

Toward a Truly Sustainable Company



Mitsuo Ohya

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Passing on the Company Values —Nurturing people while contributing to society and the environment, yesterday, today, and tomorrow—

I was appointed president in June 2023 during the first year of the new Medium-Term Management Program, Project AP-G 2025 (AP-G 2025).

Since its founding in 1926, Toray has voiced its strong belief that the Company is a public institution that serves society. Accordingly, we have engaged in corporate activities with the ultimate goal of contributing to society. Toray's corporate philosophy, "contributing to society through the creation of new value with innovative ideas, technologies, and products," is based on the former company principle, "Toyo Rayon contributes to communities," which was first expressed and codified in 1955. It was revised to the present corporate philosophy in 1986. While far from a novel concept today, Toray understands that its efforts to carry out the philosophy of "contributing to society" has attracted the recognition of society, which in turn has led to performance growth. At the same time, we have inherited the unwavering commitment to sustainability management of our predecessors, which entails developing human resources and taking all possible measures to protect the environment with an awareness toward chemistry-based manufacturing. Guided by this management vision, in 2018 we formulated the Toray Group Sustainability Vision. It clarifies the four perspectives of the world as envisioned by the Toray Group, and states internally and externally the commitment to initiatives that must be taken in order to realize them. Furthermore, in 2020, we announced details of the "Toray Philosophy" as a systemized approach to the management vision that underpins the Company and has been passed down since our founding, including the corporate philosophy.

I am deeply respectful of the fact that Toray Group executives and employees have contributed to the development of society in Japan and worldwide by introducing a variety of innovative materials based on this philosophy. I also keenly feel the weight of responsibility from being entrusted to lead the Company at a time of great change in the business environment.

Together with our more than 48,000 employees, we will continue to share Toray's mission since its founding to nurture people while contributing to society and the environment through our business activities, and this in turn will drive corporate development.

Raison d'être of the Chemical Industry

We believe that sustainability is an extremely important issue for the chemical industry. The chemical industry has a critical mission to provide useful raw materials to help society become carbon neutral. On the other hand, the environmental impact of business activities is significant, so the cost burden of energy and

raw material conversion to achieve carbon neutrality is a major issue. In addition, there are areas where individual company efforts alone cannot address emissions reduction of the entire supply chain, such as promoting the use of renewable electricity and hydrogen, as well as the disposal of raw materials and after-use materials. We believe that the path to sustainable growth for chemical industry and materials manufacturers is to support the transformation of all industries and societies by creating innovations toward carbon neutrality, while utilizing frameworks for reducing GHG emissions throughout society, such as the Japanese government's Green Transformation (GX) measures and the GX League in Japan—a private sector-led initiative—to gain society's understanding for sharing some of the costs of transformation of social and industrial structures. Toray Group intends to take the initiative in the industry with respect to such efforts.

Toray Group Sustainability Initiatives

The basic concept of our carbon neutral initiatives is to promote both "contribution to GHG reduction in society and reduction of emissions from our own business activities." Under this concept, we aim to become carbon neutral in 2050 through the following four initiatives: (1) contribute to the carbon neutrality of society by expanding the Sustainability Innovation (SI) Business, (2) reduce Scope 1 and 2 emissions by thorough energy conservation, fuel conversion, and renewable electricity usage, (3) reduce Scope 3 emissions through recycling, biomass-derived raw materials usage, CO₂ recovery and recycling, and (4) make gradual, continuous investments tailored to each country's energy situation.

With regard to the circular economy, we are promoting product recycling, utilizing biomass-derived raw materials, and conducting research on CO₂ recovery and recycling. As there is growing momentum for recycling of end-of-life products, we will strive to build an advanced recycling system that only Toray Group can provide, such as reverse supply chain of polymer-related products, utilizing our strength of having multiple outlets for the same polymer including fiber, resin, film, composite materials, and water treatment. To this end, we will fully grasp the level of acceptance of environmental premiums by consumers, customer trends in each industry and product, and the status of regulations and rule formation. As for the use of biomass-derived raw materials, we are developing technologies that utilize non-edible and non-food biomass that does not compete with food. We have begun mass production of partial bio-polyethylene (PET) fiber utilizing bio-ethylene glycol (EG) derived from non-food sugarcane waste molasses, as well as commenced trial sales of nylon 510 fiber utilizing mainly non-edible castor beans.

