

Corporate Governance

Basic Policy

From the outset, one of Toray Group’s managerial principles has been that the purpose of a company is to contribute to society. The Group has developed a Management Philosophy that incorporates this principle.

The Group systematizes the Management Philosophy as a Corporate Philosophy, Corporate Missions, and Corporate Guiding Principles. Among these, the Corporate Missions call for desirable relationships with stakeholders and enunciate the Group’s

commitment “To provide our shareholders with dependable and trustworthy management.” In addition, the Corporate Guiding Principles stipulate the Group’s commitment to “Obtaining the trust of society and meeting the expectations by acting fairly while maintaining high ethical standards and a strong sense of responsibility and maintaining transparency in management.”

When establishing the corporate governance structure, the Group seeks to realize these philosophies as its basic policy.

Systems for Executing and Supervising Management

Toray is a company with Board of Corporate Auditors, and the members of the Board and corporate auditors are elected at the general meeting of stockholders.

Members of the Board and corporate auditors, as officers directly elected at the general meeting of stockholders, clearly recognize fiduciary responsibility to stockholders who have entrusted the management and appropriately fulfill their respective roles while discharging accountability about management status to stockholders and other stakeholders.

Toray’s Board of Directors consists of 19 members. Since Toray Group supplies a wide range of industries with basic materials and globally plays an active part in a broad scope of business fields, it is necessary to evaluate various risks multilaterally based on expertise relevant to the worksites, not only for management judgment and decision-making but also for oversight. To that end, the Board of Directors formulates a structure in which members of the Board familiar with Toray Group businesses oversee management and make decisions from various viewpoints.

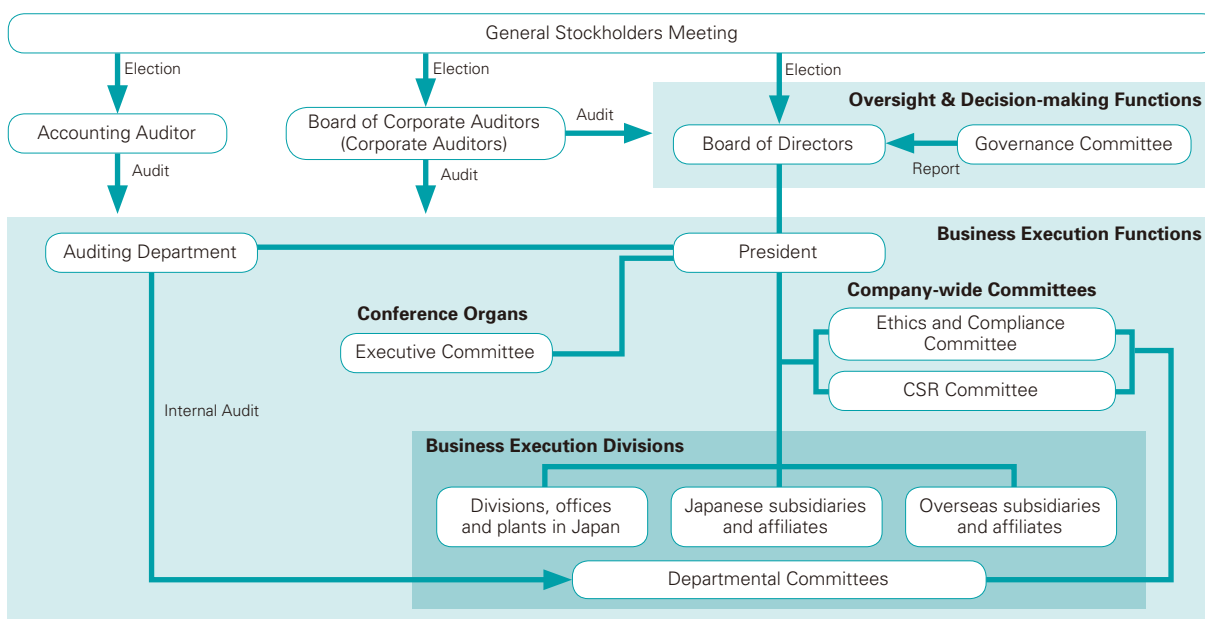
Furthermore, the Board of Corporate Auditors oversees the execution of operations by the members of the Board based on professional knowledge in fields such as finance, accounting and law in addition to an understanding about businesses, from a standpoint

entirely independent of the Board of Directors as a system to secure transparency and fairness of oversight and decision-making.

