

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

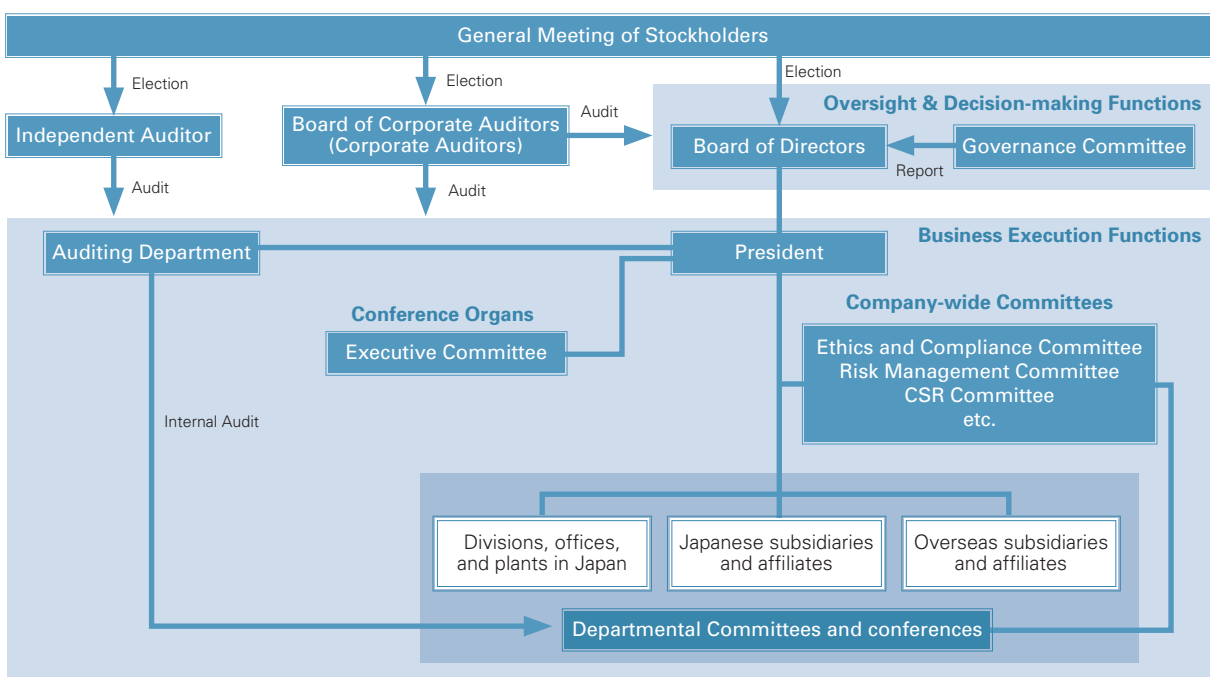
about management status to stockholders and other stakeholders.

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.

Corporate Governance Structures



- 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

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"> • Has highly specialized expertise 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 2019 is 3.2% of total assets, which is not prominent compared with other banks.
Hiroyuki Kumasaka Corporate auditor	<ul style="list-style-type: none"> • Has advanced knowledge in accounting as well as a wealth of experience and an established track record as a certified public accountant. He is also known for his impeccable character and deep insight, and can conduct appropriate audits in an objective manner. • He first joined Fuso Audit Corporation (later known as MISUZU Audit Corporation) and served as an independent accounting auditor of the company in his capacity as a designated partner of the audit corporation for a period of time. This does not impact his independence as it has been more than three years since the audit corporation was relieved of its auditing responsibilities for the Company (in 2013).

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.

Corporate Governance

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.

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 basic remuneration (monthly remuneration,) as well as a performance-based 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.

The Company undertakes reviews of the payment ratios of performance-based remuneration and remuneration, etc. other than performance-based remuneration as appropriate, based on the results of a survey of other companies' remuneration and deliberations at the Governance Committee, etc.

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 of each members of the Board is determined by the President based on the Company's internal regulations resolved at the 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 senior management, including the President, in consideration of the consolidated operating income for each fiscal year that best represents the results of the Company's global business operations, plus the historical record, etc. 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 2018

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)	1,171	818	163	190	25
Corporate auditors (excluding outside corporate auditors)	79	79	—	—	2
Outside directors	24	24	—	—	2
Outside corporate auditors	19	19	—	—	2

Notes: 1. Recipients included eight members of the Board (excluding outside directors) who retired during fiscal 2018.

2. Total amounts of remuneration do not include the ¥47 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	153	Member of the Board	Filing company	104	26	22

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