

To Our Stakeholders

Adversity puts our strengths in a new light

Despite the partial abatement of the COVID-19 pandemic thanks to progress in vaccinations, new mutant strains mean that the world has still yet to see any signs of an end to the spread of infection. I would therefore like to once again express our sympathies to all of those who have suffered from this calamity since last year.

Amid the restrictions placed on the movement of and contact between people throughout the globe, Toray Group has endeavored to manage our businesses in a way that fulfills our responsibility to continue supplying products as a basic materials manufacturer. Similarly, we have prioritized the health of our employees in Japan and around the world, as well as the prevention of infection by the virus. Unable to avoid the impacts of stagnation in production and consumption activities across the globe, however, consolidated revenue for fiscal 2020 declined 9.9% compared with the previous fiscal year to ¥1,883.6 billion, and core operating income fell 28.1% to ¥90.3 billion. Meanwhile, operating income declined 51.3% to ¥55.9 billion and profit attributable to owners of parent declined by 45.6% to ¥45.8 billion as a U.S. carbon fiber subsidiary recorded an impairment loss.

Contributing to Build a Sustainable Society by Innovation of Materials

Although these challenges show how we were significantly affected by the COVID-19 pandemic during fiscal 2020, this actually allowed me to fully experience the power of Toray Group. First and foremost, we demonstrated our strengths in developing and providing materials for a variety of applications and met the expectations of a world that demands a sustainable society, thereby expanding the ways in which we deliver new value to society. And because our high-performance, high-grade, and innovative materials are realized through the ultra-long-term accumulation of technology that is unique to Japanese companies, I am certain the roles played by Toray Group

will only continue to expand into the future. In addition, given that we produce 70 to 80% of our main products outside of Japan due to having advanced local production for local consumption on a global basis, our ability to maintain operations despite the restrictions on movement has served as a major advantage amid the COVID-19 pandemic.

Unwavering management with a long-term perspective

In order to realize the perspectives of the world which consider



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the way the world should be in 2050, as envisioned by the Toray Group Sustainability Vision, we aim to achieve sound, sustainable growth by focusing our energies on the Green Innovation (GR) Business, which contributes to solving global environmental and energy issues, and the Life Innovation (LI) Business, which contributes to solving issues such as those involved with longevity, for example. Similarly, we will seize upon the direction these changes in the world taken under TORAY VISION 2030 (VISION 2030), our 10-year long-term corporate vision formulated as the milestone for these efforts, and under Project AP-G 2022 (AP-G 2022), a 3-year medium-term management program we established to achieve the long-term vision. Along with our annual plans, we are steadily advancing management in a way that tackles existing problems in a manner that is founded on the three time frames of long-term, medium-term, and present. Steadily building a response to these existing problems will help define a path to the future and solidify our business foundation. In this way, our basic approach to management based on a long-term perspective remains unchanged.

In fiscal 2021, Toray Group's performance has taken a positive turn. Although economic recovery varies by country depending on their progress in vaccinations and economic measures, and despite the fact that an end to skyrocketing crude oil prices and other external environmental factors remain as deeply uncertain as ever, automotive applications and IT-related materials are performing strongly. Against this backdrop, we foresee the COVID-19 pandemic coming to an end and the global economy generally returning to a growth trajectory during fiscal 2022, the final year of AP-G 2022. Likewise, Toray Group will, in a timely manner, organize a system to increase production and supply for those markets forecasted

to see a recovery and expansion in demand, and will endeavor to minimize the impact of more immediate issues, such as skyrocketing raw material prices, by working to use formula pricing that links market conditions to product prices.

Materials change our lives

With materials as the starting point of everything the world produces, we engage in business operations under the conviction that "materials, which form the base of all products, have the power to intrinsically change society."