Toray established the Governance Committee as an advisory organ to the Board of Directors in order to report to the Board of Directors on important issues regarding the Company’s corporate governance over the mid- to long-term. The Governance Committee consists of the Chairman of the Board, President, and all of the outside directors, and an outside director serves as a chairperson. Deliberation at the Governance Committee encompasses matters regarding the Company’s overall corporate governance matters, including the following.

- Structure of the Board of Directors and the Board of Corporate Auditors
- Evaluation of the management and operation of the Board of Directors
- Policy on nominating candidates for members of the Board and corporate auditors
- Remuneration system for members of the Board and corporate auditors
- Basic policy on electing member of the senior management, including the President

Corporate Governance System



Election of Outside Directors

At Toray, we ensure objectivity and transparency of corporate governance by establishing and disclosing standards for independence of outside directors and outside corporate auditors. Toray's outside directors and outside corporate auditors meet Toray's

standards for independence and meet the independence requirements set by the Tokyo Stock Exchange.

We, therefore, have submitted notification to the Tokyo Stock Exchange of their status as independent officers.

The following table outlines the basis for election of our outside directors/corporate auditors and details of their independence.

Kunio Ito (Director)	<ul style="list-style-type: none">• Is highly expert in accounting and business administration as a university professor• Has extensive experience as a corporate outside director• No matters affect his independence from Toray
Ryoji Noyori (Director)	<ul style="list-style-type: none">• Has extensive experience as a university professor and highly specialized expertise in organic synthetic chemistry, which is a core Toray technology• Has experience as a corporate outside director• No matters affect his independence from Toray
Toshio Nagai (Corporate auditor)	<ul style="list-style-type: none">• Has an excellent track record of high standing in the legal profession and a solid character and judgment, so we believe he can audit appropriately from an objective standpoint• No matters affect his independence from Toray
Kazuya Jono (Corporate auditor)	<ul style="list-style-type: none">• Has held key positions in the corporate world and has solid character and judgment, so we believe he can audit appropriately from an objective standpoint• Formerly employed by Sumitomo Mitsui Banking Corporation and Citibank Japan Ltd. (current Citibank, N.A., Tokyo Branch); Toray has regular banking transactions with both banks. With respect to Sumitomo Mitsui Banking Corporation, over three years have passed since he retired from the board, and we have no borrowing from Citibank, N.A., therefore independence is not affected. Toray's balance of borrowing from Sumitomo Mitsui Banking Corporation (including syndicated loans) as of 31 March 2018 is 0.7% of total assets, which is not high compared with other banks.

Basic Policy on Internal Control System

To realize the Management Philosophy, the Company shall establish a structure to execute its business legally and effectively by improving its internal control system according to the following basic policy as a structure to enable it to appropriately establish organization, formulate regulations, communicate information, and monitor the execution of operations.

1. System to ensure that the execution of duties by members of the Board and employees complies with laws and regulations and the Company's Articles of Incorporation

- Toray shall establish the Ethics and Compliance Committee, as one of the company-wide committees to promote observance of corporate ethics and legal compliance, and shall take other measures to improve the required internal systems, including the establishment of dedicated organizations.
- Toray shall establish the Corporate Ethics and Legal Compliance Code of Conduct as specific provisions to be observed by members of the Board and employees, and shall take other measures to improve the required guidelines, etc. Especially with regard to eliminating relations with antisocial forces, the Company shall act as one to stand firmly against them.
- Toray shall establish an internal reporting system (whistle-blowing system) for the reporting of the discovery of violation of laws, regulations, or the Company's Articles of Incorporation.

