CSR Guidelines & Activity Reports

Corporate Ethics and Legal Compliance

Governance

Ensure all executives and employees uphold a sense of responsibility, fairness and high ethical standards, and always act in accordance with the law to maintain the trust of society.



Basic Approach

Toray Group's corporate philosophy is "Contributing to society through the creation of new value with innovative ideas, technologies and products."

To deliver on this commitment, Toray Group is contributing to society by leveraging innovative technologies and advanced materials to tackle important global issues. This efforts requires that the Group earn and maintain the trust of diverse stakeholders by ensuring that its business activities comply with the laws and regulations of the countries where it does business, and by always acting with integrity.

Top management is taking the initiative by giving the highest priority to securing compliance, and by requiring that the Group and its suppliers act ethically and in accordance with the law.

Related Policies

Internal Rules for Ethics and Compliance

Toray Industries, Inc. has established a set of internal rules for ethics and compliance, together with related standards and procedures. These internal rules set out the framework for practicing corporate ethics and legal compliance, and they are designed to foster a healthy corporate culture. The rules also outline how to respond to issues, identify causes and prevent recurrence, as well as initiatives to be taken by group companies in and outside Japan.

Structure

Toray Industries has established an Ethics and Compliance Committee chaired by the president. At this committee, management and workers come together toconsider and discuss policies related to corporate ethics.
In fiscal 2018, the Ethics and Compliance Committee convened twice to review the Group's ethics and compliance framework. The committee also deliberated on and discussed the results of fiscal 2017 initiatives, action plans for fiscal 2018, and the progress of implementation thus far.
In each workplace, the general manager of the division or department serves as a leader, facilitating initiatives in a top-down manner.
In initiatives for group companies around the world, Toray Group has established the Affiliate Companies' Compliance Meeting and the Overseas Affiliate Companies' Compliance Meetings under the Ethics and Compliance Committee. Through these committees, Toray Group is promoting compliance activities in each company, country and region.

CSR Road Map Targets and Results

01

No major cases throughout the Toray Group of non-compliance with or violation of bribery regulations, antitrust laws, etc.

[Related material issue for CSR]

- Corporate ethics and legal compliance

■KPI
Number of major violations of laws or ordinances

■Reporting scope
Toray Group

■Target in fiscal 2018
0

Result in fiscal 2018

0

02

Promote compliance activities in accordance with the conditions of each country or region

■KPI
Implementing internal legal and compliance audits of group companies, group companies improving problems found in internal legal and compliance audits in the previous year (%)

■Reporting scope
Toray Group

■Target
Audits: In fiscal 2018 at Toray Industries, Inc. and its group companies in Japan; in fiscal 2017 and 2019 at group companies outside Japan
Percent that improved: 100% for all audits by the following fiscal year

Result in fiscal 2018

100%

03

Enhance awareness-raising and educational activities relating to corporate ethics and legal compliance

■KPI
Group companies providing information and implementing education on major laws and regulations

■Reporting scope
Toray Group

■Target in fiscal 2018
100%

Result in fiscal 2018

100%

Looking to the Future

In fiscal 2018, Toray Group launched a new initiative with the slogan “Have the Integrity to Do the Right Thing in the Right Way.” The initiative includes the following four principles for taking more effective action to ensure compliance.

Compliance Action Principles

- **B** : Be fair, be honest and have integrity
- **E** : Encourage respect and communication
- **A** : Adopt a *genba*[1] approach – Look to the facts!
- **R** : Responsibility as a member of our excellent company



1 *Genba* is the Japanese word for “actual worksite.”

Under the name “Mission B.E.A.R.,” taking its acronym from the first word of each principle, Toray Group companies complete questionnaire surveys and are asked to identify compliance risks. The companies are expected to establish action plans and execute initiatives, all under Plan-Do-Check-Act (PDCA) cycles, to ensure that they follow through.

Toray Industries’ divisions as well as in-scope group companies in and outside Japan prepare B.E.A.R. declarations based on the compliance action principles, sharing them with employees to foster their understanding. At workplaces, opportunities are provided for employees to examine and discuss the behavior that is expected from them as members of Toray Group.

