

# Risk Management

Under normal conditions, Toray Group focuses on mitigating risks and preventing crises from occurring. In the event of a crisis, the Group strives to prevent damage from spreading by controlling and normalizing the situation quickly with a prompt and appropriate response.

## Risk Management Concept

Toray Group periodically identifies potential risks in its management activities to mitigate risks and prevent crises. The Group has also established an Emergency Quick Response System for the event of major emergencies, through which it takes a prompt, appropriate measures in order to prevent damage from spreading, control and normalize the situation quickly.

## Risk Management Framework

The risks surrounding Toray Group continue to change, meaning that the Group now faces the urgent issues, which are addressing risks that rapidly materialize from changes in the surrounding environment, and strengthening the frameworks for more rapid response. As part of its management strategy, Toray established a dedicated organization in April 2018 that promotes risk management and closely communicates with the top management and the Board of Directors. Toray has also defined the procedures for risk management during normal times and the quick response procedures during the occurrence of crisis within the Crisis Management Regulations, for which this dedicated organization provides overall management.

## Establishment of the Risk Management Committee

### Risk Management System (After June 2019)



In May 2018, Toray established the Risk Management Committee as an organization that deliberates, consults, and provides information for the purpose of promoting risk management throughout Toray Group. The General Manager of the Corporate Strategic Planning Division (Executive Vice President and Representative Member of the Board) serves as chairperson. This Committee's primary activities include priority risk mitigation as part of periodic risk management. In addition, the Overseas Crisis Management Committee and Local Crisis Management Committees, which are in charge of managing overseas travel for employees and collecting overseas risk information during normal times, have also been placed under this Committee.

## Risk Management Initiative Status

### (1) Periodic Risk Management (Priority Risk Mitigation Activities)

Toray Group comprehensively determines company-wide risks (climate change, natural disasters, legal violations, scandals, etc.) and identifies key risks upon implementing a comparative assessment of the importance of each risk item. Ultimately, the opinion of the Risk Management Committee, for which General Manager of the Corporate Strategic Planning Division manager (Executive Vice President and Representative Member of the Board) serves as chairperson, is sought before determining the priority risks.

In terms of the priority risks, Toray promotes activities to reduce risks through a three-year PDCA cycle. During the fourth priority risk mitigation cycle, which covers the three-year activity period starting in fiscal 2018 (2018-2020), Toray is deploying these activities throughout the entire Group, including all Group companies in and outside of Japan. For this period, the priority risks include quality management, earthquake measures, information management, and CSR procurement, among others.

Group-wide activities include selecting the divisions and departments responsible for addressing each risk, establishing a road map for outlining the three-year risk mitigation activity plan, and creating annual activity plans. In addition, each year Toray reports on the annual activity performance for the entire Group at the Risk Management Committee and follows-up on the progress status. When formulating the annual action plan for the following fiscal year, the results of this follow-up work and response to risks that

have newly emerged from changes in the environment are discussed and are taken into account.