- Toray shall establish Security Trade Control Program, one of the most important legal compliance issues, and establish an organization dedicated to security export control.

2. System to ensure the efficient execution of duties by members of the Board

- Toray shall establish the Authority of Top Management to stipulate matters with respect to which decision-making authority is reserved by the Board of Directors and matters with respect to which decision-making is delegated to the President, General Managers, etc., from among matters necessary for decision-making.
- Toray shall establish the Executive Committee as deliberative organs for important matters decided by the Board of Directors or the President. The Executive Committee shall be responsible for the general direction of policy, and shall be in charge of issues related to implementation.

3. System for preserving and managing information pertaining to the execution of duties by the members of the Board

- Toray shall establish regulations for important documents and important information related to management, confidential information and personal information, and appropriately preserve and manage them in accordance with the rules.

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4. Regulations and other systems pertaining to controls over risks of loss

- Toray shall identify potential risks in business activities, promote company-wide risk management to strive to reduce the level of risk under normal business conditions, and prevent future crises, as well as improve regulations and establish an internal committee to enable immediate implementation in the event of a major crisis.
- Toray shall establish an internal control system for financial reporting that ensures the reliability of financial reporting.

5. System for ensuring appropriate business operations within subsidiaries

- To establish a system under which subsidiaries report to the Company on matters regarding the execution of duties by members of the Board, etc. of the subsidiaries, the Company shall provide regulations on the regular reporting of important management information to the Company and regularly hold conferences at which the Company's management receives direct reports on the status of the management of the subsidiaries.
- To establish regulations and other systems pertaining to controls over risks of loss for subsidiaries, the Company shall provide subsidiaries with guidance to help them to establish risk management systems appropriate for their respective business forms and business environments, and shall receive regular reports on the status of their activities.
- To establish a system for ensuring that members of the Board, etc. of subsidiaries effectively execute their duties, the Company shall provide regulations on the scope under which the Company can reserve its authority over the execution of business operations. In addition, the Company shall endeavor to grasp management information in a unified manner and provide assistance and guidance necessary for subsidiaries by determining divisions, etc. with control over its respective subsidiaries.
- To establish a system for ensuring that the execution of duties by members of the Board, etc. and employees of subsidiaries complies with laws and regulations and the Articles of Incorporation, the Company shall thoroughly familiarize its subsidiaries with the Company's Corporate Ethics and Legal Compliance Code of Conduct as a code of conduct in common for Toray Group. At the same time, the Company shall request the subsidiaries to establish their own codes of conduct, guidelines, etc. in consideration of the laws and regulations, business practices, business forms, and other factors in their respective countries. In addition, the Company shall direct its subsidiaries to establish systems under which the status of internal whistle-blowing by

members of the Board, etc. and employees of the subsidiaries is appropriately reported to the Company.

6. System for reporting to corporate auditors and systems for ensuring that persons who report to corporate auditors are not treated disadvantageously because of their reporting

- Members of the Board, etc. and employees of Toray Group and corporate auditors of subsidiaries shall report matters regarding the execution of duties to corporate auditors in response to requests from the corporate auditors.
- Department in charge of the internal reporting system (whistle-blowing system) shall regularly report the status of internal whistle-blowing in Toray Group to the corporate auditors.
- Toray shall stipulate regulations to the effect that members of the Board and employees who report to corporate auditors shall not be subjected to any disadvantageous treatment because of the said reporting, and shall provide subsidiaries with guidance to help them stipulate the same regulations.

7. Items pertaining to the handling of expenses and liabilities arising from the execution of duties by corporate auditors

- Toray shall pay expenses, etc. incurred from the execution of duties by corporate auditors.