In fiscal 2019, Toray Industries will continue to assist and monitor compliance initiatives at group companies. This will strengthen the Group’s overall risk response by emphasizing factors unique to each region and type of business while reinforcing Toray Group’s integrity-driven corporate culture.

CSR Guidelines & Activity Reports - Corporate Ethics and Legal Compliance

Establishing a Corporate Culture of Total Respect for Corporate Ethics and Legal Compliance

Governance

Corporate Ethics and Legal Compliance Code of Conduct and Handbook



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.

At Toray Industries, Inc. and its group companies in Japan, all executives and employees, including contracted, part-time and dispatched workers, receive a copy of the Corporate Ethics and Legal Compliance Handbook, which explains expectations for proper conduct and Toray Group's Helpline, an internal whistle-blowing system. All employees are expected to be well-versed in the stipulations of this code.

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.

Distribution rate of the Corporate Ethics and Legal Compliance Handbook	**100%** Toray Group

Main Content of the Corporate Ethics and Legal Compliance Handbook

- Carrying out proper transactions based on free, fair, and transparent market competition (compliance with Japan's Antimonopoly Act, Subcontract Act, and Act against Unjustifiable Premiums and Misleading Representations)
- Protecting the intellectual property rights of Toray Group and other companies
- Respecting local laws and regulations in all countries where Toray Group operates
- Respecting human rights and prohibiting all forms of discrimination
- Using proper accounting practices (complying with all relevant laws including Japan's Companies Act, all tax-related laws, and the Financial Instruments and Exchange Act)
- Avoiding conflicts of interest and disclosing them when they arise
- Complying with Japan's Foreign Exchange and Foreign Trade Act, Political Funds Control Act, and Public Offices Election Act
- Prohibiting any form of bribery involving stakeholders
- Corporate Ethics and Legal Compliance Helpline, an internal whistle-blowing system
- Framework for promoting corporate ethics and legal compliance at Toray Industries

Related Information

› Corporate Ethics and Legal Compliance Code of Conduct

Tax Compliance

Toray Group is committed to meeting its tax responsibilities in accordance with local and national tax laws and related rules, as well as to meeting international standards such as OECD guidelines. With the growth of international transactions, transfer pricing is increasing in importance. The Group endeavors to suitably allocate its income by calculating transfer pricing based on the arm’s length principle.

The Group refrains from arbitrary tax avoidance methods that make use of tax planning and tax havens to create artificially high tax savings.

Corporate Ethics and Legal Compliance Education

Group companies providing information and implementing education on major laws and regulations

Result in fiscal 2018

100%

■Reporting scope
Toray Group

■Target in fiscal 2018
100%

Toray Industries posts information on CSR and legal compliance on its corporate intranet. Toray Group circulates important information about legal and compliance matters that are highly relevant to its business in Japan and other countries. Group companies implement workshops to examine these matters and study cases of corporate misconduct in an effort to foster discussion in the workplace.
Since fiscal 2012, Toray Industries has provided online training courses on corporate ethics and legal compliance for all executives and employees, including contracted, part-time and dispatched workers. In fiscal 2018, the Company 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. Group companies in Japan are using these materials to implement their own training.

