

Compliance

Status of Compliance Initiatives

Toray Group recognizes the absolute importance of compliance with laws, regulations, and social norms if the company is to live up to its corporate philosophy. Moreover, contributing to society by working to resolve major global issues through the use of innovative technologies and advanced materials requires us to build and maintain relationships of trust with our various stakeholders.

In order to gain this trust and ensure Toray Group's sustainable contribution to society, it is essential to comply with the laws and regulations related to our business activities in each country in which we operate and maintain the highest level of integrity in all our actions.

Based on these concepts, top management focuses on its leadership role in making compliance a priority, requiring corporate ethics and strict compliance with the law not only within the Group, but among suppliers as well.

Ethics and Compliance

Toray has established the Ethics and Compliance Committee, as a Group-wide committee, chaired by the President and consisting of members of the Board. A joint effort between labor and management, the Committee deliberates on policies and discusses measures relating to corporate ethics. The Committee met twice in fiscal 2018, reviewing the ethics and compliance systems for Toray Group and discussing the results from activities in fiscal 2017 as well as activity plans and progress in fiscal 2018. Acting as leaders, divisional and departmental general managers at each workplace 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 affiliated companies 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.

Corporate Ethics and Legal Compliance Training Initiatives

Toray posts information on CSR and legal compliance on its corporate intranet. In addition, Toray relays important information about Japanese and other national legislation that relates to its business, such as antitrust laws, labor laws, and anti-bribery rules, to all Group companies, including those outside Japan. Workplace discussion is fostered by the holding of study groups and workshops at workplace where cases of misconduct by other companies are reviewed. Since fiscal 2012, Toray has provided online training courses on corporate ethics and legal compliance for all executives and employees, including contracted, part-time and temporary workers. In fiscal 2018, Toray worked to raise awareness of human rights issues using case studies based on actual reports and consultations within Toray Group, reminding all participants that issues can occur in any department. Using the same materials, the Company implemented training at Toray Group companies in Japan.

Expanding the Whistle-Blowing System

By means of the Corporate Ethics and Legal Compliance Helpline, its whistle-blowing system, the Company emphasizes the self-correction function, by which it is expected that employees will be first to take the initiative in managing conduct with regard to corporate ethics and legal compliance, and consult with a supervisor as soon as an issue arises. Should consulting with a supervisor prove problematic, Toray ensures that employees have access to alternative means of reporting and consulting such as via contact points at its offices, plants and labor unions or directly to the secretariat of the Ethics and Compliance Committee via phone or email.

Each Toray Group company in Japan has established a Helpline contact point, and Toray has also created an external Helpline contact point shared by all Group companies in Japan to make it easier for employees to report and consult. Overseas subsidiaries and affiliated companies also have systems set up at all their companies, and there have been reports made in several countries and regions, so Toray is working to resolve the issues, while carefully confirming the circumstances in interviews and investigations. In addition to these moves, in fiscal 2016 Toray established a whistle-blowing system for Group companies to directly report serious misconduct, such as violations of antitrust laws and bribery, and is working to inform all Toray Group companies about the system.

The operational status of the whistle-blowing system, including the number of reports (consultations) and other details, is reported to members of the Board via the Ethics and Compliance Committee, which sits twice a year.

Reinforcing in Product Quality Assurance Compliance

To reinforce product quality assurance compliance across the Toray Group, we will mainly address the following five issues.

(1) Strengthening of the entire Toray Group's product quality assurance system

We provide guidance on the development of product quality assurance systems for each division and Group company and are promoting audits of the product quality assurance systems and the effectiveness of operations. After clarifying what product quality assurance should involve, we will set tasks based on any deviations between the actual situation and what it should be and promote improvements.

(2) Development of human resources to prevent fraud and fostering of a workplace culture

We provide product quality assurance compliance education. The education for Toray Industries, Inc. has been completed, and in fiscal 2019 we will promote product quality assurance compliance education for domestic and overseas subsidiaries and affiliated companies.

(3) Ascertain actual situation for contracts with customers for quality assurance and create guidelines

We are making headway with the compilation of contract guidelines with regard to product quality assurance. We will check contracts for conformity with the guidelines and review any necessary items.

(4) Appropriate maintenance and management of measuring equipment

Having created a risk assessment table to determine the need for the updating and maintenance of measuring equipment, we were able to pinpoint the equipment that was in need of updating. In fiscal 2019, we will deploy this method at domestic and overseas subsidiaries and affiliated companies.

