

Toray Industries, Inc. Expert Committee

Meeting Minutes

Date: Monday 26 March 2018
Place: Toray Industries, Inc. Tokyo Head Office
Attendees:

Expert Committee: Committee Chair
Mr. Shozo Fujita (Lawyer)

Committee Member
Mr. Makoto Matsuo (Lawyer)

Committee Member
Mr. Toshio Nagai (Lawyer)

Toray Industries, Inc.: President
Mr. Akihiro Nikkaku

Senior Vice President,
General Manager, Quality Assurance Division
Mr. Yukichi Deguchi

Vice President
General Manager, General Administration and Legal
Division
Mr. Hideki Hirabayashi

Senior Director
General Manager, Legal & Compliance Dept.
Mr. Yoshio Yamamoto

Minutes:

Report of the Expert Committee

- Committee Chair Mr. Fujita
- Today we report the results of this Committee's investigation as follows:

1. Commission particulars and background to this Committee's establishment

- (1) This Committee was established by Toray Industries, Inc., ("Toray") after Toray uncovered the overwriting of data on product quality inspection certificates ("THC Incident") at its subsidiary, Toray Hybrid Cord, Inc. ("THC"). Toray commissioned this Committee to examine and evaluate the appropriateness of THC and Toray's response to the THC incident, including the contents and results of the incident investigation ("THC Investigation"), as well as recurrence prevention and external response measures. On 25 December 2017, this Committee submitted its investigation report ("THC Incident Report") to Toray.
- (2) Toray used the occurrence of the THC Incident to undertake a comprehensive investigation into product quality data across the entire Toray Group ("Group-wide Investigation"). On 25 December 2017, Toray commissioned this Committee to investigate and evaluate the appropriateness of the methods, contents and results of the Group-wide Investigation, as well as the measures taken in light of the Group-wide Investigation's results ("Committee Investigation").
- (3) This Committee is comprised of three (3) members, Mr. Shozo Fujita (Committee Chair), Mr. Makoto Matsuo (Committee Member) and Mr. Toshio Nagai (Committee Member). Additionally, five (5) lawyers (Mr. Kouji Ohe, Mr. Naoki Takaishi, Mr. Takayuki Matsuo, Mr. Hirotoshi Kakumoto and Mr. Ryota Asakura) from Momo-o, Matsuo & Namba were appointed to provide administrative assistance to this Committee in its investigation.
- (4) Toray cooperated fully with this Committee in its investigation.

2. Contents and Results of the Committee Investigation with Observations by the Committee

- (1) From 25 December 2017 until the present time, this Committee received reports from Toray about the methods, contents, results, analysis and ongoing measures being taken as part of its Group-wide Investigation. These reports

included information about 137 incidents relating to product quality data that were identified as requiring further investigation according to Toray's President in a press conference on 28 November 2017.

- (2) According to Toray's reports, the Group-wide Investigation into product quality data was conducted between November 2016 and March 2018, mainly by the Product Safety & Quality Assurance Planning Dept. and Product Quality Assurance Division. An overview of this investigation follows:

A The Group-wide Investigation was conducted by a mass survey of 9,727 employees (including part-time employees) from Toray and its Japanese and overseas affiliates ("Quality Data Survey"). This Quality Data Survey was not limited to employees in quality assurance departments, and included employees and supervisors in manufacturing, technical, sales and research departments who handle product quality data. Employees were questioned about their knowledge of misconduct occurring at any time during their employment.

B Toray's Legal & Compliance Dept., Product Safety & Quality Assurance Planning Dept. and Product Quality Assurance Division were responsible for conducting the Group-wide Investigation. As part of the Group-wide Investigation, specific survey results were identified as requiring additional investigation to refine and categorize the results of the Data Quality Survey and confirm incident specifics. In such cases, a responsible party was appointed to conduct an additional investigation by comparing actual test results with data on test certificates, verifying impacts upon safety, considering the existence of legal violations and conducting interviews with relevant employees from quality assurance, manufacturing, technical, sales, research departments. The relevant Toray departments verified the results of this additional investigation and when necessary ordered further inquiry through additional documents and interviews.

