as provided by the Large-scale Share Purchaser, the Board of Directors will promptly give notice to the Large-scale Share Purchaser thereof and disclose such fact to the shareholders. After the Large-scale Purchaser is notified, or after the lapse of the prescribed period, the Board of Directors will fix the period reasonably necessary for the Board of Directors to evaluate and examine, etc. the conditions and method, etc. of the Large-scale Share Purchase (the "Board of Directors Evaluation Period"), up to (i) sixty (60) days (in the case of a purchase of all of the Company's shares via a tender offer that limits the purchase price to cash (Japanese Yen)) or (ii) ninety (90) days (in the case of Large-scale Share Purchases other than that mentioned in item (i) above). (If there is an unavoidable reason, the Board of Directors may extend the Board of Directors Evaluation Period by no longer than thirty (30) days; provided, however, that the extension may only take place once.). The Large-scale Share Purchaser may initiate a Large-scale Share Purchase only after the expiration of the Board of Directors Evaluation Period, unless a shareholders' meeting to confirm the shareholders' opinion regarding the appropriateness of triggering the countermeasures ("Shareholders' Meeting Confirming Shareholders' Opinion") is called as set forth in 4. (1) (iii) below.

・During the Board of Directors Evaluation Period, the Board of Directors will evaluate and examine the conditions and method, etc. of the Large-scale Share Purchase from the perspective of protecting and enhancing the Company's corporate value and the shareholders' common interests. The Board of Directors will reach its opinion and provide on a timely basis the substance of such opinion to the Large-scale Share Purchaser and, at the same time, disclose it to the shareholders in an appropriate manner. The Board of Directors will, as necessary, consult and negotiate with the Large-scale Share Purchaser with respect to the conditions and method of the Large-scale Share Purchase and establish alternative proposals for the shareholders.

4. Response Policy upon the Commencement of a Large-scale Share Purchase

(1) Conditions for Triggering Countermeasures

(i) Cases where the Large-scale Share Purchaser commences, or intends to commence, the Large-scale Share Purchase without complying with the Large-scale Share Purchase Rules

In this case, the Board of Directors may, regardless of the actual conditions and method, etc. of such Large-scale Share Purchase, deem such Large-scale Share Purchase to be a hostile takeover that might materially damage the Company's corporate value and the shareholders' common interests, and trigger the necessary and appropriate countermeasures to protect and enhance the Company's corporate value and the shareholders' common interests.

(ii) Cases where the Large-scale Share Purchaser commences, or intends to commence, the Large-scale Share Purchase in compliance with the Large-scale Share Purchase Rules

In this case, even if the Board of Directors objects to such Large-scale Share Purchase, the Board of Directors will not, in principle, trigger the countermeasures against such Large-scale Share Purchase. However, if the Board of Directors clearly determines that such Large-scale Share Purchase would materially damage the Company's corporate value and the shareholders' common interests, the Board of Directors may trigger the necessary and appropriate countermeasures to protect and enhance the Company's corporate value and the shareholders' common interests.

(iii) Cases where Shareholders' Meeting Confirming Shareholders' Opinion is called

・Notwithstanding (i) and (ii) above and 5.(2) below, the Board of Directors may call a Shareholders' Meeting Confirming Shareholders' Opinion in order to confirm the shareholders' opinion regarding the appropriateness of triggering the countermeasures under specified circumstances.

・If the Board of Directors calls a Shareholders' Meeting Confirming Shareholders' Opinion, the Board of Directors will be subject to the resolution of the Shareholders' Meeting Confirming Shareholders' Opinion regarding the appropriateness of triggering the countermeasures.

・If the Board of Directors determines to call a Shareholders' Meeting Confirming Shareholders' Opinion, the Large-scale Share Purchaser may not initiate the Large-scale Share Purchase before such Shareholders' Meeting Confirming Shareholders' Opinion adjourns.

(2) Substance of Countermeasures

The Board of Directors will trigger an allotment of share options (shinkabu-yoyakuken) (the "Share Options") without contribution, which will include a discriminatory condition and a discriminatory acquisition provision, to all its shareholders as a countermeasure to be triggered in accordance with Paragraph (1), Item (i) or (ii) above.

The discriminatory acquisition provision will include a provision that if the Company acquires the Share Options held, no cash will be offered in exchange for the Share Options to a person who conducts the Large-scale Share Purchase that would materially damage the Company's corporate value and the shareholders' common interests.