We are also redoubling our efforts in projects that help reduce environmental burdens, such as seawater desalination using water treatment membranes and the reuse of wastewater, as well as projects that contribute to better medical care and foster public health.

Medium-Term Management Program, Project AP-G 2025 — Five Basic Strategies —

In the process of formulating AP-G 2025, we spent time reviewing the previous Medium-term Management Program, AP-G 2022, and were also conscious of the demands of society in areas such as sustainability. Over the past three years, the business environment has changed dramatically, with the spread of COVID-19 and the Ukraine situation leading to the greater prevalence of a bloc economy, as well as diversification in the way people work and their values. These are phenomena that we must respond to. In addition, capital efficiency to effectively allocate and utilize limited management resources along with global risk management are becoming increasingly important. As a materials manufacturer that has operated under the premise of continuous capital investment, we have needed to demonstrate how we would seek solutions to increase earnings scale and efficiency.

The results are summarized in five basic strategies and financial strategies in AP-G 2025.

Basic Strategy 1, “Sustainable growth,” is based on the Toray Group Sustainability Vision. We will work to expand our business by allocating management resources to the Sustainability Innovation (SI) business and the Digital Innovation (DI) business as growth areas in which we can leverage our strengths and expect to increase earnings. DI supports the realization of a sustainable world.

In Basic Strategy 2, “Ultimate value creation,” and Basic Strategy 3, “Product and operational excellence,” we will leverage digital technology with a focus on the frontlines. For ultimate value creation, we will promote the integration of tangible and intangible assets, the extension of the value chain and cross-organizational value creation to add value to our businesses, while creating profitable new businesses that help solve social issues. For product and operational excellence, we will strengthen our quality capabilities and promote cross-organizational cost reduction activities that leverage the comprehensive strengths of our organization.

In Basic Strategy 4, “Enhancement of people-centric management,” we will realize job satisfaction and supportive workplaces by securing and promoting diverse human resources, working to develop personnel, providing environment and opportunities that lead to employee pride in working for Toray Group, and building an organizational culture that values feedback from the frontlines.

In Basic Strategy 5, “Risk management and governance,” we will appropriately control risks associated with business operations, such as economic security risks and country risks. We will also improve the effectiveness of internal controls, eliminate opportunities for fraud, and ensure sound organizational operations.

Our mission is to further deepen the understanding both internally and externally of the background and significance of the policies and strategies adopted and revised in AP-G 2025, as well as to implement the program.

Incorporating ROIC in Toray Group — Business growth while maintaining a sound financial structure —

In addition to the basic strategies, we will continue to maintain and reinforce the financial structure by improving asset efficiency based on cash flow and return on invested capital (ROIC) to support further growth. The SI and DI businesses to be expanded in Basic Strategy 1 include not only existing businesses but also businesses that require new investment and platforms, such as those related to resource recycling. In addition, investment is needed to accelerate GHG emission volume reductions. To this end, we will be even more balanced about allocating limited management resources mainly to capital investment, R&D, and human resources as we pursue business growth while maintaining a sound financial position. To help with this, we adopted ROIC as a new KPI. We will improve management resource efficiency and implement optimal reallocation, as well as increase capital efficiency by improving the balance between cash inflows and outflows and achieve sound, sustainable growth.

Expansion of the Sustainability Innovation (SI) and Digital Innovation (DI) Businesses

While the international situation remains uncertain, there is further increase in demand to ensure a sustainable society.

Under AP-G 2025, we plan to invest a total of ¥450 billion in the SI and DI businesses, which we have designated as growth business fields, including capital investment and R&D expenses. We will also build a cross-organizational structure to propose comprehensive solutions to customers and accelerate external collaboration with the aim of expanding these businesses to account for almost 60% of consolidated revenue.