C Additional investigation into the Quality Data Survey revealed no legal violations or impacts upon the product safety. Consequently, none of the survey results require reporting according to the Toray Group's policy on external disclosure. However, at the press conference on 28 November 2017, it was explained that the Quality Data Survey would be performed within the 2017 financial year, and so it was decided that the above information should be disclosed.

D Although no survey results required disclosure, within the comments and suggestions provided by employees in answer to the Quality Data Survey there was various constructive criticism about problems with, and ways to improve operating and management systems related to product quality assurance work.

E Causal analysis of the THC Incident and the results of the Group-wide Investigation revealed several issues which the Toray Group must continue to address. In response to these issues, Toray developed new measures to strengthen compliance systems relating to product quality assurance, increase maintenance of data management systems, review quality standards and strengthen maintenance management of measuring equipment.

(3) Parallel to the Group-wide Investigation, this Committee undertook the Committee Investigation by considering the documents used by Toray in the Group-wide Investigation, conducting interviews with relevant individuals, and visiting relevant sites. An overview of the Committee Investigation follows:

A The Committee undertook its investigation between 25 December 2017 and 26 March 2018. During this period, the Committee convened 9 times and otherwise conducted consultations via email, telephone and meetings following interviews of relevant personnel.

B The Committee checked documents submitted to it by Toray about the Group-wide Investigation, including documents relating to Quality Data Incidents. When questions about the methods and results of the Group-wide Investigation arose during the Committee's checking process, the Committee sent the questions to Toray. Toray answered all of the questions in writing or during interviews with the persons listed hereafter.

C Having examined the documents relating to the Group-wide Investigation, the Committee conducted interviews with Toray's President, the General Manager of Product Quality Assurance Division, the General Manager and other members of the Product Safety and Quality Assurance Planning Dept., employees responsible for handling product quality assurance in each business division, the General Manager of each business division (and sales staff), the General Manager of the Legal & Compliance Dept., Presidents of affiliate companies and other relevant individuals. In these interviews, the Committee heard evidence about:

- Methods and results of the Group-wide Investigation;

- The basis for determining that there were no impacts on product safety or legal violations;
- The current state and issues faced by product quality assurance and related systems within the Toray Group
- The current state and issues faced by product quality assurance in each business division and affiliate company;
- Future measures related to product quality assurance.

D Additionally, the Committee also conducted an on-site investigation at a Toray Plant. Specifically, the Committee verified the manufacturing processes and product quality testing processes being used at the plant. Afterwards, the Committee conducted interviews with the plant's General Manager and other individuals responsible for general administration and product safety assurance about the reality of product quality assurance systems and work at the manufacturing site.

E The Committee conducted its interviews in respect of sixteen individuals.

(4) Based upon its investigation, the Committee reports its views as follows:

A The Committee confirms that in its Group-wide Investigation, Toray used appropriate methods and dedicated sufficient time and human resources to undertake its investigation, analysis and consideration.

B The Committee believes that the results of Toray's Group-wide Investigation, determining that there were no incidents that involved legal violations or impacted upon product safety, are based on sufficient inquiry and are appropriate. The Committee is of the same opinion in respect of the issues identified by Toray as requiring ongoing attention across the Toray Group.

C Further, the policies and measures adopted by the Toray Group to address such ongoing issues are precise and effective.

D Toray's determination that the Group-wide Investigation did not reveal any individual incidents requiring public disclosure is a management decision that corresponds with the Toray Group's policy on public disclosure that was judged to be appropriate in the Committee's THC Incident Report.

E Further, in line with the recommendations made by the Committee in the THC Incident Report, on 1 February 2018 Toray established a Product Quality Assurance Division to preside over and ensure the effectiveness of

all quality assurance work performed within the Toray Group. Toray was also confirmed to be enacting remedial measures.