8. Items pertaining to employees assisting with corporate auditors' duties, items pertaining to the independence of said employees from members of the Board, and items pertaining to the assurance of effectiveness of instructions from the corporate auditors to said employees

- Toray shall assign a full-time employee to provide assistance if and when corporate auditors request assistance. The said employee shall exclusively follow the corporate auditors' commands and instructions, and the Company shall consult with corporate auditors in advance with respect to the personnel arrangements for the said employee.

9. Other systems for ensuring effective implementation of audits by corporate auditors

- Corporate auditors shall attend Board of Directors meetings and other important meetings so that they may ascertain important decision-making processes and the execution of operations.
- Corporate auditors shall hold regular meetings with members of the Board and management and conduct regular visiting audits of Toray offices, plants, and subsidiaries.

Remuneration for members of the Board

Given their roles, remuneration for internal members of the Board consists of monthly remuneration, a bonus and stock acquisition rights as stock options. Remuneration for outside directors consists of monthly remuneration only.

Remuneration is set at a level that enables the Company to secure superior human resources and further motivate them to improve performance, referring to the results of a survey of other companies' remuneration by an external third-party organization.

With respect to monthly remuneration, the maximum limit of total remuneration is determined at general meetings of stockholders. Within the scope of the maximum limit, monthly remuneration to each member of the Board is determined by the President based on the Company's internal regulations with a resolution at a Board of Directors meeting.

The provision and the total amount of bonuses are determined each time at a general meeting of stockholders. Particulars of the agenda at the general meeting of stockholders are resolved by the Board of Directors through conference among the senior management, including the President, in consideration of the consolidated and non-consolidated business results for each fiscal year plus the historical record. A bonus to each member of the Board is determined by the President according to each member's performance based on the Company's internal regulations with a resolution at a Board of Directors meeting.

The maximum limit of total number of Stock Acquisition Rights as well as the limit of remuneration relating to the granting of the

Stock Acquisition Rights as stock options to members of the Board is resolved at the general meeting of stockholders, and within that limit, the total number of Stock Acquisition Rights to be allocated to the members of the Board shall be decided at the Board of Directors meeting based on the Company's internal regulations.

Given their roles, remuneration for corporate auditors consists of monthly remuneration only. Remuneration is set at a level that enables the Company to secure superior human resources, referring to the results of a survey of other companies' remuneration by an external third-party organization.

With respect to monthly remuneration, the maximum limit of total remuneration is determined at general meetings of stockholders. Within the scope of the maximum limit, monthly remuneration to each corporate auditor is determined through consultation by corporate auditors based on the Company's internal regulations.

The Governance Committee continuously reviews the remuneration system for members of the Board and corporate auditors.

Details of Remuneration in Fiscal 2017

Position	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)			Recipients
		Basic	Bonuses	Stock options as remunerations	
Members of the Board (excluding outside directors)	1,360	906	214	240	26
Corporate auditors (excluding outside corporate auditors)	80	80	—	—	3
Outside directors	24	24	—	—	2
Outside corporate auditors	19	19	—	—	2

Notes: 1. Recipients included three members of the Board and one corporate auditor who retired during fiscal 2017.
2. Total amounts of remuneration do not include the ¥93 million paid in salaries to eight employee-directors.

Total Remuneration Received by Members of the Board and Corporate Auditors

Name	Total consolidated remuneration (millions of yen)	Position	Status of company	Total consolidated remuneration by type (millions of yen)		
				Basic	Bonuses	Stock options as remuneration
Akihiro Nikkaku	157	Member of the Board	Filing company	104	29	24

Note: Total remuneration only includes persons receiving more than ¥100 million.

Status of Compliance Initiatives

Toray Group recognizes the absolute importance of compliance with laws, regulations, and social norms. Top management takes a clear position on corporate ethics and legal compliance in the

execution of their own duties and guides the entire Group's approach to compliance.

Framework for Promoting Corporate Ethics and Legal Compliance

Toray has established the Ethics and Compliance Committee, as a company-wide committee, chaired by the President. The Committee deliberates on policies and discusses measures

relating to corporate ethics, while advancing initiatives through the joint efforts of labor and management. Acting as leaders, divisional and departmental general managers at each worksite

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adopt a top-down approach toward promoting initiatives.

