

June 7, 2007

To Our Shareholders:

Kuraray Co., Ltd.

**Supplemental Information on a Proposal**  
**for 126th Ordinary General Meeting of Shareholders**

It has been brought to our attention by some of our shareholders that Institutional Shareholder Services (“ISS”), an international proxy voting advisor, made a recommendation to vote against the Company’s Proposal No. 5, “Approval of the Countermeasures (Takeover Defense) in Response to a Large-Scale Purchase of Company Shares” (the “Proposal”), to be presented at the 126th Ordinary General Meeting of Shareholders planned to be held on June 20, 2007.

The Company thinks that the reasons for ISS’s recommendation to vote against the Proposal are irrelevant to shareholders’ consideration of the Proposal, which seeks shareholder approval for the countermeasures to be implemented in response to a large-scale purchase of the Company’s shares (the “Plan”). Accordingly, since it remains our recommendation that the Plan be approved by shareholders of the Company for the purpose of preserving and enhancing the Company’s corporate value and its shareholders’ common interests, we would like to take this opportunity to provide additional explanation of the Proposal for your better understanding.

<Proposal that ISS has made a recommendation to vote against>

Proposal No. 5: Approval of the Countermeasures (Takeover Defense) in Response to a Large-Scale Purchase of Company Shares

<Reasons for ISS’s recommendation>

The reasons for ISS’s recommendation to vote against the Proposal are as follows:

- (1) The Company has not disclosed the members of the Special Committee.
- (2) There is no independent director on the Board of Directors of the Company.

<Position of the Company>

The Company thinks that the reasons for ISS’s recommendation to vote against the Proposal are unrelated to the Plan and therefore not relevant to shareholders when they are considering the Proposal.

(1) Non-disclosure of the members of the Special Committee:

**As of May 16, 2007, the Company disclosed to the public in its news release and on its website that the Company had preliminarily decided to appoint the three (3) persons described below as members of the Special Committee. This information has been disseminated to all the Company's shareholders by enclosing a document entitled "Notice of preliminary decision on the appointment of the members of the Special Committee" with the Notice of the 126th Ordinary General Meeting of Shareholders that was dispatched to the shareholders on May 29, 2007. Accordingly, the statement by ISS that the Company has not disclosed the members of the Special Committee is absolutely incorrect and misleading. Your full understanding and due consideration on this point would be greatly appreciated.** Background information regarding persons preliminarily chosen to be appointed as members of the Special Committee is provided below: (For a brief personal history of each member, please refer to Attachment 1.)

Toshimitsu Kitagawa: Outside Corporate Auditor of the Company,  
Standing Member of the Management Advisory Council of the Company,  
Attorney at Law and Professor of Kansai University School of Law

Hiroo Onodera: Outside Corporate Auditor of the Company,  
and Advisor on Financial and Economic Matters, Prefectural Committee  
for Financial Services Information of Tokyo

Teruyuki Ouchi: Standing Member of the Management Advisory Council of the Company  
and Attorney at Law

In connection with its argument regarding the independence of the members of the Special Committee, ISS pointed out that a former executive director of one of the Company's main banks is one of the Company's Outside Auditors. ISS indicated that, if this person were to be appointed as a member of the Special Committee, his independence would be open to question since he would have an incentive to reject a takeover that could affect the terms of the business relationship between the Company and the said main bank. This statement may refer to the fact that an Outside Auditor of the Company, Mr. Hirotaka Ikuno, formerly served as a director of the Industrial Bank of Japan, Limited (currently Mizuho Corporate Bank, Ltd.). However, as described above, Mr. Ikuno will not be a member of the Special Committee. Therefore, ISS's assumption that Mr. Ikuno would be appointed as a member of the Special Committee is incorrect and irrelevant to shareholders' consideration of the Plan.