(5) Setting up a quality data management system that prevents fraud

We are promoting the construction of a data management system, featuring measurement automation, the automatic transfer of measurement data, and the automatic issuance of inspection reports, which thus involves as little manual intervention as possible.

Improving Security Trade Controls

Sharing the latest trends on security trade controls and education to raise awareness of new regulations

In addition to conventional concerns about the proliferation of weapons of mass destruction, in security trade controls the necessity has arisen to carry out risk management in consideration of the changes in the international security balance. Having held a meeting of the Security Trade Control Committee, the members of which include officers from the divisions and Group companies involved in exports and technology provision, and considered the risks to be dealt with based on, for example, the latest international situation and the trend for revising laws, we decided on the measures for fiscal 2018. The committee members also hold the Division/Group Company Security Trade Control Committee and, in addition to working to thoroughly make Company-wide measures known to all, implement additional measures on matters to be addressed in the departments in charge and at related companies.

Practically Addressing Risks

The Toray Group performs risk management of security trade controls with regard to the export of all products, devices, materials, and samples, as well as the transfer of technologies outside Japan. Particularly strict management is necessary for TORAYCA® carbon fiber and its composite materials, semiconductor coating agents, and water treatment membranes, which are listed as restricted items requiring export permission from the Japanese Minister of Economy, Trade and Industry. The following measures to enhance risk management associated with security trade controls have been implemented based on conditions in and outside of Japan.

(1) Enhanced employees' capacity for accurate judgment at divisions/group companies

Having launched an e-learning course where inexperienced practitioners can learn at any time, we worked to establish basic business knowledge (A total of two programs with the participation of 3,582 employees). We also implemented a practical education program to improve the management practices, such as risk determination, export transactions, and technology provision, for more highly specialized practitioners (A total of 14 programs with the participation of 901 employees).

Having promoted in a planned manner the exam authorized by the Center for Information on Security Trade Controls in Japan, a total of 336 employees passed, bringing the cumulative total of Toray Group employees who have passed the exam to 3,771.

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(2) Conducted regular audits

Having carried out paper audits and on-site audits for each Group company, Toray provided individualized guidance based on the results to help Group companies make improvements.

(3) Enhanced information sharing and reporting

Toray integrated and centralized information on concerns such as suspicious trade inquiries, reported or consulted with the appropriate authorities as required, and took the appropriate measures. The Company also shared suspicious trade information at various company meetings, and took steps to improve its risk management.

(4) Improved inspection systems

Having completed the development of the basic functions of the next security trade control system, we started coordination with the sales key system while repeating operational tests for each division. A system is now in place to prevent accidental shipments due to human error.

Promotion of Mission B.E.A.R. Activities

As a new measure under the slogan “Having the integrity to do the right thing in the right way” in fiscal 2018, Toray Group is promoting the following four compliance principles and more effective compliance initiatives.

Four Compliance Action Principles

- B: Be fair, be honest and have integrity**
- E: Encourage respect and communication**
- A: Adopt a “genba” approach—Look to the facts!**
- R: Responsibility as a member of our excellent company**

The “Mission B.E.A.R.” compliance program, which takes the latter part of its name from the first letter in each of the four action principles, requires Toray Group companies to identify through questionnaires compliance risks, followed by the formulation of a response plan and the implementation of countermeasures. Follow-ups on results are then conducted as part of PDCA activities.

In fiscal 2019, we will continue to monitor and support activities at each Group company aimed at promoting compliance, bolstering our risk response based on regional and operational factors, and building a corporate culture centered on integrity.



Implementing Internal Legal Audits

In fiscal 2016, Toray adopted a Group-wide system for self-inspections and mutual internal control audits and has conducted internal legal and compliance audits of designated Toray divisions and departments and domestic and overseas subsidiaries and affiliated companies every two years. Having conducted legal and compliance internal audits of the designated companies of overseas subsidiaries and affiliated companies in fiscal 2017, in fiscal 2018 the Company confirmed the improvement status of the items pointed out by the audit and that the rate of improvement had reached 100% (including those under improvement). In fiscal 2018, we also conducted internal legal and compliance audits of designated Toray divisions and departments and domestic subsidiaries and affiliated companies.

Tax Compliance Efforts

Toray Group strives to pay tax properly in accordance with international standards, such as the tax laws and related rules of each country/region and OECD guidelines. With regard to transfer prices, which have become increasingly important with the increase in international transactions, we strive for appropriate income distribution by calculating transaction prices after taking into consideration the principles between independent companies. In addition, Toray neither performs tax planning with the intention of making excessive tax savings nor conducts arbitrary tax avoidance through the use of tax havens.