Affiliate Companies' Compliance Meeting as well as Overseas Affiliate Companies' Compliance Meetings have been established as subordinate organizations of the Ethics and Compliance Committee with respect to subsidiaries and affiliates in Japan and overseas. These meetings study and promote compliance activities implemented in each company, country, and region.

In addition, the Corporate Ethics and Legal Compliance Code of Conduct is a strict set of standards that every Toray Group executive and employee closely follows when performing corporate activities. In the event that a violation is discovered, strict discipline is carried out in consultation with the Company's Rewards and Sanctions Committee. Toray has put together the Corporate Ethics and Legal Compliance Handbook, which explains the code and gives details of the compliance helpline, to ensure comprehensive understanding for all Toray and its Japanese Group companies' executives and employees, including contracted, part-time and temporary workers.

Group companies outside Japan prepare national and regional editions of the Corporate Ethics and Legal Compliance Handbooks. Every executive and employee of Group companies outside Japan receives a copy of the handbook to ensure that they are fully informed of the corporate policy on the code of conduct.

Toray established and is advancing the following common company-wide challenges related to corporate ethics and legal compliance for fiscal 2017. Activities are also being undertaken based on Toray's common company-wide challenges at subsidiaries and affiliates in Japan and overseas.

- Implemented self-monitoring and mutual inspection system for internal control
- Provided thorough training on security trade controls
- Provided all employees with comprehensive information on antitrust laws and anti-bribery rules around the world
- Implemented initiatives to ensure strict compliance

Status of Risk Management Initiatives

Toray has established a Risk Management Committee as a subordinate organization under the CSR Committee. The CSR Operations Department serves as a secretariat office for the Risk Management Committee, by which Toray monitors the progress of risk reduction across Toray Group under normal business conditions, and maintains a framework for planning, drafting, and promoting company-wide risk management measures. In addition, Toray established local risk management committees as subordinate organizations of the Risk Management Committee at each of Toray's divisions, departments, offices, and plants. These committees have taken actions to reduce risk by implementing company-wide measures together with individually established risk measures.

However, in response to an incident where quality data was overwritten at a Group company in Japan, Toray once again recognized that strengthening risk management group-wide has emerged as an urgent management issue. Subsequently, Toray established a dedicated organization within the Corporate Strategic Planning Division, which is under the direct control of the President, in April 2018 as part of the management strategy for the purpose of strengthening and promoting risk management throughout Toray Group to a greater degree than in the past, closely communicating with the top management. Toray has since transferred the risk management functions from the CSR Operations Department to this organization.

As an organization to deliberate and provide information regarding risk management throughout Toray Group, in May 2018 Toray also established the Risk Management Committee (company-wide committee) with Corporate Strategic Planning Division manager as chairperson. This company-wide Committee absorbed the responsibilities of the original Risk Management Committee and inherited the local risk management committees that were formed as subordinate organizations of the original

Risk Management Committee. Furthermore, the Overseas Crisis Management Committee and the local Crisis Management Committees, in charge of managing overseas travel for employees and collecting information on overseas risk during normal business conditions, have now been similarly organized as subordinate organizations of the Risk Management Committee.

Toray Group Risk Management System



Quick Response System During Emergencies

Toray Group has established Crisis Management Regulations, a set of clear fundamental principles that form the basis of a company-wide response in the event of a major crisis. The Group works to ensure the thorough implementation of these regulations when required. Moreover, the Group reviews the regulations as appropriate to prepare for new risks that emerge due to changes in the social environment.

Along with the changes made to the risk management system in April 2018, Toray significantly overhauled the risk management system during normal business operations and the quick response system for emergencies, and revised these regulations in June 2018. In particular, a rule was established calling upon divisions and departments in which an emergency has occurred to always report first to the Corporate Strategic Planning Division so that rapid management decisions can be made in the event of an emergency.