Expanding the Whistle-Blowing System

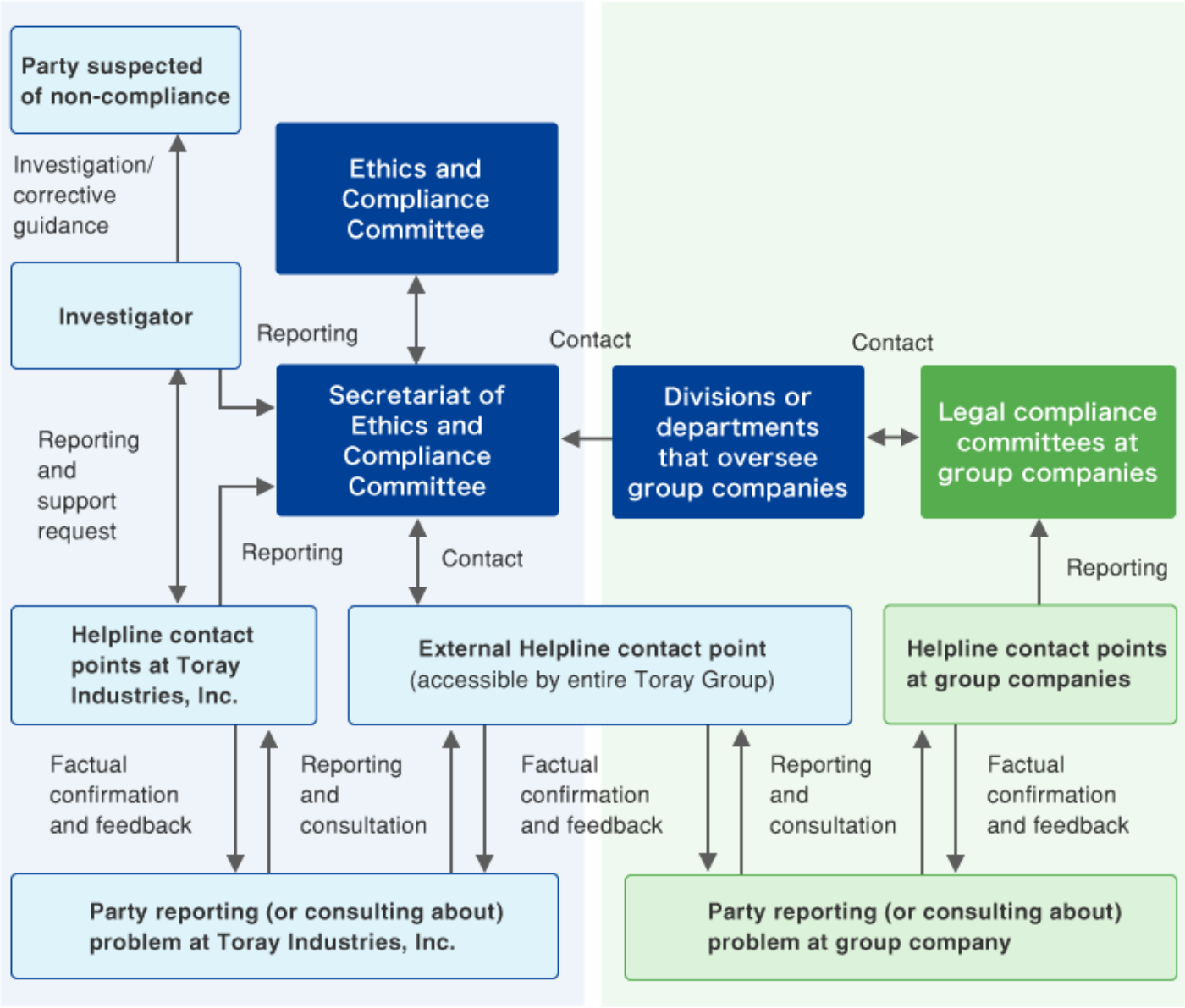
Toray Industries established the Corporate Ethics and Legal Compliance Helpline as a whistle-blowing system in fiscal 2003 and expanded the system to include all Toray Group companies in Japan in fiscal 2010. By introducing this system, the Company expects employees first to take the initiative in managing conduct with regard to corporate ethics and legal compliance, and to consult with a supervisor as soon as an issue arises.
Recognizing that reporting or consulting with supervisors may be difficult, the Company 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.
In addition, each Toray Group company in Japan has established a Helpline contact point. Moreover, Toray Industries 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.
Each group company outside Japan has also established a Helpline contact point (internal, outside, or regional contact points). These Helpline contact points have been in operation at all companies since fiscal 2017. There were reports in several countries/regions, and Toray Group is working to resolve the issues, while carefully confirming circumstances in interviews and investigations.
Since fiscal 2016, Toray Industries has also maintained a an additional whistle-blowing system for group companies to directly report serious misconduct such as violations of antitrust laws and bribery, and it is working to inform all Toray Group

companies about the system.

The number of inquiries (consultations) received through the hotline and the details of the cases are reported to directors by the Ethics and Compliance Committee, which convenes twice a year.

