

## Corporate Governance Report

Last Update: December 25, 2018  
**TORAY INDUSTRIES, INC.**

President, CEO and COO, Representative Member of the Board: Akihiro Nikkaku

Contact: Corporate Communications Department +81-(0)3-3245-5178

Stock Code: 3402

<https://www.toray.com>.

Corporate governance at Toray Industries, Inc. (“Toray” or the “Company”) is as follows:

### **I. Toray’s Basic Policy on Corporate Governance and Capital Structure, Corporate Attributes and Other Basic Information**

#### **1. 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.” In establishing its corporate governance structure, the Group seeks to fulfill these philosophies as its basic policy.

#### **[Reasons for Non-compliance with the Principles of the Corporate Governance Code]**

Toray complies with all principles of the Corporate Governance Code.

#### **[Disclosure Based on the Principles of the Corporate Governance Code]**

##### **[Principle 1.4 (Policy for Cross-Shareholdings)]**

To lead to improvements in the Toray Group’s mid- to long-term corporate value and sustainable growth, Toray holds the shares of business partners, in comprehensive consideration of purposes including strengthening of transaction relations, smoothing business alliances, and reinforcing joint research and technology development, as well as business strategies.

For such individual strategic holdings, Toray periodically reviews the purposes and reasons for holding shares at the Board of Directors meetings from both quantitative perspectives of whether the benefits and risks associated with each holding are worth Toray’s capital cost and qualitative perspectives such as compatibility with the purpose of holding, and sells shares that have become less meaningful to hold primarily due to changes in transaction relations.

When exercising the voting rights as to the strategic holdings, Toray decides to approve or disapprove each agenda based on its conviction that the mid- to long-term improvement of the corporate value of business partners will also lead to the enhancement of Toray Group’s corporate value.

When shareholders who hold Toray’s shares indicate their intention to sell their shares, Toray will respect their intention and respond appropriately.

##### **[Principle 1.7 (Related Party Transactions)]**

With respect to any transaction between a member of the Board and the Company that involves a conflict of interest, the Board of Directors stipulates internal procedures therefor pursuant to laws and regulations and administers them appropriately so as not to damage the interests of the Company or common interests of

shareholders. Specifically, Toray established an “Authority of Top Management” to enable its Board of Directors to reserve the power to approve transactions involving conflicts of interest. If a shareholder holds 10% or more of Toray’s stock and engages in a transaction with Toray, the Board of Directors will take appropriate procedures and appropriately administer the transaction.

[Principle 2.6 (Roles of Corporate Pension Funds as Asset Owners)]

Toray determines the asset allocation from a mid- to long-term perspective while considering risks and returns, in order to pay pensions to beneficiaries in a stable and certain manner through the Toray Corporate Pension Fund. Matters related to asset management are approved and decided at the Board of Representatives based on deliberations at the Asset Management Committee. Furthermore, Toray allocates human resources with appropriate talents to the Asset Management Committee and the Board of Representatives, mainly from the Personnel & Industrial Relations Division and Finance & Controller’s Division, to monitor the status of asset management.

[Principle 3.1 (Full Disclosure)]

(i) Management philosophy, business strategies and business plans

Toray’s management philosophy, business strategies and business plans are disclosed on the Company website.

Management philosophy <https://www.toray.com/aboutus/philosophy.html>

Business strategies and business plans [https://www.toray.com/ir/management/man\\_002.html](https://www.toray.com/ir/management/man_002.html)

(ii) Basic policy on corporate governance

Toray developed the “Basic Policy on Corporate Governance” and disclosed it on the Company website.

<https://www.toray.com/aboutus/governance/index.html>

(iii) Policy and procedures for determining remuneration

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

(iv) Policy and procedures for nominating candidates for members of the Board and corporate auditors, and

policy and procedures for electing and dismissing members of the senior management

As Toray Group supplies a wide range of industries with basic materials, an ability to make appropriate management judgments based on rich experience at the worksites and deep expertise and an ability to oversee management based on fiduciary responsibilities from an objective standpoint independently of business operations are set as the criteria for nominating candidates for members of the Board.

For promotion from within the Company, it is important to systematically train and nurture candidates for members of the Board in advance in consideration of their potential to serve as future Presidents or other members of the senior management. With respect to key positions for business operations, the main criterion for selecting candidates is an ability to make appropriate judgments based on experience at the worksites and deep expertise, according to criteria similar to those for nominating candidates for members of the Board. Meanwhile, mid- to long-term succession plans for key positions are periodically created and approved by the Board of Directors.

For outside directors, the criteria for nominating candidates are an ability to oversee management from broader perspectives to further improve the transparency and fairness of management and an ability to provide appropriate advice to the management from a mid- to long-term perspective, based on sympathy with Toray's Management Philosophy and a profound understanding of the basic materials business.

When nominating candidates for members of the Board, the Board of Directors nominates persons who meet the abovementioned criteria, have superior character and knowledge, and are judged to be appropriate as members of the Board through conference among the senior management, including the President. When electing and dismissing members of the senior management, including the President, the Board of Directors approves the elections and dismissals through deliberations at the Governance Committee.

Procedures for dismissing members of the Board follow the provisions of the Companies Act through deliberations at the Governance Committee.

For corporate auditors, the main criterion for nominating them is an ability to appropriately carry out their roles while keeping objectivity and neutrality, either from a viewpoint with profound knowledge of Toray Group businesses in the case of internal corporate auditors or from a professional viewpoint in the case of outside corporate auditors.

When nominating candidates for corporate auditors, the Board of Directors nominates persons who meet the abovementioned criterion, have superior character and knowledge, and are judged to be appropriate as corporate auditors through conference among the senior management, including the President.

The Governance Committee continuously reviews the policy on nominating candidates for members of the Board and corporate auditors and basic policy on selecting members of the senior management, including the President.

(v) Explanations on individual nominations, elections, and dismissals of candidates for members of the Board and corporate auditors and members of the senior management

Toray Group nominates, elects, and dismisses candidates for members of the Board and corporate auditors and members of the senior management in accordance with the policies for nominations, elections, and dismissals described in (iv) above.

Explanations on individual nominations of candidates for members of the Board and corporate auditors are posted in the Notice of the Ordinary General Meeting of Stockholders.

[https://www.toray.com/ir/stocks/sto\\_008.html](https://www.toray.com/ir/stocks/sto_008.html)

[Supplementary Principles 4.1.1 (Roles and Responsibilities of the Board)]

The Board of Directors established the Authority of Top Management, an internal rule that expressly stipulates important 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 management, including the President.

For matters with respect to which decision-making authority is reserved by the Board of Directors, a specific guideline for importance is established based on the degree of impact on the Company's financial status and other factors, in order to ensure that the business operation of the whole of the Toray Group, including Group companies, is included according to importance, in addition to the matters set forth in laws and regulations.

