

December 29, 2020  
Toyobo Co., Ltd.

To whom it may concern,

**Report regarding the results of investigation into misconduct involving Toyobo's PBT resin, PLANAC<sub>TM</sub> (developments concerning the matter that has been disclosed)**

We deeply apologize for the anxiety and trouble we caused our clients and other stakeholders due to misconduct concerning the quality of PLANAC<sub>TM</sub>, a polybutylene terephthalate (PBT) resin manufactured and sold by Toyobo Co., Ltd.

As we explained in a document we released on October 28, 2020, Toyobo conducted an investigation into the matter by appointing attorneys of Irokawa Legal Professional Corporation, with which Toyobo has neither any advisory contract nor delegation agreement, as a disinterested investigative party in the investigation. The company also set up a committee comprising outside directors and auditors to deal with the matter in a way that ensured the investigation was conducted independently of the company's top management. We report the result of the investigation and other matters that we received recently from the said attorneys as follows.

We are also conducting investigations into products other than PLANAC<sub>TM</sub>.

1. Summary of the report on the investigation

(1) Circumstances

1) Circumstances BEFORE the acquisition of the business

The business involving PLANAC<sub>TM</sub> was sold to Toyobo by another company as of March 31, 2010. In the final stage of negotiations regarding the acquisition between the company selling the business and Toyobo's department that was to be in charge of PLANAC<sub>TM</sub> (hereinafter, "the department"), the general manager and his subordinate in charge at the department became aware that, with regard to some products in the PLANAC<sub>TM</sub> lineup, samples with a chemical composition different from the products actually being sold to clients had been produced and submitted to Underwriters Laboratories, a U.S. independent body that analyzes safety data, by the company selling the business as a means of passing verification tests (hereafter, "the act in question").

However, the general manager at the department that took over the business, including the chemical composition of samples submitted for verification tests, did not report the act in question to Toyobo's highest-level executives, and the acquisition was carried out.

2) Circumstances AFTER the acquisition of the business

After the acquisition of the business by Toyobo, the information associated with the act in question was not formally shared within the department and as a result, any specific steps to address those issues were not taken.

In November 2013, the department shared issues associated with the act in question with attendees at an internal departmental meeting, but the act in question was left unaddressed.

As late as October 2015, a document was produced by the employee in charge at the department, which stated that getting a grasp of the current situation regarding the act in

question was desirable in terms of enabling the department to better guarantee product quality. The department decided not to promote the sale of flame-retardant grade PLANAC<sup>TM</sup> products as a matter of policy. Meanwhile, the department tried to develop new products, because it decided that alternatives for the PLANAC<sup>TM</sup> products that clients already had adopted were necessary in order to withdraw the existing products. However, no development with regard to such alternatives was completed.

Given these circumstances, the department realized at the beginning of 2020 that it had no choice but to give up the development of alternative products from a technical standpoint. The general manager of the department reported the act in question to the head of the division, who then reported the matter to Toyobo's top management in August 2020.

## (2) Causes and proposals for countermeasures

### 1) Inadequacy in the system to check the transfer of business in question

The department was not able to evaluate adequately the risks involved concerning the business acquisition. In addition, there was no system whereby other departments could be involved in the process.

To prevent this from happening again, it is possible for independent departments – not the department in charge – to set rules for due diligence in accordance with risk classifications, such as business sales figures and properties of products, in cooperation with experts from outside the company if necessary. The department in charge can then operate in compliance with the rules.

### 2) Inadequate inspection functions

In the manufacturing of products consigned to a factory outside the Toyobo Group and the production of samples for verification tests – as was the case in this act of misconduct – the products and samples were not subject to inspection by the quality assurance division that exists independently of each department.

To prevent this from happening again, the quality assurance division will conduct inspection of the products heretofore excluded from inspection. Moreover, the inspection methods will be sampling or spot-check inspections. Furthermore, it is necessary for the quality assurance division to inspect whether the department in charge has made samples for verification tests in accordance with proper procedures.

### 3) Low compliance awareness

At the time of the business acquisition, the general manager and personnel concerned at the department underestimated the risks inherent in the act in question. After a series of scandals involving false claims in product quality jolted Japanese society, the department considered solving the issue internally mainly by developing alternative products. Its low compliance awareness is evident considering how it had tried to solve the issue without correcting the act in question.

To prevent recurrences, it is necessary to improve compliance seminars for executives and employees because merely telling seminar participants never to commit the grave act of making false claims about the quality of our products is not enough. Such seminars may employ an active participation style, in which executives and employees consider and make judgments on their own about specific ways they should respond to various cases, including the latest one.

#### 4) Malfunction of the whistleblowing system

There was no whistleblowing in this case partly because there was little understanding about such a role, or a lack of trust in the existing whistleblowing system, aside from the low compliance awareness mentioned above.

To prevent such a misconduct from happening again, it is necessary to address any problems hindering the use of the whistleblowing system.

#### 5) Environment surrounding the department

The department has become a closed organization due to limited personnel exchanges with other departments, and is subject to little influence or interference from other divisions and departments.

To prevent recurrences, it is necessary to carry out personnel exchange with other divisions and departments, be subject to their inspections, and be supervised by the head of the division.

### 2. Impact on business performance

We have completed explanations on the misconduct concerned to all of our clients that bought PLANAC<sup>TM</sup> products, but at this point, there is no case involving retrieval of the products. We will swiftly inform you concerning matters deemed important and that should therefore be disclosed.

### 3. Punishment for those involved

As we disclosed in a document dated November 26, 2020, some remuneration of the executives involved in this misconduct has been returned to the company. However, based on the investigation results and other factors, we will continue a further investigation to consider handing out strict punishments to those involved, in accordance with in-house regulations.

### 4. Approaches to prevent recurrence

The Toyobo Group takes this matter very seriously. We will study and surely implement effective measures to prevent a recurrence, based on the proposals in the investigation report and other pertinent factors. We have already started conducting sampling inspections by the quality assurance division, an organization that exists independently of each department – a step that the investigation report said is necessary.

We are firmly committed to never allowing such misconduct to happen again. We will improve our organizational climate through in-house activities and education for all employees of the Toyobo Group designed to raise their compliance awareness and reform their awareness on quality guarantee. All executives and employees will be united in thoroughly implementing preventive measures, improving corporate governance and strengthening quality control so that we can restore trust.

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