Group companies in and outside Japan that have established a whistle-blowing system	**100%**

Corporate Ethics and Legal Compliance Helpline System (Toray Industries, Inc. and its Group Companies in Japan)[1]



1 In addition to the above avenues, Toray Industries, Inc. receives reports on and addresses serious misconduct at all graup companies in and outside Japan.

Implementing Internal Legal Audits

Implementing internal legal and compliance audits of group companies, group companies improving problems found in internal legal and compliance audits in the previous year (%)

■Reporting scope
Toray Group

■Target in fiscal 2018
100%

Results in fiscal 2018

100%

(including companies under improvement)

In fiscal 2016, Toray Group adopted a group-wide system for self-inspections and mutual internal control audits. Designated divisions of Toray Industries and designated group companies in and outside Japan must receive an internal legal and compliance audit every other year.
In fiscal 2017, Toray Industries undertook an internal legal and compliance audit of the designated group companies outside Japan. In fiscal 2018, the Company confirmed the improvement status of problems found in the audit, verifying that 100% of the companies had made improvements (including companies under improvement). Internal legal and compliance audits were also implemented for the designated divisions of Toray Industries and its group companies in Japan within the fiscal year.

Improving Security Trade Controls

Governance

Watching the Latest Trends and Management Strategies for Security Trade Controls

Concerns about the spread of conventional mass weapons of destruction and changes in the international security balance necessitate risk management addressing security trade controls.
Toray Industries, Inc. convenes a Security Trade Administration Committee comprising officers of divisions that are involved in exports and technology transfer. In fiscal 2018, the committee decided on measures to implement for the fiscal year after considering pressing risks based on recent international circumstances and regulatory trends. The committee members also convene a Divisional Security Trade Administration Committee that communicates corporate measures and implements supplementary programs, such as precautions to be taken by departments and group companies under its supervision.

Practically Addressing Risks

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 within Toray Industries' divisions and group companies
Toray Industries provided e-learning courses for inexperienced employees to learn about the basics of security trade controls. A total of 3,582 employees participated in the two courses. The Company also conducted a series of advanced courses for employees with specialized expertise. These hands-on courses were designed to better equip them with the skills necessary to conduct classifications, export transactions and technology transfers. A total of 901 employees participated in 14 courses. In addition, the Company systematically encourages employees to take the exam authorized by the Center for Information on Security Trade Controls in Japan. A total of 336 Toray Group employees passed the exam in fiscal 2018, bringing the cumulative number of Toray Group employees who have passed the exam to 3,771 persons.

Cumulative number of Toray Group employees who have passed the exam authorized by the Center for Information on Security Trade Controls in Japan:	**3,771 persons**

(2) Conducted regular audits
Toray Industries carried out paper audits and onsite audits of group companies, and provided individualized guidance based on the results to help group companies make improvements.

(3) Enhanced information sharing and reporting
Toray Industries 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
Toray Industries prepared the basic functions for an upgraded security trade control system and started the process of linking it to the sales backbone system, following operability testing in each division. This system infrastructure is designed to prevent mistaken shipments due to human error.

CSR Guidelines & Activity Reports - Corporate Ethics and Legal Compliance

Compliance with Antitrust Laws and Global Anti-Bribery Regulations

Governance

Toray Group prepares compliance training materials and gathers examples of compliance violations to ensure that employees comply with each county's antitrust laws. Regular compliance training is also conducted, including at group companies outside Japan. To address regulations relating to bribery outside Japan, in fiscal 2016, Toray Group introduced voluntary anti-bribery standards at group companies in Japan and at high-risk group companies outside Japan.
In fiscal 2018, internal audits of these matters were implemented under the group-wide system for self-inspections and mutual internal control audits that was put in place the previous fiscal year.

Protection of Personal Information

Governance

In order to comply with Japan's Act on the Protection of Personal Information, Toray Industries, Inc. has established Regulations for the Management of Personal Information, together with a management framework and practices to ensure each department manages personal information appropriately. Audits are regularly conducted into the management conditions in each department.

In fiscal 2018, the Company received no complaints concerning personal information and there were no data breaches. Major Toray Group companies in and outside Japan completed self-inspections, verifying that they had internal rules in place and were suitably managing personal information on a day-to-day basis. Improvements indicated by the self-inspections are being implemented.