[Principle 4.9 (Independence Standards and Qualification for Outside Directors)]

For outside directors, the criteria for nominating candidates are an ability to oversee management from broader perspectives to further improve the transparency and fairness of management and an ability to provide appropriate advice to the management from a mid- to long-term perspective, based on sympathy with Toray's

Management Philosophy and a profound understanding of the basic materials business. When nominating candidates for outside directors, the Board of Directors nominates persons who meet the abovementioned criteria, have superior character and knowledge, and are judged to be appropriate as outside directors through conference among the senior management, including the President.

Standards for the independence of outside directors are disclosed on the Company website as part of the Basic Policy on Corporate Governance.”

[https://www.toray.com/aboutus/governance/gov\\_002.html](https://www.toray.com/aboutus/governance/gov_002.html)

[Principle 4.11 (Preconditions for Ensuring the Effectiveness of the Board of Directors and Board of Corporate Auditors)]

As Toray Group supplies a wide range of industries with basic materials, abilities to make appropriate management judgments and execute business operations based on rich experience in the field and deep expertise and abilities to oversee management from an objective standpoint are set as the criteria for nominating candidates for internal members of the Board.

For outside directors, the criteria for nominating candidates are abilities to oversee management and provide appropriate advice to the management from broader and mid- to long-term perspectives, based on an understanding of Toray’s Management Philosophy and business.

Toray will work to support diversity without regard to gender or internationality, based on the assumption that the above-mentioned quality is ensured, and the Governance Committee will continuously review the composition of the Board of Directors.

[Supplementary Principles 4.11.1 (Policy on the Board of Directors, Policy and Procedures for selecting members of the Board)]

Toray Group globally plays an active part in a broad scope of business fields and should appropriately respond to various risks surrounding each business in order to realize sustainable growth and increased corporate value. The Board of Directors has to evaluate the risks multilaterally to fulfill its roles of oversight and decision-making. To that end, the Board of Directors strives for appropriate balance in the number of members and structure, with members who widely cover the fields of the corporate activities of the Group in terms of knowledge, experience and ability, and appropriately ensures diversity as a whole.

The Governance Committee continuously reviews the structure of the Board of Directors.

[Supplementary Principles 4.11.2 (Offices where Members of the Board and Corporate Auditors concurrently serve as Members of the Board and Corporate Auditors at Other Listed Companies)]

Offices held concurrently by members of the Board and corporate auditors are posted in the Notice of the Ordinary General Meeting of Stockholders.

[https://www.toray.com/ir/stocks/sto\\_008.html](https://www.toray.com/ir/stocks/sto_008.html)

[Supplementary Principles 4.11.3 (Analyzing and Evaluating the Effectiveness of the Board of Directors)]

#### 1. Process of analysis and evaluation

Over the period from late-March 2018 to mid-April 2018, Toray’s Board of Directors conducted a “Questionnaire Survey to Evaluate the Effectiveness of the Board of Directors in the fiscal year ended March 31, 2018.” The 29 survey respondents, who comprised all of the Board members and corporate auditors, answered questions on the following survey items and gave their names.

- (1) Management Philosophy and Corporate Missions
- (2) Size and structure of the Board of Directors
- (3) Segregation of oversight and business operations
- (4) Provision of information prior to Board of Directors meetings
- (5) Number of agenda at Board of Directors meetings
- (6) Proceedings at Board of Directors meetings
- (7) Management response to opinions, etc. at Board of Directors meetings
- (8) Authority of the Board of Directors
- (9) Appropriate response to conflicts of interest
- (10) Communication with stakeholders
- (11) Communication among members of the Board
- (12) Opportunities to acquire knowledge
- (13) Compliance promotion
- (14) Overall evaluation

In addition to the questionnaire, Secretariat of the Board of Directors individually interviewed outside directors and outside corporate auditors (total of four persons) to hear their opinions in relation to their responses to the questionnaire.

The survey results were analyzed and evaluated at the Governance Committee held on June 21, 2018 and the results of the analysis and evaluation were deliberated at the Board of Directors meeting held on June 22, 2018. The overview of the results of the analysis and evaluation shown below describes the contents resolved at the Board of Directors meeting.

## 2. Overview of the results of the analysis and evaluation

(1) In the fiscal year ended March 31, 2018, the Board of Directors performed oversight and decision-making based on a deep understanding and sympathy with the Management Philosophy and Corporate Missions. As a result, we believe that the Board of Directors generally fulfilled its roles and responsibilities in indicating the direction of corporate strategies and other major courses of action in an appropriate manner.

(2) In the fiscal year ended March 31, 2018, the Board of Directors ensured that it was of a size and structure sufficient to multilaterally evaluate risks surrounding Toray Group's management and held 15 meetings in total to perform oversight and decision-making in a timely and appropriate manner. Furthermore, it promoted reviews on the scope of delegating decision-making authority. Through these initiatives, we believe that the Board of Directors generally fulfilled its roles and responsibilities in establishing an environment conducive to appropriate risk-taking by the senior management in an appropriate manner.

(3) With respect to the 15 Board of Directors meetings held in the fiscal year ended March 31, 2018, the attendance rate of the members of the Board was 100%. Outside directors made remarks mainly from their respective professional viewpoints. The opinions, etc. at the Board of Directors meetings, including the abovementioned remarks, were appropriately reflected in measures taken by the management. With respect to transactions causing possible conflicts of interest, internal procedures to handle them were appropriately carried out. In light of the above, we believe that the Board of Directors generally fulfilled its roles and responsibilities in carrying out the effective oversight of members of the Board and the management from an independent and objective standpoint in an appropriate manner.

(4) Based on the above, we believe that the Board of Directors generally fulfilled its roles and responsibilities in an effective manner in the fiscal year ended March 31, 2018. With regard to the matter, "deepening discussions at the Board of Directors meetings," however, specific measures for improvement must be taken in the fiscal year ending March 31, 2019 and thereafter to further improve the effectiveness of the Board of Directors.

(5) With respect to the opinions, etc. received from the members of the Board and corporate auditors in the course of evaluating the effectiveness of the Board of Directors, the Governance Committee shall deepen discussions based on those opinions with a view to further improving the effectiveness of the Board of Directors, as necessary.

### [Supplementary Principles 4.14.2 (Training Policy for Members of the Board and Corporate Auditors)]

Toray provides members of the Board and corporate auditors with training opportunities so that they can acquire knowledge necessary for their duties and appropriately fulfill their roles. Specifically, the Company holds internal training sessions for the members of the Board and corporate auditors and encourages them to participate in seminars and training outside the Company. As outside directors and outside corporate auditors significantly vary in their fields of specialization and degree of experience in corporate management, the Company individually handles them mainly in light of their individual backgrounds. The Governance Committee continuously evaluates the management and operations of the Board of Directors with a view to further improvement.

### [Principle 5.1 (Policy for Constructive Dialogue with Shareholders)]

Toray positions the sharing of its basic policy of managing the Company from a mid- to long-term perspective with more shareholders and the promotion of the continuous holding of Company shares over the mid- to long-term as important managerial issues.