Toray has also recognized the security control for overseas business travels and measures against political instability and terrorism as material risk issues for some time, and continues to keep employees informed with up-to-date information under the direction of the responsible division or department as part of the Group's emergency responses.

Addressing Priority Risks

Once every three years, Toray identifies and assesses company-wide risks, and reviews the priority risks based on the results of this action. In terms of the selected priority risks, Toray promotes activities to reduce risks through a three-year PDCA cycle.

Fiscal 2017 was the final fiscal year of the third PDCA cycle. The remaining issues from the past two years of this PDCA cycle were reorganized, and Toray advanced the necessary measures for each risk. Moreover, Toray conducted its fourth company-wide risk identification and assessment, and selected the fourth Toray Group priority risks, covering three years starting from fiscal 2018, as the priority risks to be shared throughout the Group.

From fiscal 2018, Toray will work to reduce these priority risks throughout Toray Group, including Group companies in Japan and overseas.

Supply Chain Risk Reduction

In fiscal 2017, Toray analyzed the responses to the CSR procurement survey distributed to its suppliers, after which a supplier-specific assessment sheet was drawn up for each supplier and shared with each Group company. Moreover, Toray followed-up on the CSR procurement progress status of each Group company outside of Japan, and provided support as necessary, including sending CSR procurement survey templates from the Head Office to those companies in which initiatives were insufficient.

In addition, Toray reviews the usage status of conflict minerals and the country of origin for all of its products every year. Toray also conducted this survey in fiscal 2017.

Maintaining Information Security

Toray provides security education to employees every year as a means of managing information management (leaks) risks. In addition to providing this education, in fiscal 2017, Toray conducted a simulation exercise involving targeted e-mail attacks for all employees in seeking to nurture and elevate the security awareness among the employees.

Addressing Existing Major Risks

In terms of addressing existing major risks, such as legal compliance, fluctuations in raw material prices, business strategies, economic condition and currency fluctuations, and security export controls, the staff divisions and departments, and related group-wide committees whose normal business activities serve directly as risk measures continuously undertake and follow-up on activities to reduce risk.

Detecting Major Foreseeable Risks

Toray vigilantly maintains an eye on trends in Japan and around the world in order to detect risks which may give a significant impact on the management of Toray Group. When a relevant risk is detected, Toray Corporate Strategic Planning Division takes the lead in drafting a response measure without delay and implements the necessary measures throughout the Group.

Educating Employees

In order to cultivate an awareness of risk management among employees, Toray has set up the implementation of risk management education as one of the KPIs for the Sixth CSR Road Map. Based on the situation of the individual countries, in fiscal 2017 Toray implemented e-learning and group education with a focus on human rights issues and activities aimed at reducing risks at the individual companies.

Preparedness for Major Earthquakes

Toray Group continues to maintain and review its business continuity plan (BCP) for large-scale earthquakes, which has been identified as one of the priority risks.

For the important products selected for each business in compliance with the procedures for developing BCPs for designated priority products in the case of an earthquake, in fiscal 2017 Toray formulated BCPs, and continued with the systematic quake-resistant upgrading of our plant buildings.

Moreover, Toray Group has conducted drills to establish a temporary Group-wide headquarters based on a scenario involving a large-scale earthquake every year since fiscal 2012. In fiscal 2017, Toray held a drill based on a scenario involving a massive earthquake along the Nankai Trough. This drill involved the operation of the employee safety confirmation system introduced at Toray and its Group companies in Japan. The drill also included realistic specifications, including intentionally not disclosing some aspects of the scenario beforehand in order to harden the rapid judgment skills of those on the ground. In conjunction with this drill, Toray also reviewed those operations considered to be of highest priority for the Head Office staff divisions and departments in order to maintain the minimum amount of corporate functionality during a disaster.

In addition, Toray Group also deployed Toray Disaster Map System following the Great East Japan Earthquake in order to rapidly and accurately map the extent of damage based on location data for business partners and Toray Group.