Disclosure of Information Regarding the Ethical Treatment of Laboratory Animals

Governance

Toray Industries, Inc. aims to contribute to the human development and health enhancement through the creation of pharmaceuticals and medical devices.
We believe that animal testing is necessary and required for safety and efficacy verification in the development of new pharmaceuticals and medical devices. This testing must be carried out with respect for animal life, considering the 3R principles for animal experiments; Refinement (minimization of pain), Reduction (reducing the number of animals used), and Replacement (pursuit of alternatives to animals).
In order to ensure that animal testing is conducted ethically, we have established in-house rules in accordance with the Act Concerning Humane Treatment and Management of Animals, the Standard for Care and Management of Laboratory Animals and Alleviation of Pain, the Guidelines for Proper Implementation of Animal Experiments, and other relevant guidelines.
We have also set up the Animal Care and Use Committee, which carries out ethical and scientific review of all animal testing conducted at the company. All of our staff involved in animal testing receive training in standards of care and ethics on the use of animals in research to ensure appropriate conduct of animal testing based on the 3R principles.
We carry out self-monitoring and evaluation of animal tests to verify that each test is conducted appropriately.
We have received certification from the Health Science Center for Accreditation of Laboratory Animal Care and Use of the Japan Health Sciences Foundation.

CSR Guidelines & Activity Reports

Risk Management

Governance

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



Basic Approach

Toray Group regularly identifies potential management risks affecting The Group's management activities in order to mitigate risks and seeks to prevent a crisis. In addition, the Group strives to prevent damage from spreading and to promptly control and normalize the situation by ensuring quick and appropriate responses using the emergency quick response system it has established.

Structure

The risks affecting Toray Group are constantly changing, and the Group gives critical importance to reinforcing its system for responding to risks that materialize suddenly due to changes in the surrounding environment and for responding promptly when crises do occur. To this end, in April 2018, Toray Industries, Inc. established a dedicated team to communicate closely with the Board of Directors and top management and to pursue risk management as an integral part of management strategy. This team manages overall risk under normal conditions and ensures a quick response when crises do occur.

Establishment of Risk Management Committee

In May 2018, Toray Industries established the Risk Management Committee, which is chaired by the general manager of the Corporate Planning Division (an executive vice president), tasking it with reviewing, discussing and promoting shared awareness of risk management across the entire Toray Group. This committee primarily carries out priority risk mitigation activities as part of regular risk management. In addition, the Overseas Crisis Management Committee and local crisis management committees, which manage employees' overseas travel under normal conditions and compile information on overseas risks, have also been made subordinate to the Risk Management Committee.

Risk Management Committee System (As of June 2019)