(2) Absence of Independent Directors on the Company's Board of Directors:

ISS has indicated that the absence of independent directors on the Company's Board of Directors is a reason for its recommendation to vote against the Proposal, based on its understanding that a decision of the Special Committee could be overruled by the Board of Directors of the Company. However, we believe that ISS's argument on this point is irrelevant to consideration of the Plan for the reasons described below.

Upon implementing the Plan, the Company will establish the Special Committee, a body independent from the Board of Directors of the Company that will consist of members with a high degree of independence (as described more fully below). The Board of Directors of the Company will be required to respect the Special Committee's recommendations to the greatest extent possible when making decisions regarding whether to implement the countermeasures and other matters to be considered by the Special Committee. It is expected that the Board of Directors of the Company will comply with decisions of the Special Committee except in very exceptional situations, because refusal to comply with the Special Committee's recommendations would raise questions of whether the Directors had fulfilled their legal responsibilities. As ISS's recommendation to vote against the Proposal is based on the assumption that a decision of the Special Committee could be overruled by the Board of Directors of the Company and ignores the legal duties that would be applicable to the Directors in situations where they overrule the Special Committee, we strongly believe that such recommendation is not justified.

In a very exceptional situation (for example, when complying with the Special Committee's recommendation would likely result in the Directors' breach of their fiduciary duties), the Board of Directors of the Company could make a final decision different from the Special Committee's recommendation. However, the Company has adopted the corporate auditors system, which is a permitted system of corporate governance under the Japanese Corporation Laws. Under such system, the Corporate Auditors of the Company, whose position independent of the Board of Directors is legally secured, have a legal duty to monitor the Directors' decisions and activities and, through such monitoring, prevent the Board of Directors from making any decision that would damage the Company's corporate value or the shareholders' common interests. Furthermore, three of the Company's five Corporate Auditors are Outside Corporate Auditors and have a high degree of independence. Therefore, even in a very exceptional situation where the Board of Directors of the Company did not comply with the decision of the Special Committee, we are confident that the Board of Directors would not

operate the Plan arbitrarily or damage the Company's corporate value or the interests of shareholders.

(3) Independence of the members of the Special Committee

As explained in (1) above, ISS mistakenly indicated that the Company had not disclosed the members of the Special Committee. In this connection, ISS has also indicated that there would be doubts about the independence of a member of the Special Committee if such member is also an executive director of the Company's lenders, customers or suppliers or otherwise has a pre-existing relationship with the Company. We expect that this concern is based on the understanding that, if a member of the Special Committee has such a relationship, such member would not act objectively as a member of the Special Committee. While ISS made no comment with respect to the independence of the persons preliminarily chosen to be appointed as members of the Special Committee, we are sure that there are no relationships between these three individuals and the Company that would affect their objective judgment as members of the Special Committee. As mentioned above, Mr. Teruyuki Ouchi, who was an executive director of the Industrial Bank of Japan, Limited has been chosen to be appointed to the Special Committee. However, we do not believe there is cause for concern with regard to the independence of Mr. Ouchi for the following reasons:

- i) The Company maintains a sound financial structure as reflected by an equity ratio of approximately 70%, and possesses sufficient assets to continue and expand its businesses. The Company's current interest-bearing liabilities are only ¥28 billion, which accounts for only 5.5% of total assets as of March 31, 2007. Although Mizuho Corporate Bank, Ltd. is one of the Company's main lenders, borrowings from the bank were only approximately ¥2.9 billion as of March 31, 2007.

In the current situation of the Company, its management is not influenced by any of its main lenders including Mizuho Corporate Bank, Ltd., a succeeding entity of the Industrial Bank of Japan, Limited.