**(2) Continuous Risk Management  
(Observing trends in Japan and abroad, detecting, assessing, and monitoring risks)**

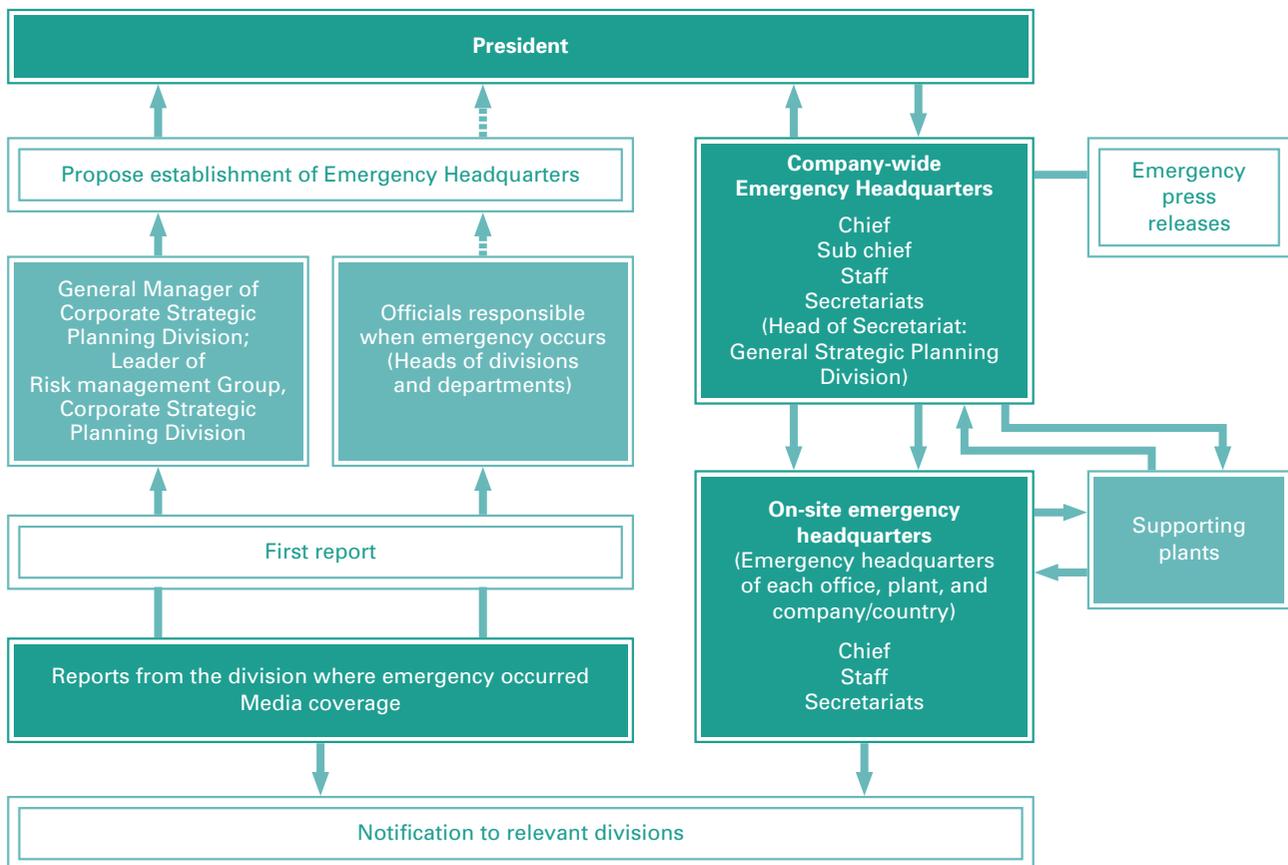
Toray vigilantly maintains an eye on trends in Japan and around the world in order to detect risks which may give a significant impact on the management of Toray Group. When a relevant risk is detected, for example trade friction between the U.S. and China, plastic pollution in the world's

oceans, and GDPR, Toray establishes a company-wide system without delay and implements the necessary measures throughout the Group.

**(3) Response in the Event of a Crisis**

Toray Group has established fundamental principles that form the basis of a company-wide response in the event of a major crisis within the Crisis Management Regulations. In the event of a crisis that necessitates a Company-wide response, Toray responds by setting up a Group-wide quick response system (Group-wide headquarters).

**Emergency Quick Response System**



# Risk Management

## Business Risks

Operational and other risks faced by Toray Group that could have a major influence on the decisions of investors are described below. Toray Group works constantly to avoid such potential risks, minimize their impact, and build a system to enable swift responses and accurate information disclosure on the occurrence of unforeseen situations.

Please note that the risks described below are not all of those identified by Toray Group, and do not represent all the operational and other risks that could affect Toray Group.

- Domestic and overseas demand and product market trends
- Rising prices of fuel and raw materials
- Capital expenditures, joint ventures, alliances and acquisitions, etc.
- Fluctuations in foreign currency, interest rate, and the securities market
- Changes in assumptions on which forecasts are based that might affect employee retirement benefit obligations and deferred tax assets
- Overseas operations
- Product liability
- Lawsuits
- Laws and regulations, taxes, competition policies, and internal controls
- Natural disasters and accidents
- Information security risks

## Addressing Fluctuations in Exchange Rates

Foreign currency exchange rate fluctuations affect Toray Group's consolidated financial statements when the financial statements of the overseas operations presented in local currencies are translated into yen. Toray Group takes measures, such as entering forward exchange contracts, to alleviate risks associated with transactions denominated in foreign currencies. However, unforeseen exchange rate fluctuations could have an impact on Toray Group's results of operations and financial conditions.