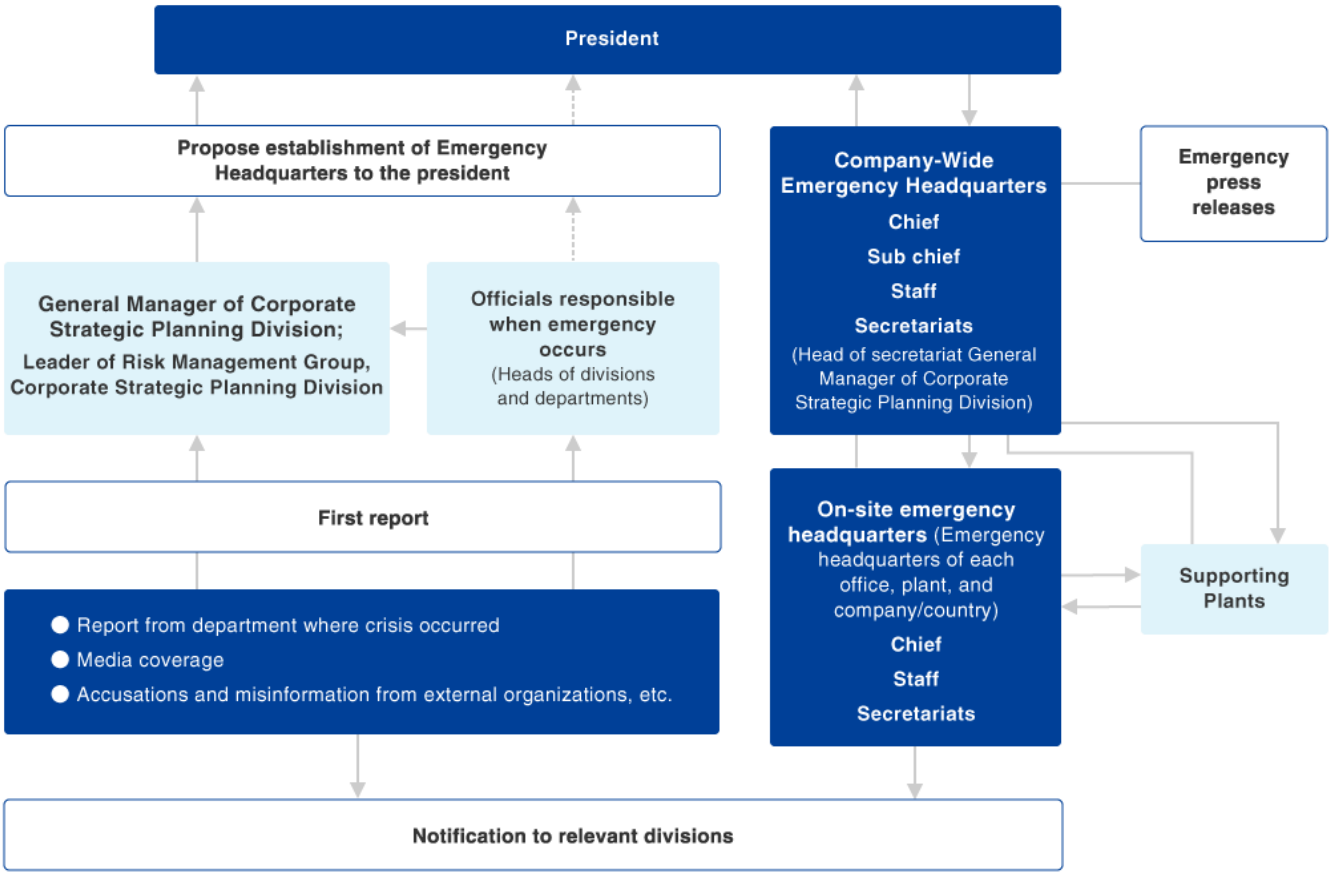


Strengthening the Emergency Quick Response System

Toray Group has established Risk 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 rules when required. Moreover, the Group reviews the rules as appropriate to prepare for new risks that emerge due to changes in the social environment.

In order to ensure quick management decisions especially in the event of a crisis, Toray Group has clarified the reporting channel from a department where a crisis has occurred, covering group companies in and outside of Japan.

Emergency Quick Response System (fiscal 2018)



CSR Road Map Targets and Results

01

Strengthen corporate risk management throughout the Toray Group and mitigate risks

■**KPI**
Group companies implementing continuous review of risk management (%)

■**Reporting scope**
Toray Group

■**Target in fiscal 2018**
100%

Result in fiscal 2018

100%

02

Instill greater risk management among employees by rolling out risk management education throughout the Toray Group

■**KPI**
Group companies implementing risk management education (%)

■**Reporting scope**
Toray Group

■**Target in fiscal 2018**
80%

Result in fiscal 2018

100%

Looking to the Future

The road map goals are: (1) strengthening corporate risk management throughout Toray Group and mitigating risks; and (2) instilling greater risk management awareness among employees. To achieve these goals, the Group will periodically and routinely identify latent risks in management activities, prevent and mitigate risks, and prevent crises from ever occurring.