To that end, from the viewpoint that secured management transparency should serve as a basis for dialogue with shareholders, Toray established the Information Disclosure Principles to improve the structure of its system for appropriate and timely information disclosure.

For shareholders and investors with which the Company strives for constructive dialogue from a mid- to long-term perspective, the members of the Board and the senior management will respond to them within a

reasonable range and otherwise will work on constructive dialogue for both parties in a manner conducive to sustainable growth and increased corporate value for Toray Group over the mid- to long-term while keeping the scope of fair and equitable information disclosure.

## 2. Capital Structure

Percentage of Foreign Shareholders:	20% or more but less than 30%
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### [Description of Major Shareholders]

Name of shareholders	Number of shares held (shares)	Percentage of shares held (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	117,418,800	7.34
Japan Trustee Services Bank, Ltd. (Trust Account)	91,401,800	5.71
Nippon Life Insurance Co.	71,212,250	4.45
Mitsui Life Insurance Co., Ltd.	35,961,000	2.25
National Mutual Insurance Federation of Agricultural Cooperatives	31,793,000	1.99
Japan Trustee Services Bank, Ltd. (Trust 5 Account)	29,617,900	1.85
Sumitomo Mitsui Banking Corporation	27,022,000	1.69
Japan Trustee Services Bank, Ltd. (Trust 4 Account)	25,684,900	1.60
State Street Bank West Client-Treaty 505234	23,627,800	1.48
JPMorgan Chase Bank 385151	22,175,140	1.39

Controlling shareholder (excluding parent company)	-
Parent Company	None

Supplementary explanation

Besides the aforementioned, Toray holds 30,785,676 shares of treasury stock.

## 3. Corporate attributes

Stock exchange listings and market section	1st Section Tokyo
Fiscal year end	March
Industry category	Textiles
Number of employees (consolidated) at the end of the most recent fiscal year	1,000 persons or more
Net sales (consolidated) in the most recent fiscal year	1 trillion yen or more
Number of consolidated subsidiaries in the most recent fiscal year	100 or more but less than 300 companies

**4. Guideline regarding the measures for protecting minority shareholders in transaction, etc. with a controlling shareholder**

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**5. Other particular circumstances that may significantly affect corporate governance**

Toray holds two domestic listed subsidiaries (Chori Co., Ltd. and Suido Kiko Kaisha, Ltd). For the management of the above-mentioned subsidiaries, Toray Group shares its Corporate Philosophy, Corporate Missions and Corporate Guiding Principles, while valuing their autonomy.

## II. Organization of Management related to Management Decision-making, Execution of Duties and Oversight, and other Corporate Governance Structures

### 1. Organizational structures and operations

Organizational form	Company with Corporate Auditors
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#### [Board of Directors]

Number of members of the Board provided for in the Articles of Incorporation:	30
Term of members of the Board provided for in the Articles of Incorporation:	2 years
Chairman of the Board of Directors:	President
Number of members of the Board:	19
Election of outside directors:	Elected
Number of outside directors:	2
Number of independent directors among outside directors:	2

#### Relationship with the Company (1)

Name	Attribution	Relationship with the Company (*)										
		a	b	c	d	e	f	g	h	i	j	k
Kunio Ito	Scholar											
Ryoji Noyori	Scholar											

\* Categories for "Relationship with the Company"

\* "○" when the director presently falls or has recently fallen under the category;

"△" when the director fell under the category in the past

\* "●" when a close relative of the director presently falls or has recently fallen under the category;

"▲" when a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the Company or an executive thereof

f. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as a director/corporate auditor

g. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

i. Executive of a company, between which the Company mutually appoints outside directors/corporate auditors (the director himself/herself only)

j. Executive of a company or organization that receives a donation from the Company (the director himself/herself only)

k. Others



## Relationship with the Company (2)

Name	Independent Director	Supplementary explanation related to applicable categories	Reason for election
Kunio Ito	○	-----	Kunio Ito satisfies the requirements for independent director/auditor set forth in the regulations of Tokyo Stock Exchange and the standards for judging the independence stipulated by the Company. We therefore believe that his independency is secured and appoint him as independent director/corporate auditor.
Ryoji Noyori	○	-----	Ryoji Noyori satisfies the requirements for independent director/auditor set forth in the regulations of the Tokyo Stock Exchange and the standards for judging the independence stipulated by the Company. We therefore believe that his independency is secured and appoint him as independent director/corporate auditor.

Voluntary Establishment of Committee(s) Corresponding to Nomination Committee or Remuneration Committee

Established

## Committee's Name, Composition, and Attributes of Chairperson

	Committee Corresponding to Nomination Committee	Committee Corresponding to Remuneration Committee
Committee's Name	Governance Committee	Governance Committee
All Committee Members	3	3
Full-time Members	0	0
Internal Members of the Board	1	1
Outside Directors	2	2
Outside Experts	0	0
Other	0	0
Chairperson	Outside director	Outside director

## Supplementary Explanation

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 Toray's corporate governance over the medium- 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 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 and dismissing members of the senior management, including the President

#### **[Corporate auditors]**

Establishment or non-establishment of a Board of Corporate Auditors:	Established
Number of corporate auditors provided for in the Articles of Incorporation:	4
Number of corporate auditors:	4

#### **Cooperative relationships between corporate auditors, the independent auditor and Auditing Department**

Throughout the year, corporate auditors and the independent auditor hold five regular meetings in order to discuss the outline of auditing plans, the report reviewing each quarterly financial result and the audit report of the year-end period. In addition to the aforementioned occasions, mutual cooperation is strengthened through reporting and exchanging of discussions regarding significant auditing matters on a need-basis. Regarding cooperation between corporate auditors and Auditing Department, all reports on auditing results conducted by the Department are submitted to the corporate auditors as well as to the President, and information is exchanged on a continual basis.

Furthermore, one of the staff members from Auditing Department holds a dual post as one of the Corporate Auditing staff serving in a supportive role, and the General Manager of Auditing Department sits in as an observer during the Board of Corporate Auditors meeting.