F Having reached the above conclusions, this Committee believes that it does not need to issue a report on the Committee Investigation. The Committee expects that Toray will continue, primarily through its Product Quality Assurance Division, to properly enact each of the planned policies and measures.

Additional comments by the Committee

- Mr. Matsuo
- The Group-wide Investigation that Toray initiated after the THC Incident employed innovative methods and much effort. Toray can be evaluated as having produced much useful information for analysing the issues relating to the Toray Group's product quality assurance systems and enacting related policies and measures. The improvement of product quality assurance should not end with the Group-wide Investigation, and instead must be continued as a long term process. Toray must continue to entrench the investigation methods employed in the Group-wide Investigation and undertake continuing measures to repeat the PDCA cycle in respect of its product quality assurance systems. Based on the knowledge gained through this process, Toray can establish product quality assurance systems that are a model for other manufacturing companies around the world.
- Mr. Nagai
- Even though Toray's Group-wide Investigation surveyed 9,727 employees, it did not reveal any incidents involving legal violations or problems with safety. This Committee considered the processes used in the Group-wide Investigation and when necessary visited manufacturing worksites and conducted interviews with individuals to thoroughly understand the contents of the Investigation. As a result of its investigation, the Committee approves of the process and results of the Group-wide Investigation. Toray is to be applauded for the fact that even such a broad investigation did not reveal any legal violations or problems with safety. On the other hand, however, interviews with individuals involved in product quality assurance showed that there was nervousness and concern in the workplace. Toray must listen to these opinions, consider the source of these problems and respond appropriately.
- Because of the THC Incident, I believe that there is now a greater awareness about the importance of product quality assurance throughout the whole of Toray. The

concept of “Anzen Koudo” has penetrated the company culture, and I hope that the concept of “quality assurance” will take root in the same way.

- Chairperson Mr. Fujita
- Even during the process of this investigation, I became newly aware of the fact that Toray places great importance on the safety of its products. At the moment, Toray is thoroughly educating its employees on the importance of product standards set by customers. However, when explaining to employees that they must respect contractual conditions, greater understanding may be gained by also explaining that not respecting contractual conditions can cause fundamental failings of product safety and standards of quality assurance.

Comments by Toray

- President Nikkaku
- Following last year’s THC Incident, I am very grateful that the Committee evaluated the appropriateness of the Group-wide Investigation. I certainly hope to reflect the valuable opinions of the Committee members in our ongoing measures.
- We will continue to enact measures in order to address the issues identified in the Group-wide Investigation, including the need to (1) strengthen compliance systems related to product quality assurance; (2) improve maintenance of data management systems; (3) review product quality standards; and (4) improve the maintenance of measurement equipment. We have already appointed the Board Member in charge of product quality assurance as the General Manager of the newly established Quality Assurance Division. Under this new framework, we will continue to ensure the effectiveness of our product quality assurance work. By promoting the automation of measuring equipment and reviewing the standards set in contracts with customers we will make product quality assurance more certain. We will also communicate quickly and accurately with customers to resolve any problems which may arise.
- Further, Toray is enhancing its quality assurance compliance education for all Toray Group employees who handle product quality data, including executives and managers. Toray will develop systems and frameworks to avoid pressure being placed on employees involved in product quality assurance and foster a workplace culture of integrity that is able to prevent the occurrence of misconduct.
- “Corporate ethics and fairness” is one of the top management priorities of the Toray Group, and we will continue to ensure that this is understood by all Toray people. Toray will strive to carry out appropriate trading activities based on the ideal of

free, fair and transparent market competition, and conduct its business activities in a way that earns the trust of society.

- We must make sure we know what is right, and be conscious of whether we and those around us are doing the right thing. By doing so, we heighten our own value, as well as that of our workplace, product and company. This is how we at Toray will continue to contribute to society. “Have the integrity to do the right thing in the right way” is the spirit that the Toray Group and all its members will continue to embrace in our ongoing business activities.
- I myself will stand at the forefront of this effort and forge ahead.

Note: This translation of the Expert Committee’s Report was made by Toray Industries, Inc..