As the digital economy advances, the makeup of the industrial structure is shifting from a focus on hardware to software, which is evolving to allow the world to steadily realize those ideas that were once only dreams. Yet, even AI, an area that is receiving the greatest amount of attention, cannot exist without development in hardware like high-speed logic elements and high-capacity memory elements. And it is the materials that comprise the hardware that are the basis for the hardware-based innovation, so there is no question that "innovation starting from materials" has become ever more common. Even in the technologically mature fibers and textiles industry, for example, we have developed innovative conjugate spinning technologies like NANODESIGN™, which have enabled us to add completely new functions and textures, and to deliver new added-value. In other words, materials hold an unlimited potential to drive innovation.

Expanding "Innovation through Co-creation"

"Innovation through Co-creation" is a unique feature and strength of the Toray Group Value Creation Process. Simply developing innovative materials alone will not give rise to markets, however. Which is why we require partners who will provide applications, who are willing to accept

Achieving carbon neutrality for society and the Company

In addition to the COVID-19 pandemic, population growth, aging population, climate change, water shortages, resource depletion, and other global-scale challenges are both related to each other and becoming worse. In recent years in particular, global environmental issues have become serious topics of discussion in those countries around the world that have experienced torrential rains and severe cold waves as a result of abnormal weather.

unfamiliar materials, and who possess a culture and vision overflowing with a readiness to take on new challenges, like Toray.

Our collaboration with Fast Retailing Co., Ltd. (Fast Retailing), which has produced revolutionary products like HEATTECH™, AIRism™, and Ultra Light Down™, is now in its twenty-second year, and has grown stronger with each passing year. This historic co-creation was the result of the meeting between Toray, with its conviction that “fibers and textiles is still a growth industry when looked at globally” in an era when many industries were moving away from these, and Fast Retailing, with its philosophy of “Changing clothes. Changing conventional wisdom. Change the world.” With their leaders sharing the same vision, the burning desire of Toray’s engineers to undertake challenges drove breakthroughs in response to the requests of Fast Retailing, which sincerely believes that its clothing concepts can change the world. Similarly, our alliance with The Boeing Company based in the U.S.A., which was only dreaming of building aircraft from carbon fibers at its outset, is a partnership that was achieved specifically because both companies share a corporate culture that values the continuous pursuit of innovation.

It is likely that more and more companies will seek out innovativeness from the power of materials as the world becomes flooded with things and only those things that offer unprecedented value will be chosen. Against this backdrop, we will increasingly accelerate “Innovation through Co-creation” together with various partners that boldly challenge breakthroughs.

Toray Group has a history of focusing on environmental management, and we stated achieving “a net zero emissions world, where greenhouse gas emissions are completely offset by absorption,” in other words carbon neutrality, as a goal in the Toray Group Sustainability Vision. In order to execute what we propose, we are advancing our “contributions to solving climate change issues through the value chain” for society as part of the GR Business, while engaging in efforts to “address climate change across business activities” within the Group, such as reducing GHG emissions at the manufacturing stage.

The GR Business contributes to reductions in GHG emissions throughout society by supplying various materials such as those that decrease the weight and improve the fuel efficiency of aircraft and automobiles. We believe that “technologies that contribute to a circular economy” and “hydrogen-related technologies” will also serve as major drivers in achieving carbon neutrality by 2050. In contributing to a circular economy, we will work to expand the business for fibers and textiles made of raw materials recycled from used polyester (PET) bottles, and to build a recycling system for release PET films used in electronic component applications. In terms of

* HEATTECH™, AIRism™ and Ultra Light Down™ is a trademark of Fast Retailing Co., Ltd.

hydrogen-related technologies, we entered a partnership agreement with Siemens Energy AG in regard to creating green hydrogen production technologies. Likewise, Toray Group's contributions to carbon neutrality through the value chain will likely increase to an immeasurable scale in the future.

As Toray Group is advocating for environmental management, in addition to the environmental contributions we are making externally based on the products that we have developed and with our partnerships, we believe that Toray Group's business activities themselves should also be carbon neutral. We will therefore focus our energies on various initiatives for this purpose, including switching to zero-emissions electricity and fuel, increasing the efficiency of existing production processes, developing low-GHG emission manufacturing technologies, developing recycling and bio-related technologies, and absorbing and recycling CO₂, etc.