Election or non-election of outside corporate auditors:	Elected
Number of outside corporate auditors:	2
Number of independent corporate auditors among outside corporate auditors:	2

## Relationship with the Company (1)

Name	Attribute	Relationship with the Company (*)												
		a	b	c	d	e	f	g	h	i	j	K	l	m
Toshio Nagai	Attorney-at-law													
Kazuya Jono	Came from other company										Δ			

\* Categories for “Relationship with the Company”

\* “○” when the corporate auditor presently falls or has recently fallen under the category;

“Δ” when the corporate auditor fell under the category in the past

\* “●” when a close relative of the corporate auditor presently falls or has recently fallen under the category;

“▲” when a close relative of the corporate auditor fell under the category in the past

a. Executive of the Company or its subsidiary

b. Non-executive director or accounting advisor of the Company or its subsidiaries

c. Non-executive director or executive of a parent company of the Company

d. Corporate auditor of a parent company of the Company

e. Executive of a fellow subsidiary of the Company

f. A party whose major client or supplier is the Company or an executive thereof

g. Major client or supplier of the Company or an executive thereof

h. Consultant, accountant or legal professional who receives a large amount of monetary consideration or other property from the Company besides remuneration as a director/corporate auditor

i. Major shareholder of the Company (or an executive of the said major shareholder if the shareholder is a legal entity)

j. Executive of a client or supplier company of the Company (which does not correspond to any of f, g, or h) (the corporate auditor himself/herself only)

k. Executive of a company, between which the Company mutually appoints outside directors/corporate auditors (the corporate auditor himself/herself only)

l. Executive of a company or organization that receives a donation from the Company (the corporate auditor himself/herself only)

m. Others

## Relationship with the Company (2)

Name	Independent corporate auditor	Supplementary explanation related to applicable categories	Reason for election
Toshio Nagai	○	The Company has not concluded any advisory or consulting agreements or engaged in any transactions with Takusyou Sogo Law Office, the firm to which Toshio Nagai belongs.	Toshio Nagai satisfies the requirements for independent director/auditor set forth in the regulations of Tokyo Stock Exchange and the standards for judging the independence stipulated by the Company. We therefore believe that his independency is secured and appoint him as an independent director/corporate auditor.
Kazuya Jono	○	Kazuya Jono is a former officer of Sumitomo Mitsui Banking Corporation and Citibank Japan Ltd. (current Citibank, N.A., Tokyo Branch) and the Company engages in regular banking	Kazuya Jono satisfies the requirements for independent director/auditor set forth in the regulations of Tokyo Stock Exchange and the standards for judging the independence stipulated by the Company. We therefore believe that his independency is secured and appoint him as an independent director/corporate auditor.

		transactions with both banks. Because more than three years have passed since his retirement from office of director at Sumitomo Mitsui Banking Corporation and there was no balance of loans from Citibank, N.A., his independence is not affected. The balance of loans (including an amount participated in syndicate loans) from Sumitomo Mitsui Banking Corporation as of end of March 2018, made up only 0.7% of the total assets of the Company, a ratio not prominent compared with the balance of loans from other banks.	
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#### [Independent Directors/Corporate Auditors]

Number of independent directors/ corporate auditors	4
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#### Matters relating to independent directors/ corporate auditors

For outside directors, the criteria for nominating candidates are an ability to oversee management from broader perspectives to further improve the transparency and fairness of management and an ability to provide appropriate advice to the management from a mid- to long-term perspective, based on sympathy with Toray's Management Philosophy and a profound understanding of the basic materials business. For outside corporate auditors, the criterion for nominating them is an ability to appropriately carry out their roles while keeping objectivity and neutrality from a professional viewpoint.

When nominating candidates, the Board of Directors nominates persons who meet the abovementioned criteria, have superior character and knowledge, and are judged to be appropriate as directors/ corporate auditors through conference among the senior management, including the President.

Standards for the independence of outside directors/corporate auditors are disclosed on the Company website as part of the "Basic Policy on Corporate Governance."

[https://www.toray.com/aboutus/governance/gov\\_002.html](https://www.toray.com/aboutus/governance/gov_002.html)

#### [Incentives]

Implementation of measures on incentive allotment to members of the Board:	Introduction of a stock option system
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#### Supplementary explanation related to this item

Since 2011, the Company has introduced a stock option system with the objective to boost motivation for improvement of business performance and morale, and to improve the sharing of value with shareholders.

Grantees of stock options:	Members of the Board, others
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Supplementary explanation related to this item

The grantees of stock options are internal members of the Board and directors of the Company.

## [Remuneration to Members of the Board]

Status of disclosure of individual remuneration to members of the Board:	Partially disclosed
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Supplementary explanation related to this item

- (1) For the fiscal year ended March 2018, the remuneration to members of the Board was (28 people) 1,384 million yen.
- (2) The number of recipients includes the three members of the Board who retired in the current period.
- (3) The amount equivalent to 214 million yen of bonuses for members of the Board and corporate auditors resolved at the 137th Ordinary General Meeting of Stockholders is included in the total amount of remuneration.
- (4) The amount equivalent to 240 million yen of remuneration relating to the granting of the Stock Acquisition Rights as stock options to members of the Board is included in the total amount of remuneration.
- (5) The amount equivalent to 93 million yen of employee's salary of the employee-director is not included.
- (6) Besides the aforementioned, 54 million yen has been paid to one retiring member of the Board as retirement benefits for termination resulting from the abolition of the retirement benefits system for members of the Board and corporate auditors, which was resolved at the 130th Ordinary General Meeting of Stockholders.

The existence of policies determining the amount of remuneration or method of calculating remuneration for members of the Board and corporate auditors	Yes
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The disclosure of policies determining the amount of remuneration or method of calculating remuneration for members of the Board and corporate auditors

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

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 internal 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, etc. plus the historical record, etc. A bonus to each internal 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 to outside directors consists of monthly remuneration only.

**[Support System for Outside Directors (Outside Corporate Auditors)]**

Upon the opening of Board of Directors meetings, the Company provides its outside directors with timely and appropriate information by sending respective agenda items prior to each meeting of Board of Directors, etc. In addition, in order to provide support to all the corporate auditors, without distinguishing between the internal corporate auditors and the outside corporate auditors, one corporate auditor staff, who is not a dedicated one, and one secretary have been assigned.  
In the event that corporate auditors request employee assistance with auditing, a body will be established with full-time members to provide assistance.

**[Status of Persons Retired from Office as President and Representative Member of the Board, etc.]**

Names, etc. of Senior Advisors and Counselors who have formerly served as President and Representative Member of the Board, etc.

Name	Title/Position	Details of business operations	Work arrangement/conditions (full-time, part-time, with or without remuneration, etc.)	Date of retirement	Term of office
Katsuhiko Hirai	Special Advisor	No assignment to particular business operations	No service, without remuneration	June 25, 2004	Not specifically determined
Akikazu Shimomura	Special Advisor	No assignment to particular business operations	No service, without remuneration	June 24, 2010	Not specifically determined
Sadayuki Sakakibara	Special Advisor	Honorary Chair, Ippan Shadan Hojin Nippon Keizai Dantai Rengokai (KEIDANREN or Japan Business Federation) and related business operations	No service at the Company, with remuneration (fixed-term remuneration)	June 24, 2015	Not specifically determined

Total number of Senior Advisors, Counselors, etc. who have formerly served as President and Representative Member of the Board, etc.

3

Others

With respect to a former President or former Chairman of the Board, if the Company judges it to be necessary on a case-by-case basis after discussions at the Governance Committee, it may assign a former President or former Chairman of the Board to a Senior Advisor position and later assign the same to a Special Advisor position with a resolution at a Board of Directors meeting after his or her retirement from office as a Senior Advisor. Currently, no Senior Advisors are assigned and three Special Advisors are assigned.  
No Special Advisor assume office as Vice Presidents (Members of the Board). In addition, they do not attend any meetings involved in the Company's decision-making and do not participate in the execution of business

operations.