- ii) Seventeen years have passed since Mr. Ouchi retired from his position as director of the Industrial Bank of Japan, Limited. After such a long period of time, we do not think the fact that Mr. Ouchi served as a executive director of the Industrial Bank of Japan, Limited, a former entity of Mizuho Corporate Bank, Ltd., will in any way affects his independence as a member of the Special Committee.

iii) Mr. Ouchi engaged in financial duties for the Asian Development Bank for three years and for the World Bank for three years. While working as an attorney at law dedicated to social justice, Mr. Ouchi served as President of World Wide Fund for Nature Japan (WWF Japan), which is a globally known nature conservation organization. He serves in various public interest roles.

For the reasons described above, we see no reason to doubt the independence of Mr. Ouchi. In addition, we believe that he is qualified to be a member of the Special Committee of the Company in light of his excellent career, character and expertise.

We have explained our thoughts on the reasons for ISS's recommendation to vote against the Proposal. We believe that the Plan would preserve and enhance the Company's corporate value and its shareholders' common interests, and therefore is reasonable and fair. (Please refer to Sections 3 and 4 of Proposal No.5 in the Reference Materials attached to the Notice of the 126th Ordinary General Meeting of Shareholders\* for more information regarding the reasonableness and fairness of the Plan.) It would be greatly appreciated if you could give full consideration to the foregoing when deciding whether to approve the Proposal.

\* An excerpt translation of Notice of the 126th Ordinary General Meeting of Shareholders is available on our website: [http://www.kuraray.co.jp/en/ir/pdf/assembly\\_126.pdf](http://www.kuraray.co.jp/en/ir/pdf/assembly_126.pdf)

Attachment 1

**Brief Personal History of the Members of the Special Committee**

Toshimitsu Kitagawa

April 1962 Entered Toshiba Corporation  
April 1991 Manager, International Legal Affairs Department, Toshiba Corporation (retired from Toshiba Corporation in December 1992)  
January 1993 Professor, Kyushu University Faculty of Law  
April 2002 Professor, Graduate School of Integrated Science and Art, University of East Asia  
June 2002 Attorney at Law (Oh-Ebashi LPC & Partners) (current position)  
April 2003 Professor, Kansai University Faculty of Law  
June 2003 Outside Corporate Auditor, Kuraray Co., Ltd. (current position)  
April 2004 Professor, Kansai University School of Law (current position)  
June 2006 Standing Member of the Management Advisory Council, Kuraray Co., Ltd. (current position)

Hiroo Onodera

April 1963 Entered Bank of Japan  
November 1990 Branch Manager, Sendai Branch, Bank of Japan (retired from Bank of Japan in June 1992)  
June 1992 Senior Managing Director, Wakamoto Pharmaceuticals Co., Ltd.  
June 2000 Representative Director and President, Shin-ei Co., Ltd.  
October 2001 Advisor on Financial and Economic Matters, Prefectural Committee for Financial Services Information of Tokyo (current position)  
June 2006 Outside Corporate Auditor, Kuraray Co., Ltd. (current position)

Teruyuki Ouchi

April 1952 Entered Industrial Bank of Japan, Limited  
December 1966 Deputy General Manager, Capacity Development and Governance Division, Asian Development Bank  
March 1970 Manager, Corporate Banking Division No. 3, Industrial Bank of Japan, Limited  
December 1979 Director and General Manager, International Division, Industrial Bank of Japan, Limited  
October 1982 Managing Director, Industrial Bank of Japan, Limited  
May 1983 Vice President, World Bank  
May 1986 Managing Director, Industrial Bank of Japan, Limited (retired from position as Managing Director in December 1990)  
December 1990 President, Jowa Kosan Co., Ltd.  
June 1995 Chairman of the Board, Jowa Kosan Co., Ltd. (retired from position as Chairman of the Board in June 1999)  
June 1998 Outside Corporate Auditor, Kuraray Co., Ltd. (retired from position as Corporate Auditor in June 2001)  
June 1999 President, World Wide Fund for Nature Japan (current position)  
October 2003 Attorney at Law (Yuasa & Hara) (current position)  
November 2003 Standing Member of the Management Advisory Council, Kuraray Co., Ltd. (current position)