5. Establishment of the Special Committee and the Inquiry Procedures, etc.

(1) Establishment of the Special Committee

In order to ensure the reasonableness and fairness of the Board of Directors' decision on whether or not to trigger the countermeasure against the Large-scale Share Purchaser and other matters, the Company will establish a special committee (the "Special Committee") that is independent from the Board of Directors. The members of the Special Committee will consist of three (3) or more people and be appointed from Outside Officers.

(2) Procedures for Triggering the Countermeasures

・The Board of Directors must make an inquiry to the Special Committee, in advance of triggering the countermeasures regarding the appropriateness of triggering such countermeasures.

・Upon such inquiry, the Special Committee may obtain, as necessary, advice from outside experts, etc. and make recommendations to the Board of Directors with respect to the appropriateness of triggering the countermeasures.

・The Board of Directors must respect the Special Committee's recommendation to the greatest extent possible in making a decision on whether or not to trigger the countermeasures.

・If the Board of Directors has passed a resolution to trigger the countermeasures upon the Special Committee's recommendation, the Board of Directors must promptly disclose the content of such resolution to the shareholders.

Note: Under the Plan, “Large-scale Share Purchase” shall mean any transaction falling under (1) any purchase of share certificates, etc. issued by the Company by a holder that will cause such holder’s holding ratio of share certificates, etc. to become 20% or greater or; (2) any tender offer for share certificates, etc. issued by the Company that will cause the total of an offeror’s holding ratio of share certificates, etc. subject to the tender offer and the aggregate holding ratio of share certificates of person(s) in special relationship to become 20% or greater or any similar transaction.

For details of the Plan, please see the material separately disclosed on February 24, 2015.

http://www.kuraray.com/release/2015/150224.html

2. Other Matters concerning Corporate Governance System

1. Basic Stance toward Disclosure

With our mission of “We are committed to developing new fields of business using pioneering technology that improves the environment and enhances the quality of life throughout the world. For people and the planet − to achieve what no one else can,” the Group is striving to enhance its corporate value. Under this mission, our basic stance toward disclosure is to fulfill our accountability to the society through timely and sufficient disclosure of information.

Our basic policy on disclosure is to strictly control the corporate confidential information while at the same time actively disclosing information as a corporate group that is open to society through implementing the principles of “We will maintain a sound relationship with society through good communication” and “We will honor all intellectual property and secure data and information in a proper manner” both stipulated in our commitment (comprised of six principles).

In accordance with the Disclosure Policy of the Kuraray Group which is a written outline of such basic stance and the Company Disclosure Guidelines specifying the principles and practice of disclosure, the Company has established the internal system as following in order to accurately execute the disclosure of “corporate information required for disclosure” (hereinafter, “important corporate information”) as set forth in the rules of the Tokyo Stock Exchange for timely disclosure.

2. The Timely Disclosure System of the Company’s Information

(1) Organization in charge of disclosure

Corporate Communications Department, Corporate Management Planning Office takes charge as the division responsible for the disclosure of important corporate information of the Group.

(2) Collection and control of information

Important information of the Group (determining events, occurring events, or information related to financial results) is reported from each business execution organization to the top management and its staff, that is, the General Manager of Corporate Management Planning Office. Matters requiring the judgement and determination of the top management are presented for discussion at the Executive Committee.