CSR Guidelines & Activity Reports - Risk Management

Risk Management Initiatives

Governance

Basic System for Group-Wide Risk Management

▼ (1) Periodic risk management (priority risk mitigation activities)
▼ (2) Routine risk management (monitoring trends in and outside Japan, identifying, assessing and monitoring risks)
▼ (3) Response in the event of a crisis

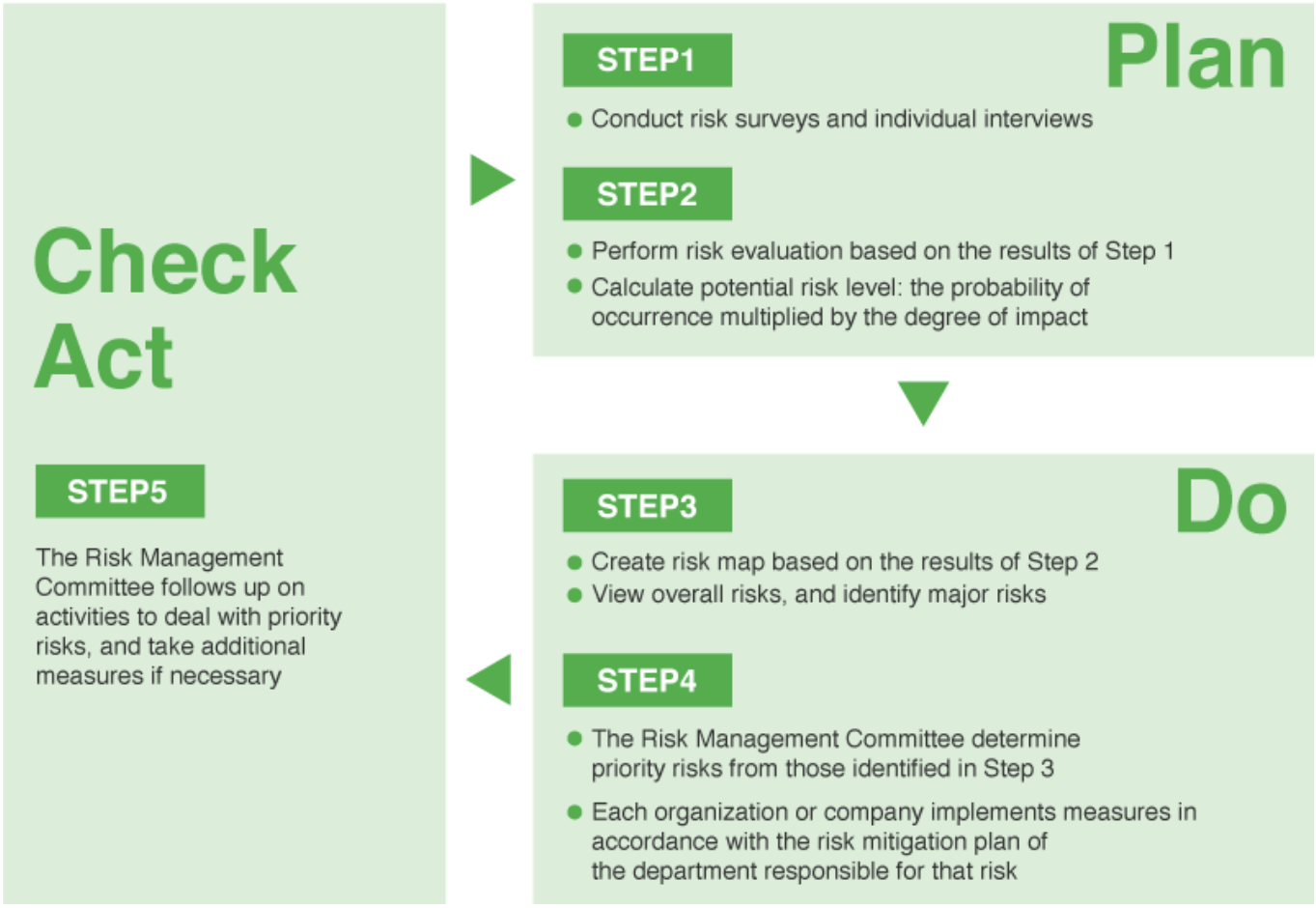
Description of Activities

(1) Periodic risk management (priority risk mitigation activities)

A. Toray Industries, Inc. exhaustively identifies group-wide risks (climate change, natural disasters, legal violations, scandals, etc.) and identifies important risks after carrying out an assessment to determine the relative importance of each risk. Ultimately, priority risks are determined after consulting with the Risk Management Committee, which is chaired by the general manager of the Corporate Strategic Planning Division (an executive vice president).