No Special Advisors are assigned to perform internal business operations. Yet, if the Company judges it to be necessary on a case-by-case basis after discussions at the Governance Committee, a Special Advisor may engage in socially worthwhile activities outside the Company by, for example, assuming office in an outside position.

## **2. Matters pertaining to functions relating to the execution of duties, auditing and oversight, nomination and remuneration determination, etc.**

(1) 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 shareholders who have entrusted the management and appropriately fulfill their respective roles while discharging accountability about management status to shareholders and other stakeholders. As 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 the 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.

(2) The Board of Directors oversees management and makes decisions on important managerial matters toward the sustainable growth and increased corporate value of Toray Group for the mid- to long-term. The Board of Directors established the Authority of Top Management, an internal rule that expressly stipulates the important 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 management, including the President. For matters with respect to which decision-making authority is reserved by the Board of Directors, a specific guideline for importance is established based on the degree of impact on the Company's financial status and other factors, in order to ensure that the business operation of the whole of the Toray Group, including affiliated companies, is included appropriately according to importance, in addition to the matters set forth in laws and regulations.

(3) 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 Toray's corporate governance over the medium- 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 chairperson.

(4) Corporate auditors and the Board of Corporate Auditors audit the execution of duties by members of the Board and implement other matters set forth in laws and regulations, etc. from a standpoint entirely independent of the Board of Directors, and strive to establish an effective governance structure through their activities. Corporate auditors and the Board of Corporate Auditors cooperate with an independent auditor to perform appropriate audits, and select and evaluate an independent auditor based on an appropriate standard.

(5) There are four corporate auditors, including two outside corporate auditors. The outside corporate auditors have no business dealings whatsoever with the Company. Under Toray's system for monitoring execution of operations by members of the Board, corporate auditors attend Board of Directors meetings, and meet with the President, all members of the Board, and divisional General Managers. They also perform regular audits of Toray offices, plants, and Japanese and overseas subsidiaries and affiliates in accordance with audit policies and plans for each fiscal year adopted by Board of Corporate Auditors meetings, which are held more frequently than every three months. Corporate auditors sit in as observers during the meetings of the Ethics and Compliance Committee, the committee established to promote the thoroughness of corporate ethics and legal compliance, important components of CSR, and thereby cooperate with the internal control departments. In addition, Toray established the Auditing Department (13 members) as a department that performs internal

audits of Group companies. The Auditing Department regularly holds a meeting with corporate auditors and submits reports on auditing results conducted by the Department to the corporate auditors as well as to the President to exchange information.

(6) Toray has appointed Ernst & Young ShinNihon LLC as its independent auditor. The auditor performs Corporation Law and Financial Instruments and Exchange Law audits. Corporate auditors and the Auditing Department regularly receive explanations of audit plans and reports on the results of audits from the independent auditor, and engage in discussions with the independent auditor. Details of the names and years of continuous service of certified public accountants and the number of persons providing auditing assistance for FY March 2018 are shown below.

a. Names and years of continuous service of certified public accountants

Certified Public Accountant, Designated and Engagement Partner: Kazuhiro Suzuki (2 year)

Certified Public Accountant, Designated and Engagement Partner: Takeshi Isogai (3 years)

Certified Public Accountant, Designated and Engagement Partner: Tsuyoshi Nakano (4 years)

b. Number of audit assistants

Certified public accountants: 16

Staff members who passed the Certified Public Accountants examination: 11

Other: 17

### 3. Reason for adopting current corporate governance system

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 shareholders who have entrusted the management and appropriately fulfill their respective roles while discharging accountability about management status to shareholders and other stakeholders.

As 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 the Toray Group businesses oversee management and make decisions from various viewpoints. Furthermore, the Board of Corporate Auditors oversees the execution of duties 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.



### III. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Approach toward the vitalization of general meetings of stockholders and the facilitation of exercise of voting rights

	Supplementary explanation
Early dispatch of notice for the general meeting of stockholders	The notice of the ordinary general meeting of stockholders is posted on the Company website and TSE website approximately one month before the meeting is held and sent approximately three weeks prior to the meeting.
Scheduling of general meetings of stockholders avoiding the date on which general meetings of stockholders of companies are concentrated	The Company holds general meetings of stockholders outside of concentrated days.
Voting using electronic voting facilities	In use.
Utilization of electronic voting platform and other methods of improving the environment for institutional investors' voting	Utilizes ICJ electric voting platform.
Providing an English summary of the notice of the general meetings of stockholders	Prepares an English version of the notice of the general meeting of stockholders and posts it on the Company website and TSE website.
Others	Post the notice of the resolutions at the general meeting of stockholders on the Company website and TSE website.

#### 2. IR activities

	Supplementary explanation	Explanation by representative members of the Board
Establishing and announcing disclosure policy	The “Disclosure Policy” including the “Information Disclosure Principles” have been established and announced on the Company website.	
Convene periodic briefing for individual investors	An IR officer participates in seminars for individual investors, and provides briefing on the current situation of the Company.	NO
Convene periodic briefing for security analysts and institutional investors	Either the President, CEO and COO, Representative Director or the member of the Board in charge of IR provides briefings four times a year on business results. Briefings on the Medium-term Management Program and individual businesses are held as needed.	YES
Convene periodic briefing for foreign investors	The member of the Board in charge of IR visits or hosts phone conferences with investors in Europe, the US, and other Asian countries. In addition, he / she participates in conferences for investors that are held in Japan or overseas and provides briefings on the current situation of the Company.	NO
Disclosure of IR documents on the website	We have an “Investor Relations” link on our Company website for information disclosure which includes a wide range of materials such as, announcement of financial results, security reports, business results presentations,	

	<p>briefing materials for business operations, as well as management strategies and other performance related issues.</p> <p>We have also created a web-page for individual investors titled, “Toray Group Overview,” and endeavor for information disclosure that is easy to understand.  <a href="https://www.toray.com/ir/individual/index.html">https://www.toray.com/ir/individual/index.html</a></p>	
IR related department (personnel)	We have a full-time IR department.	

