

27 December 2017
Toray Industries, Inc.

Announcement Regarding the Receipt of the Expert Committee's Report

On 27 November 2017, Toray Industries, Inc. (head office: Chuo-ku, Tokyo; President: Akihiro Nikkaku; "Toray") established an Expert Committee¹ to evaluate the adequacy of the internal investigation, recurrence prevention measures and communications with customers in response to the overwriting of product inspection data at its subsidiary Toray Hybrid Cord, Inc. (head office: Nishio-shi, Aichi; President: Aoki Masahiro; "THC").

Having received the Expert Committee's Report, Toray accepts the Committee's recommendations and responds as follows:

I. Investigation results

The Committee concluded that THC and Toray, acting in a supervisory capacity, responded appropriately after discovering the data overwriting problem. However, the Committee recommended that Toray should:

1. Strengthen product quality assurance compliance across the Toray Group;
2. Ensure the implementation of planned recurrence prevention measures; and
3. Review customer reporting policies.

(For details, see the attached Recommendations)

II. Ongoing response

Toray takes these recommendations seriously and will respond as follows:

1. Strengthen product quality assurance compliance across the Toray Group:
 - (1) Appoint a Chief Quality Officer ("CQO") responsible for quality assurance across the Toray Group;
 - (2) Establish a new department responsible for supervising the maintenance and effectiveness of quality assurance systems across the Toray Group (tentative name: Quality Assurance Division; CQO appointed as General Manager); and
 - (3) Use the newly established Quality Assurance Division to promote the following measures:
 - A. Instruct each division and subsidiary on the improvement of quality assurance systems;
 - B. Audit the effectiveness of each division and subsidiary's quality assurance systems and operations;
 - C. Review and revise customer contracts that concern quality assurance; and
 - D. Promote measures towards the procurement and training of quality assurance personnel across the Toray Group;

¹ The Expert Committee was comprised of the following three members, selected for their specialist legal knowledge and demonstrated experience.

- Mr. Shozo Fujita: Lawyer at Okuno and Partners, former Superintendent Public Prosecutor at the Nagoya High Public Prosecutor's Office.
- Mr. Makoto Matsuo: Lawyer at Momo-o, Matsuo & Namba, former Outside Corporate Auditor at Toray Industries, Inc.
- Mr. Toshio Nagai: Lawyer at Takusyou Sogo Law Office, Outside Corporate Auditor at Toray Industries, Inc., former Chief Justice of the Osaka High Court.

- (a) Enhance training programs for subsidiary employees and other leaders responsible for quality assurance;
- (b) Enhance education about the practice of quality assurance in each division and subsidiary; and
- (c) Promote job-rotations of quality assurance personnel.

2. Ensure the implementation of planned recurrence prevention measures

Toray will effectively implement the measures listed in the Report through the Plan-Do-Check-Act cycle. The CQO will periodically report progress to the Board of Directors and Corporate Auditors, and this progress will be verified by corporate management.

3. Review customer reporting policies

Toray takes seriously the Committee's indication that its insistence on providing accurate information resulted in delays in explaining this problem to customers. Toray will review its policies with respect to reporting problems to customers, and will establish internal rules to ensure timely responses.

III. Progress of safety checks

Since October 2017, THC and Toray have issued reports to customers about this issue. Of the thirteen customers affected, twelve have reported that there are no problems related to product safety. The one remaining customer is still undertaking safety-checks, but as of yet has not reported any problems related to product safety.

IV. Effect on business performance

At present, there have been no effects on Toray's consolidated financial performance.

V. Disciplinary action

THC's President has stepped down from his position. Based on the results of this investigation, responsible employees will be subject to strict disciplinary measures in accordance with internal rules.

VI. Other matters

Toray is using the discovery of this incident as an opportunity to undertake a thorough investigation into product quality across the entire Toray Group. At present, no other legal or safety concerns have been discovered that demand disclosure from a social standpoint.

Within the Toray Group, business ethics and fairness are considered one of our highest management priorities, and this is understood by all management and employees. All efforts have been made to earn the trust of society through conducting appropriate business activities based on the ideal of free, fair and transparent market competition. Therefore, we deeply regret having allowed this situation to occur, and sincerely apologise for all concern and inconvenience caused.

Moving forward, under the responsibility of Toray's Management, all Toray members will unite in order to implement recurrence prevention measures, to restore trust and once again demonstrate Toray's true form. We respectfully ask for your ongoing support and cooperation.