As a materials manufacturer with advanced research and technology development capabilities, Toray Group will continue to demonstrate the importance of its existence amid more opportunities to help achieve a sustainable society by expanding the SI and DI businesses.

In addition, Toray Group is developing materials for building a green hydrogen supply chain, as it foresees the arrival of an era when green hydrogen, made from power provided by renewable energy and water becomes the mainstream of energy medium for the world. Toray is already the global leader in key components such as hydrocarbon (HC)-based electrolyte membranes, which increase the performance of water electrolysis devices. Thus in June 2022, Toray established the HS Division directly under the authority of the President in order to expand this business for the membranes. In order to shift to full-scale global deployment for bolstering the introduction of green hydrogen, Toray has also begun cooperating with companies and organizations from Japan and overseas, including Siemens

Energy AG, one of the world's leading manufacturers of water electrolysis devices and a company with which Toray has agreed to build a strategic partnership.

Ultimate value creation

—Create value by multiplying tangible and intangible assets—

Since its founding, Toray's mission has been to improve the quality of people's lives, and this has ingrained a corporate culture of creating new and valuable products, maintaining high quality, and providing products at reduced costs through tireless self-driven efforts. That is something to be proud of, but revenue growth is essential as a means to continue this mission, as an ideal without means will not be realized.

When I was at the frontlines of sales, I believed my role was to deliver to the market the products created by Toray's vaunted research, technology, and production, as well as to correctly communicate their value to the market and receive consideration for it. We will once again make known our basic approach to selling prices and our fundamental action of communicating with the market. We will also work on Toray's unique pricing strategy, which is data-driven and backed by digital technology.

In addition, we will create new value and increase our earning power by multiplying our tangible and intangible assets, including our accumulated elemental technologies and intellectual property, past capital expenditures, worldwide network of production bases, diverse business groups, and above all, the human resources who manage our business by making use of these assets.

People-centric management –Toray brand–

People-centric management is one of the values and management view Toray Group has been passed down since its establishment as part of its corporate culture. We will continue to uphold this in order to put our corporate philosophy into practice. Toray's philosophy that "success or failure of a company is decided by its people, and employees shape its destiny," has been widely adopted not only in Japan but also overseas, and Toray is implementing Toray-style management on a global scale while respecting the differences in customs and societal ways of thinking in each country and region.

To realize our corporate philosophy of "contributing to society through the creation of new value with innovative ideas, technologies, and products," we believe that the Toray brand is fostered when Toray Group employees deliver products and services of high technology and quality to customers and are recognized by society based on the Toray Philosophy. We consider the UL certification issue uncovered two years ago to be a matter that could have shaken the Toray brand. We will continue to work earnestly to prevent such a recurrence and restore confidence in our products.

In Basic Strategy 4, we promote "enhancement of people-centric management" under AP-G 2025. Employees embody the Toray brand itself, and Toray's sustainable development would not be possible without employees who understand the Toray Philosophy. I tell our employees that the key phrases of people-centric management are "Power of dialogue," "One team, our team (all for one, one for all)," "Ability to think things through and get things done," and "Swing for the fences." With dialogue as the starting point, Toray will focus on creating an environment where full-fledged corporate growth and human growth and happiness through team building and interpersonal skills leads to Toray's Group's sustainability.

Toward a truly sustainable company —Fundamentals lead to results—

I am by no means trying to say anything new. Toray already has something to be proud of in terms of its management principles, technology, product creation ability, and people. Targeting the Corporate Philosophy and taking fundamental actions outlined in the Toray Philosophy, the united efforts of Toray executives and employees have made a difference and will lead to results. We will engage in dialogue with our customers and the market, earn the trust of society from the results of our corporate activities, and create a virtuous cycle in which employees work energetically with the aim of becoming a truly sustainable company. To this end, I am committed to taking a long-term, all-encompassing viewpoint to ensure that the direction in which each individual's actions will swell and move us forward is the correct one. We appreciate the continued understanding of our stakeholders.

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