### 3. Activities concerning respect for stakeholders

	Supplementary explanation
Setting forth provisions in the internal regulations concerning respect for the stakeholders' interest	<p>Our “Basic policy” is set forth in our “Basic Policy on Corporate Governance.”</p> <p>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.</p> <p>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” especially for shareholders. 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.”</p> <p>When establishing the corporate governance structure, the Group seeks to realize these philosophies as its basic policy.</p>
Promotion of environmental preservation activities and CSR activities	<p>With respect to safety, accident prevention, and environmental preservation, corporate ethics, legal compliance, and other essentials of Corporate Social Responsibility (CSR), Toray Group is strengthening its CSR initiatives as issues that take the highest managerial priority. Toray Group has drawn up the “Sixth CSR Roadmap” for three years through FY 2019 and systematically continues to promote CSR in every aspect of business. Through these initiatives, the Group will strive to combine sustainable growth with CSR and balance its management strategies with CSR according to the “CSR Roadmap.”</p>
Establishment of policy concerning disclosure of information to stakeholders	<p>The “Basic Policy on Corporate Governance” stipulates our basic policy on Toray’s “relationship with stakeholders including shareholders” and also describes our policy for dialogue with shareholders. “Promote dialogue with stakeholders,” is set forth in the CSR Guideline, and cooperation between employees, shareholders and investors, business partners and consumers, local communities and NPOs, government and legislative agencies and the media is sought.</p>
Other	<p>Toray has led the way in implementing measures that ensure the affirmative employment of women and offer women a work environment that meets their needs, even before the enactment or revision of the Equal Employment Opportunity Law and the Child Care and Family Care leave Act. The Company appointed its first female manager in 1958 and introduced a childcare leave program in 1974, almost 20 years before its establishment as a law, and in 2003 a Group company appointed its first female president.</p> <p>In 2004, Toray initiated its Advancement of Women Project for Fostering an Organizational Culture Conducive to the Career Advancement of Women,</p>

	<p>and since then, the Company has been improving its systems and programs and enhancing awareness at workplaces in this area including support measures for employees to achieve balance between work and family life. Furthermore, Toray established a Work-Life Balance Committee made up of labor and management representatives in 2010. While enhancing the overall work-life balance of its employees, the Company has been promoting further advancement and improvement in its systems and programs conducive to the balancing of job responsibilities with family life, as well as creating workplace environments that facilitate diverse working styles, etc. Toray has implemented the following initiatives.</p> <ul style="list-style-type: none"> <li>(1) Conducted awareness-raising activities to the management for women's career advancement at each workplace</li> <li>(2) Implemented initiatives for the balancing of job responsibilities with family life <ul style="list-style-type: none"> <li>a. Established an employee childcare services payment assistance system</li> <li>b. Extended the period of employees' eligibility for childcare-leave system and childcare short-time work system and improved the convenience of the system</li> <li>c. Extended the registration period of the reemployment registration system for employees who retired from the Company by unavoidable circumstances such as marriage or childcare</li> </ul> </li> <li>(3) Held career planning seminars for mid-career women in general positions (current G Course)</li> <li>(4) Serialized examples of women's career advancement in the Company magazine in order to present women's career paths</li> <li>(5) Introduced telecommuting program as support measures for childcare or nursing care</li> <li>(6) Established a new website related to systems conducive to the balancing of job responsibilities with family life and women's career advancement</li> </ul> <p>Furthermore, from fiscal year ended March 31, 2015, the Company started assisting women in management positions and general positions (current G Course) to develop and achieve their personal career plans, and conducted training courses for the raising of awareness towards the career development of each women employee. The Company appointed its first female director (riji) in 2015.</p>
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## IV. Items regarding Internal Control System

### 1. Basic approach to internal control system and its development

Following are the contents of the resolutions adopted by the Company at the Board of Directors meeting held on December 21, 2018 with respect to the basic policy on the internal control system for ensuring the appropriate execution of operations (“Contents of the Basic Policy”), and the principal activities conducted based on the Contents of the Basic Policy (“Overview of Operation”).

The principal activities are activities conducted during the fiscal year ended March 31, 2018 based on the basic policy adopted by resolution at the Board of Directors meeting held on December 18, 2015.

[Contents of the Basic Policy]

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

[Contents of the Basic Policy]

(1) Toray shall establish the Ethics and Compliance Committee, as one of the Group-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.

(2) 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.

(3) 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.

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

[Overview of Operations]

(1) During the period under review, the Company held the Board of Directors meetings fifteen times, the Corporate Ethics Committee twice, and a company-wide Legal Compliance Committee twice.

(2) In accordance with the Regulations on Corporate Ethics and Legal Compliance established in October 2016, the Company strove to detect company misconduct in the earlier stage, investigated all instances of company misconduct and scandals, their causes, and the parties responsible, and resolved such cases accordingly while carrying out measures to prevent recurrences.

(3) The Company has established Corporate Ethics and Legal Compliance Guidelines specifying the details of the Corporate Ethics and Legal Compliance Code of Conduct. The Company has formulated and distributed the Corporate Ethics and Legal Compliance Handbook, a compilation of issues to which all Board members and employees should pay attention, including the above.

(4) The Company established the Toray Group Policy for Human Rights in December 2017.

(5) The Company handles all internal reporting according to the predetermined procedures.

(6) The Company has established the Security Trade Administration Dept. as a department dedicated to security export control. The Company has also established the Security Trade Administration Committee as a Group-wide committee, held a meeting of the Security Trade Administration Committee once during the period under review, and checked the results of activities and deliberated issues for initiatives.

(7) As measures to respond to the fact that a subsidiary of the Company had inappropriately overwritten product inspection data, the Company appointed a Chief Officer responsible for quality assurance across the Toray Group and established the Quality Assurance Division in February 2018, based on the recommendations received from the Expert Committee to which the Toray entrusted investigation in order to ensure the effectiveness of quality assurance of the Toray Group.

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

[Contents of the Basic Policy]

(1) 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.

(2) 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 deliberate on the general direction of policy or issues related to implementation.

[Overview of Operations]

(1) During the period under review, the Company revised part of the Authority of Top Management in April and October 2017 and January 2018.

(2) During the period under review, the Company held the Executive Committee fifteen times and the Board of Senior Vice Presidents twelve times.

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

[Contents of the Basic Policy]

(1) 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.

[Overview of Operations]

(1) The Company established the Confidential Information Management Regulations as a set of company-wide regulations, prescribed a confidential information management standard for each division, department and plant, and periodically provided training sessions and made them thoroughly familiar to all officers and employees of the Company.

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

[Contents of the Basic Policy]

(1) In order to identify potential risks in business activities, strive to mitigate such risks under normal business conditions, and prevent future crises, Toray shall establish the Risk Management Committee as one of the Group-wide committees to promote company-wide risk management, and improve regulations to enable immediate implementation in the event of a major crisis.

(2) Toray shall establish an internal control system for financial reporting that ensures the reliability of financial reporting.

[Overview of Operations]

(1) The Company established Crisis Management Regulations. During the period under review, the Company held the CSR Committee, one of the Group-wide committees, twice, and the Risk Management Committee, a committee under the CSR Committee, twice.

(2) In June 2017, the Company prepared and submitted an internal control report to the effect that internal control related to financial reporting was effective.

5. System for ensuring appropriate business operations within subsidiaries

[Contents of the Basic Policy]

(1) 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.

(2) 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.

(3) 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.

(4) 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 the 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.