Accelerating development of innovative technologies through digital technology

Working styles have undergone significant changes as a result of the COVID-19 pandemic. Just as teleworking reduced temporal and distance related restrictions on work, it is also making routine tasks, primarily, more efficient. We therefore believe it will continue to remain entrenched to some degree. From the perspective of communication, however, we have also discovered limits to its potential. Although we have increased the rate of teleworking across the Group as a means of addressing COVID-19, we will closely

investigate the merits and demerits of doing so as we pursue ideal working styles.

At research and development sites, the use of AI and MI (materials informatics) has enhanced productivity. Meanwhile, production sites also now employ big data analysis and have gained the ability to discover those signs of problems that were only recognizable by skilled workers in the past. Yet, AI and MI do not produce anything from scratch. Despite being able to discover signs of problems at an early stage, without knowledge of the workplace itself these discoveries will not rapidly lead to solutions. Even now that we are faced with restrictions on going to workplaces in person due to the COVID-19 pandemic, I still say that all solutions can ultimately be found in the *Genba* (workplace). True digital transformation (DX) relies on the skillful use of digital tools to further increase the level of work, but only when based on an understanding of telework, as well as the rules and principles of the workplace.

Putting "People-centric Management" into practice globally

Toray has passed down a culture of "people-centric management" since our founding. Likewise, we recognize human resources as an important asset that is not listed on the balance sheet, and that fostering people directly connects to corporate value. This set of values befitting of a Japanese corporation is also accepted by Group companies outside of Japan.

In the U.S.A., where short-term results are prioritized, where there is a deep-rooted belief that labor costs are variable rather than fixed, and where labor turnover is severe, Toray Plastics (America), Inc., has truly embodied Toray's approach to "people-centric management." Amid the

functions to represent the executive officers as internal directors, and four outside directors with experience and expertise in a wide range of fields to thoroughly debate the direction of the Company, management policies, and medium- and long-term business plans. This in turn allows the Board to fully deliberate on important issues from a wide range of viewpoints starting from the investigation stage prior to passing down resolutions, which helps lead to rapid decision-making.

COVID-19 pandemic, it seized upon the shift to longer food shelf-life and enhanced production capacity for packaging films to adhere to sustainable growth. When it operated as a manufacturer of video tape films in the past, the crushing wave of digitalization even brought it to the precipice of life or death as a company at one point. Even so, it did not consider downsizing and instead successfully turned this crisis into an opportunity by pioneering the window glass protection film market using its technologies. It later made another strategic shift in target applications, maintains a low turnover rate, and has put “people-centric management” into practice, despite being a company based in the U.S.A. As such, it has since emerged as a group member of which we are very proud.

Enhancing the effectiveness of the Board of Directors

During fiscal 2020, we also revised our governance structure. The Board of Directors must evaluate the various risks that encompass our businesses from multiple standpoints in order to fulfill its oversight and decision-making roles. Specifically, we believe it is important for the Board to fulfill its oversight function by discussing beforehand the general direction of the Company, for example our approach to the long-term vision, large-scale capital investments, and M&As, among others, and by verifying the execution status of major initiatives.

As part of our reforms to the governance structure for fulfilling these oversight responsibilities, we appointed eight executive officers with responsibility for the major businesses and

Social contributions through the creation of new value

In May 2020, we organized the “Toray-style Management” passed down since our founding, and announced the “Toray Philosophy” with our corporate philosophy of “Contributing to society through the creation of new value with innovative ideas, technologies and products” at its top position. In order for each employee to realize contributions to society through the creation of new value as part of their respective jobs, we hold deep conversations at each group company and site, and repeatedly hold direct dialogue between executives and employees. In this way, we seek to maximize the value the Group delivers to society.

In part due to the COVID-19 pandemic, we are currently in a state of global political, economic, and social chaos. Even so, Toray Group remains committed to providing fundamental solutions to global-scale problems through the creation of innovative technologies and advanced materials, and is determined to fulfill our increasingly important roles as a corporate entity worthy of society’s respect. For this reason, we ask that all of our stakeholders grant us their continued understanding and support.



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