Attachments:

1. Recommendations of the Expert Committee in English (3 pages)
 2. Full Report (Japanese, 53 pages)
- * The full report in Japanese may be accessed via the following link:
URL <http://www.toray.co.jp/news/fiber/20171227.pdf>

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Recommendations

The Committee understood from its investigation that THC and Toray value the safety of their products. Product safety is a key concern of customers and end-users, and THC and Toray are commended for their stance on preventing safety problems.

However, we cannot deny the possibility that it was perceived within THC that so long as product safety was ensured, slight deviations from the quality standards agreed to in contracts with customers were not problematic. While those responsible did overwrite values on product inspection certificates, they did not do so in cases where test results differed significantly from standards, such that product safety may be affected. In such cases, they disposed of the product without overwriting data. It appears from this that they remained conscious of safety concerns even when overwriting quality data.

However, where employees are not fully conscious of their obligation to strictly abide by commitments made in agreements with customers, it is difficult to deny the possibility that similar cases of data overwriting may occur. From the perspective of recurrence prevention, employees must fully understand the significance of the quality assurances which guarantee that products meet the standards agreed to with customers

With this in mind, the Committee makes the following recommendations. These include policies to prevent similar incidents that may damage trust in the THC's and Toray's quality assurances, and response measures in case similar problems should arise in the future.

I. Strengthen product quality assurance compliance across the Toray Group

As described in Chapter 3 Part 4(1) of this report, as part of THC's recurrence prevention measures, the Quality Assurance Department has been promoted to the "Quality Assurance Division". Additional structural revisions mean the Senior Vice President responsible for product quality is now concurrently appointed as the General Manager of the Quality Assurance Division. It is expected THC's internal awareness and commitment to quality assurance will strengthen as a result of these changes.

In respect of THC's parent company, Toray, quality assurance is important not only for ensuring safety, but also because it represents a commitment to customers. In order to

further strengthen the Toray Group's efforts regarding quality assurances, Toray should expand the authority and responsibilities of the Quality Assurance Department within its organization, so that it is capable of monitoring quality assurance systems within each group company, and can lead efforts to educate employees about the importance of quality assurances. Reforming organizational structure and the division of roles is important to ensure that similar incidents related to quality assurance do not reoccur.

For the Quality Assurance Department to fulfil its functions properly, it is also necessary to assign professional personnel with sufficient specialist knowledge and experience relating to quality assurance. It is expected that developing such human resources will indirectly contribute to the improvement of compliance standards relating to quality assurance within the Toray Group.

II. Ensure implementation of recurrence prevention measures

Even though it did not result in legal violations or problems relating to safety, this data overwriting behaviour cannot escape criticism as it damages customers' faith in the quality of the Toray Group's products. THC and Toray, after analyzing the causes of this incident, formulated the recurrence prevention measures detailed in Chapter 3 Part 4. As described previously in Chapter 4 Part 3, these are considered adequate. Those responsible for these mechanisms should correctly understand the causes of this incident and the reasons behind each recurrence prevention measure. They should also work to ensure the effective implementation of such measures. If this is achieved, the Committee expects that similar incidences of data overwriting will not arise again in the future.

In almost half of all instances where data was overwritten, faulty measuring equipment and methods meant that even though the product met the relevant standards, the test results showed otherwise. Consequently, improving the precision of measuring equipment to reduce testing errors is important for recurrence prevention. Toray has declared that it is renewing the relevant measuring equipment in order to prevent future misconduct, and that this will result in an improvement in quality testing precision. However, further consideration is necessary in order to substantiate these policies. .

III. Review customer reporting policies

To prevent similar misconduct which may further undermine trust in product quality, it is important to take sufficient recurrence prevention measures. However, it is equally important to respond appropriately in the unfortunate instance that such an incident were to reoccur. Consequently, THC and Toray should examine their own response to this incident, and continue to reevaluate how best to respond if a similar incident were to occur in the future.

The fact that THC and Toray did not report this incident to secondary customers until October 2017 was the outcome of a reasonable management decision, as described in Chapter 4 Part 1 (2). However, it was possible for THC and Toray to make reports at an earlier stage based on the current state of their investigation, and considering the position of secondary customers, it may be argued that they should have done so. THC and Toray have received comments from many secondary customers about the delay in reporting, and they should take such criticism seriously. They should also define policies and procedures so as to ensure that if future problems arise regarding product quality, appropriate reports are issued as necessary.