[Overview of Operations]

(1) The Company established a Standard for Assistance and Administration for Domestic Group Companies and a Standard for Assistance and Administration for Overseas Group Companies as regulations governing the subsidiaries' reports on important management information. During the period under review, the Company made partial amendments to the two standards. The Company also respectively held a Global Budget Conference and Domestic Group Company Conference once during the period under review as conferences at which the top management directly received reports from subsidiaries on their business conditions. The Company also held regional committees overseas, when appropriate.

(2) The Risk Management Subcommittee checked the results of activities performed to establish risk management systems at the subsidiaries.

(3) The Company stipulated the scope under which the Company can reserve its authority over the execution of business operations by subsidiaries in Guidelines for Reserving Authority over Domestic Group Companies and Standards for the Execution of Business Operations at Overseas Group Companies.

(4) With respect to the matters stated in 1. (2) and (3) of the Overview of Operations, the Company applies them to its subsidiaries and makes them thoroughly familiar to its subsidiaries, in consideration of the laws, regulations, and business practices of the countries in which the subsidiaries are located. The Company has developed a system for receiving internal whistle-blowing on seriously fraudulent acts from the overall Group. During the period under review, the Company completed the overseas establishment of the Corporate Ethics and Legal Compliance Helpline System.

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

[Contents of the Basic Policy]

(1) 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.

(2) Department in charge of the internal reporting system (whistle-blowing system) shall regularly report the status of internal whistle-blowing in the Toray Group to the corporate auditors.

(3) 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.

[Overview of Operations]

(1) At the meetings with the corporate auditors and the audits by the corporate auditors, the members of the Board, etc. and employees of Toray Group and corporate auditors of subsidiaries reported matters regarding the execution of duties to the corporate auditors and otherwise responded to requests from the corporate auditors.

(2) The Department in charge of the internal reporting system (whistle-blowing system) appropriately reported the status of internal whistle-blowing to the corporate auditors each time the department received internal whistle-blowing reports, and otherwise regularly reported to the corporate auditors.

(3) Based on the Whistleblower Protection Act, the Company stipulated the prohibition of disadvantageous treatment in the Unified Labor Agreement, Central Labor Agreement, and Work Regulations. In addition, the Company instructs its subsidiaries to formulate similar regulations in consideration of laws and regulations, etc. of the countries in which the subsidiaries are located.

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

[Contents of the Basic Policy]

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

[Overview of Operations]

(1) The Company pays 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

[Contents of the Basic Policy]

(1) 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.

[Overview of Operations]

(1) The Company has established a system under which it may set up an organization and assign a full-time employee to provide assistance if and when corporate auditors request assistance.

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

[Contents of the Basic Policy]

(1) 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.

(2) Corporate auditors shall hold regular meetings with members of the Board and management and conduct regular visiting audits of Toray offices, plants, and subsidiaries.

[Overview of Operations]

(1) During the period under review, the corporate auditors attended all fifteen meetings of the Board of Directors and all twelve meetings of the Board of Senior Vice Presidents.

(2) In accordance with auditing policy and plans formulated by the Board of Corporate Auditors in July 2017, corporate auditors held meetings with members of the Board as well as divisional and departmental general managers during the period under review, and conducted audits of the Company's offices and plants, and laboratories as Japanese and overseas subsidiaries.

## **2. Basic approach to eliminate antisocial forces and the status of promoting the position**

Toray shall stipulate the elimination of any relations with antisocial forces in the Corporate Ethics and Legal Compliance Code of Conduct, and adopt a resolute stand as a unified company.

## V. Others

### 1. Implementation of Anti-takeover Measures

Whether any anti-takeover measures have been implemented	Not implemented
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Supplementary explanation related to this item

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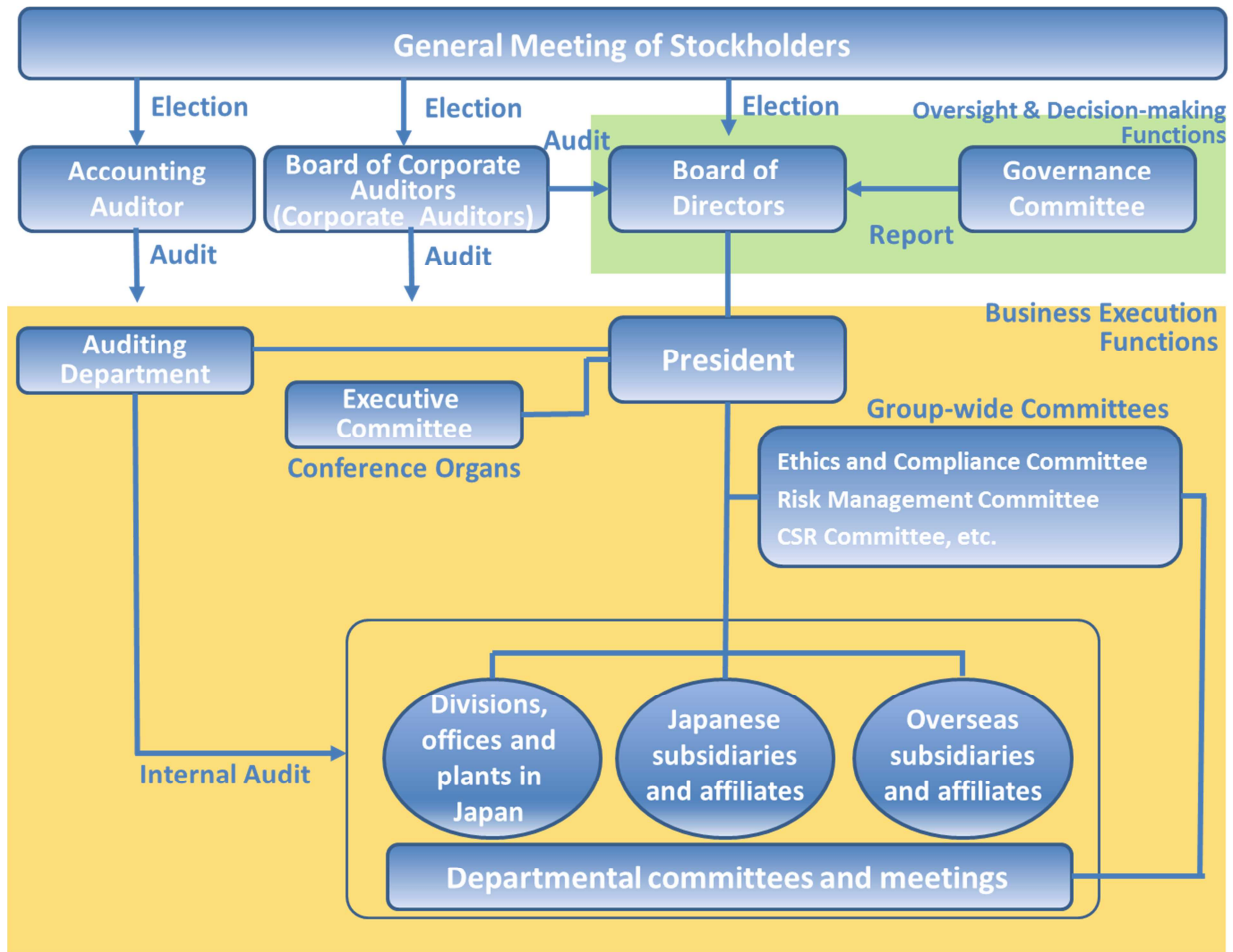
### 2. Matters regarding other corporate governance systems, etc.