B. Priority risks are addressed with risk mitigation activities following the PDCA cycle over a three-year period.

PDCA Cycle for Group-Wide Risk Management



C. In the priority risk mitigation activities for the fourth cycle (fiscal 2018-2020), Toray Industries set quality management, earthquake response, information management and socially responsible procurement,[1] among others, as its priority risks. These efforts extend to the Group overall, including group companies in and outside Japan.

D. Toray Industries assigns a department responsible for each priority risk and integrates group-wide activities using a three-year road map for risk mitigation activities as well as an annual activity plan.

E. In addition, the results of the annual activities for Toray Group overall are reported to the Risk Management Committee every year, and the status of progress status is monitored. Toray Industries discusses and establishes an annual activity plan for the next fiscal year that addresses the monitoring results and any new risks that have materialized due to changes in the environment.

1 For more information, please refer to "Facilitating CSR Initiatives Throughout the Supply Chain"

Group companies implementing continuous review of risk management (%)

■Reporting scope	■Target in fiscal 2018
Toray Group	100%

Result in fiscal 2018

100%

(2) Routine risk management (monitoring trends in and outside Japan, identifying, assessing and monitoring risks)
Toray Industries routinely monitors domestic and overseas trends and identifies risks that could have a major impact on Toray Group's management. When such risks are identified, the Company promptly develops a company-wide system to address them and takes the necessary group-wide countermeasures.

(3) Response in the event of a crisis
Based on the Risk Management Regulations, a company-wide quick response system (Company-Wide Emergency Headquarters) is formed to respond to the crisis that has occurred.

Business and Other Risks

Toray Group has identified the following business and other risks, as noted in its annual securities reports.
(1) Trends in domestic and overseas demand and product market conditions, etc.
(2) Increases in fuel prices
(3) Capital investment, merged businesses, affiliations, acquisitions, etc.
(4) Fluctuations in currency markets, fluctuations in interest rates, fluctuations in the value of marketable securities and others
(5) Retirement benefit liabilities and deferred tax assets following fluctuations in conditions on which future projections are premised
(6) Overseas business activities
(7) Manufacturing responsibility
(8) Court cases
(9) Laws and regulations, taxation, competition policies, internal controls
(10) Natural disasters, accidents
(11) Information security

Risk Management Education for Employees

In order to foster employee awareness of risk management, Toray Group has set a KPI in its Sixth CSR Roadmap of the number of Group companies implementing risk management education. In fiscal 2018, group education on risk management was provided to Toray Group's newly appointed managers and group companies in and outside Japan.

Group companies implementing risk management education

■Reporting scope
Toray Group

■Target in fiscal 2018
80%

Result in fiscal 2018

100%

CSR Guidelines & Activity Reports - Risk Management

Business Continuity Plan Initiatives

Governance

Ensuring Preparedness for Major Earthquakes

Toray Group maintains a business continuity plan (BCP) for the event of a major earthquake, which has been identified as a priority risk to address.
Toray Group's basic policy when ensuring business continuity in the event of a major earthquake is to meet its social responsibility to continue supplying products. The top priority of the plan is to confirm employees' safety and prevent any impact on the local community. In addition to striving to prevent the damage from expanding and to prevent any secondary damage, the Group works to continue the supply of key products and to restore business quickly. In line with this, the Group consistently carries out evacuation drills based on a scenario involving an earthquake, systematically renovates plant buildings for better seismic resistance, and devises business continuity plans.

In fiscal 2018, Toray Industries, Inc. created and began administering BCPs for key products selected from each business in accordance with the procedures for developing BCPs for designated key products in an earthquake. In addition, group companies in Japan identified key products and began establishing BCPs, just as Toray Industries does.

In addition, Toray Group has continued to conduct company-wide drills on setting up an emergency response headquarters since fiscal 2012.
During the earthquake that occurred in northern Osaka in June 2018, the Group succeeded in promptly setting up an emergency response headquarters and confirming the safety of employees, thanks to preparations made during normal conditions. In addition, Toray Group used a damage mapping system able to rapidly and accurately map any damage to business partners and group companies using location data in an emergency, which it introduced following the Great East Japan Earthquake, to quickly confirm the situation across the supply chain.
Toray Group will continue to strengthen its capacity to respond to earthquakes with training and other measures.