In response to currency rate fluctuations, Toray Group utilizes its strength of maintaining business bases throughout the world while encouraging local production for local consumption. At the same time, by flexibly carrying out global operations, Toray Group is striving to build a management structure that is well-shielded from the impact of exchange rate fluctuations. Moreover, Toray Group works to gather information regarding currency movements in each country (region), while at the same time monitoring the exchange rate exposure of Group companies and their hedge position as part of its efforts to mitigate currency exchange risk.

## Addressing Risks Related to Overseas Operations

Toray Group is developing a broad geographical presence, with operations in various countries of Asia, Europe and the United States. Some of the major potential risks associated with various regions are summarized below. If such risks were to become reality, Toray Group's results of operations and financial conditions could be negatively affected.

- (1) Unforeseen introduction, changes or abolition of laws and regulations, such as changes in taxation systems and tariffs which affect adversely
- (2) Unforeseen, disadvantageous economic or political events
- (3) Social upheaval, including acts of terror or war

When making decisions regarding investments related to the overseas operations, Toray Group collectively considers and carefully investigates the investment country (region) in terms of the current and long-term outlook for the political, economic, and social climate, the organizational status of the legal system, and the development status of the regional economic sphere. During the investment execution period, Toray Group also references the execution plan (progress schedule), which integrates the local political, economic, security, and legal system related risk items,

that was formulated when the investment decision was made, and makes periodic follow-ups regarding the progress status of the project. Moreover, once the investment project is completed, the latest information for each region is acquired and information related to country risk, including safety issues, is shared throughout the Group.

### Addressing Major Earthquakes

Toray Group maintains a business continuity plan (BCP) in case of a major earthquake, which has been identified as a priority risk to address.

Toray Group has established a basic policy for ensuring business continuity in the event of a major earthquake. Namely, Toray Group prioritizes the safety of its employees and preventing any impact on the local community, strives to prevent the further spread of damage and the event of secondary disasters, continues to supply key products and works toward a rapid recovery of business operations, and fulfills its social responsibility to continue supplying products. As part of this process, Toray Group continues to conduct evacuation drills in the event of an earthquake, make systematic quake-resistant upgrades to plant buildings, and draft BCPs.

In fiscal 2018, Toray Group created and began implementing BCPs for key products selected from each business in accordance with the procedures for developing BCPs for designated priority products in an earthquake. As with Toray itself, Toray Group began selecting key products and formulating BCPs for Group companies in Japan. In addition, 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. As a result of its preparations during normal times, Toray Group was able to promptly establish a Group-wide headquarters and confirm the safety of its employees following the earthquake that occurred in the northern part of Osaka in June 2018. Moreover, Toray Group was able to utilize the Toray Disaster Map System (a system for rapidly and accurately mapping the extent of damage based on location data for business partners and Toray Group), introduced following the Great East Japan Earthquake, to rapidly confirm the status of the supply chain. Going forward, Toray Group will continue to enhance its ability to respond in the event of an earthquake through such drills.

### Addressing Information Security Related Risks

Toray Group's information systems and networks are fundamentally essential elements in the execution of the Group's business operations and every security precaution is taken in their development and operation. However, if such an incident as a work stoppage, a loss of trust in the Group, and a leak of confidential information were caused by unauthorized access, data alteration, theft or deletion, an interruption of system operations, or any other information security threats, Toray Group's earnings and financial conditions could be negatively affected.

Toray Group formulated its internal rules to appropriately manage technical information and other confidential information held by the Group, improved its information management frameworks, and established methods for handling information depending on the level of confidentiality. When a security-related incident occurs, the Information Security Officer follows the rules and cooperates with related divisions and departments and also employs outside experts to promptly address the issue.

In terms of information security for Group companies in and outside of Japan, Toray Group aims to enhance the level of information security throughout the Group in consideration of the increased threat of cyber attacks. The Group has begun providing information security audits for each Group company in and outside of Japan, and plans to conduct such audits once every three years. Moreover, each Group company is prohibited from destroying or falsifying information, leaking confidential information, and using information in an unauthorized manner. Toray Group has also defined the information management frameworks, roles, and responsibilities for each Group company, and educates all employees in regard to these. Moreover, Toray Group analyzes risk based on incident cases and external trends, and informs each Group company of the required measures through Group-wide management policies. Toray Group also confirms and follows-up on the response status of each Group company through annual reports.