Toray has established a Governance Committee in which all of the outside directors are included as members and which is chaired by one of the outside directors.

The Governance Committee will further enhance the effectiveness of the Board of Directors through continuously reviewing mid- to long-term issues regarding overall corporate governance matters and monitoring the status of operations of the Board. Through these efforts, Toray Group will strive for sustainable growth and increased corporate value for the mid- to long-term.



< Corporate Governance Structures >



## Outline of Structure for Timely Disclosure

The internal structure for the timely disclosure of company information at Toray Industries, Inc. (“Toray” or the “Company”) is as follows:

### 1. Basic stance toward information disclosure

Advocating ethics and fairness as one of the Corporate Guiding Principles in its Management Philosophy, Toray Group has established the Corporate Ethics and Legal Compliance Code of Conduct as specific provisions to be observed, and disclosed them on its website. In the section titled Communication with Society, the Company declares that it will actively and fairly disclose appropriate corporate information by communicating with Group stakeholders, including stockholders.

In addition, the Company has also established the Information Disclosure Principles to achieve management transparency, not only through efforts to comply with disclosures prescribed by law, but also disclosing other kinds of information in a fair, appropriate and timely manner. The Company also discloses these principles on its website and puts them into practice.

### 2. Internal structure for timely disclosure

- (1) The Company has established the Internal Information Management and Insider Trading Regulations to control information related to significant facts that could have a material impact on the management of the Company or any of its subsidiaries.

The Regulations organize details that fall under the material facts prescribed by law, designate a department in charge of information by content of the material fact, and stipulate that the Company shall disclose material facts promptly when they are identified or arise.

The Company also determines that it shall disclose information about facts that could have a significant impact on the management of the Company or any of its subsidiaries in an appropriate and timely manner in accordance with the Internal Information Management and Insider Trading Regulations as well as the Information Disclosure Principles, even if they do not constitute material facts prescribed by law.

- (2) The time and method to disclose information shall be determined through consultation between the department in charge of information and the Corporate Communications Department, which is responsible for disclosure. The flow of information disclosure is as described in Exhibit 1- (1) (Information Disclosure of “Facts Determined”) and Exhibit 1- (2) (Information Disclosure of “Facts That Occurred”).
- (3) As a check function of the internal structure for timely disclosure, the Corporate Auditors’ Audit Rules sets down the implementation of the Audit of Implementation Status of the Internal Control System, and corporate auditors conduct audits according to the Rules to ensure that the system to disclose financial information and other company information in an appropriate and timely manner is properly constructed and operated, in cooperation with the Auditing Department, which is responsible for internal audits.

Exhibit 1- (1) Information Disclosure of “Facts Determined”

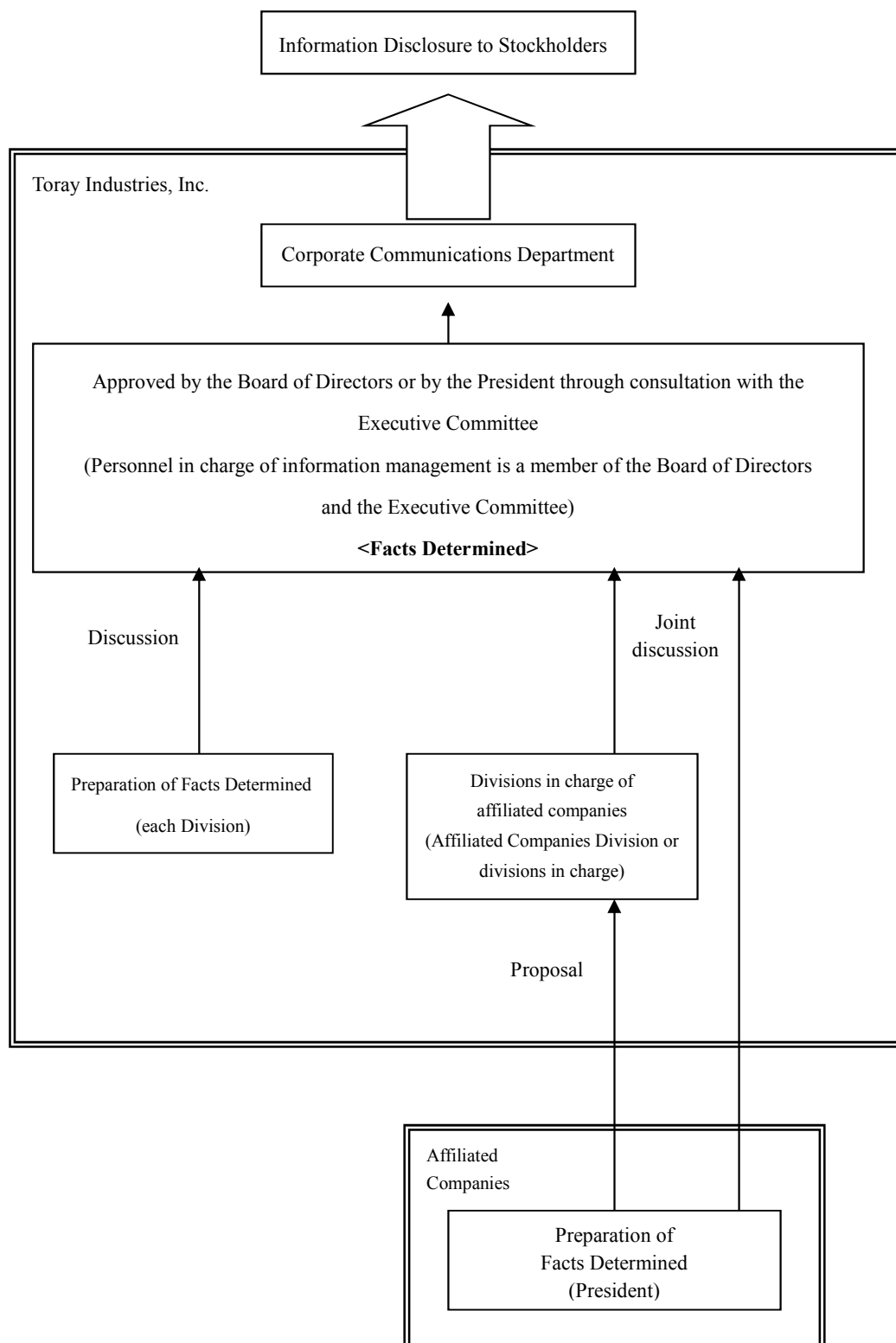


Exhibit 1- (2) Information Disclosure of “Facts that Occurred”