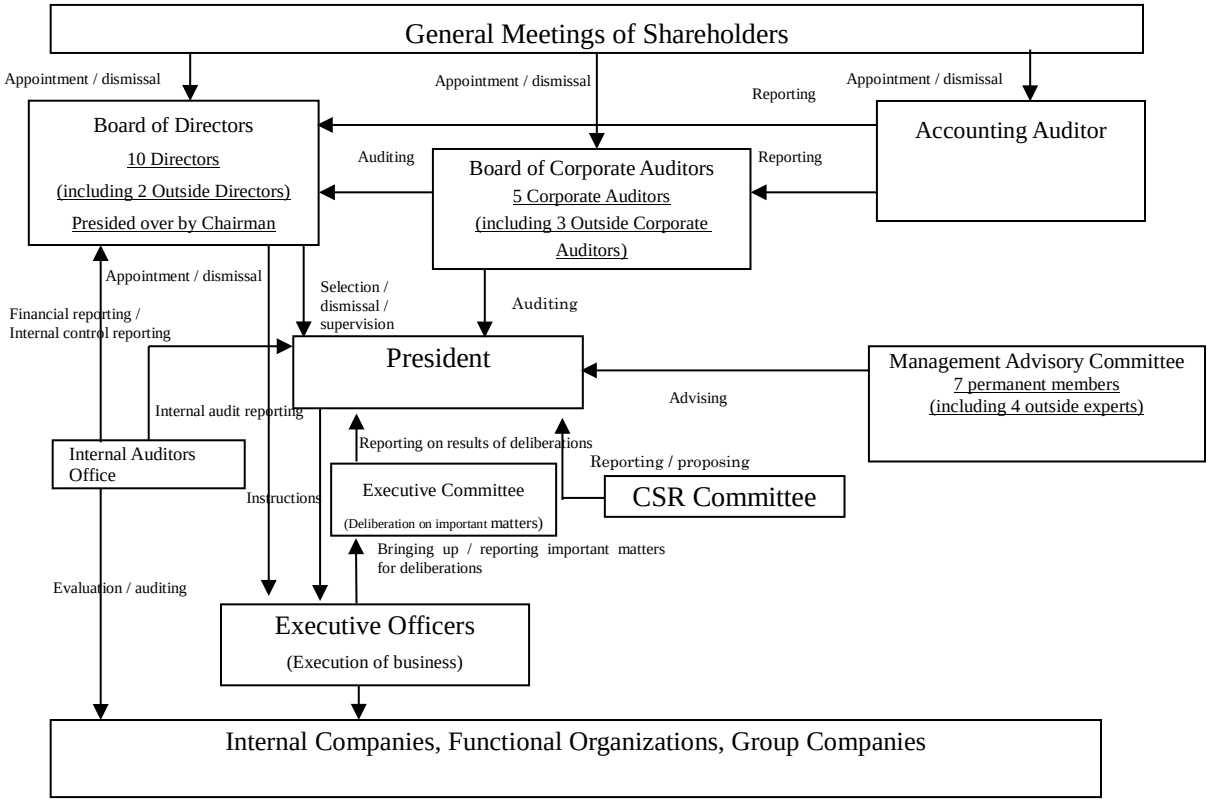
Corporate Communications Department, Corporate Management Planning Office responsible for disclosure obtains the important information in a timely manner via managers in charge of disclosure that are placed in each business execution organization, Corporate Management Planning Department of the Corporate Management Planning Office, administrative organization of the Head Office and other divisions.

In the event of accidents, disasters and other emergencies, Corporate Communications Department, Corporate Management Planning Office obtains the information in a timely manner via the communication network provided in the “Corporate Emergency Headquarters Operating Specifications” or through the duties at the Emergency Headquarters.

(3) Judgement and Determination regarding Disclosure

Matters relevant to the important corporate information are disclosed in a timely manner by Corporate Communications Department, Corporate Management Planning Office. Matters that are uncertain whether they are relevant to the important corporate information are subject to the judgment by Manager of Corporate Communications Department, Corporate Management Planning Office after discussion by the Corporate Communications Department, the Corporate Management Planning Office and Legal Department, CSR Division.

Even when information is not deemed to be relevant to the important company information, if such matters are required to be disclosed in fulfilling the Group’s accountability to the society, President makes decision after the discussion at Executive Committee. Notwithstanding the foregoing, in the event of emergencies, President or an officer authorized by the President shall make decision regarding disclosure after the discussion with Manager of Corporate Communications Department, Corporate Management Planning Office.


General Meetings of Shareholders
Appointment / dismissal
Appointment / dismissal
Reporting
Appointment / dismissal
Board of Directors
10 Directors
(including 2 Outside Directors)
Presided over by Chairman
Auditing
Board of Corporate Auditors
5 Corporate Auditors
(including 3 Outside Corporate Auditors)
Reporting
Accounting Auditor
Appointment / dismissal
Selection / dismissal / supervision
Auditing
Financial reporting / Internal control reporting
President
Management Advisory Committee
7 permanent members
(including 4 outside experts)
Advising
Internal audit reporting
Reporting on results of deliberations
Reporting / proposing
Internal Auditors Office
Executive Committee
(Deliberation on important matters)
CSR Committee
Instructions
Bringing up / reporting important matters for deliberations
Evaluation / auditing
Executive Officers
(Execution of business)
Internal Companies, Functional Organizations, Group Companies