

Prioritizing Dialogue and Sense of Speed

We aim to maximize our corporate value through a story of growth based on competitiveness

Tackling Insights Gained through Dialogue as well as Management Issues with a Sense of Speed

Toray celebrates its 100th anniversary in 2026. Through tireless efforts, the Company has overcome countless crises and changes in domestic and international situations, such as the economic controls of the wartime years to Japan's rapid economic growth in the post-war era, recessions in the fibers and textiles industry, globalization, and more recently COVID-19.

Since my appointment as the President of Toray last year, I have heard firsthand the various comments about the Company, and listened closely to the thoughts of our investors and shareholders, as well as to the feedback from our employees who are working to create value, as I would like to incorporate such opinions into management in order to ensure that the Company will be sustainable for the coming 100 years. I have earnestly acknowledged the expectations as well as harsh comments regarding the Company that I have acquired through dialogue, and, with a sense of urgency, I work to delve the problems inherent in the Toray Group and implement solutions.

Upon entering FY 2024, the improvement in our performance and the reaction of the capital markets have provided me with a tangible sense of progress regarding the steady changes within the Company. Yet there are still issues that will take time to resolve. For example, strategic pricing, a key initiative to improve profitability, is fundamentally about activities to change our mindsets. This is about having customers recognize the value of our materials, not simply raising prices. Given that our raison d'être is to contribute to society through innovative technologies and advanced materials, we have at times provided high-added-value products at more reasonable prices. Which is why I am wholly prepared to make every effort required to instill this change in thinking, within and beyond the bounds of the Company, which definitely lays a burden

on the teams of research and technology development as well as the frontlines of sales. Moreover, in an era that questions sustainability, I am once again humbled by the difficulty of taking the reins in determining how to realize a corporate vision that balances non-financial issues such as reducing greenhouse gas, promoting recycling, and switching to biomass, with business expansion through capital investments, over the medium- to long-term.

That said, amid the dizzying changes in the business environment, I am also aware of the pressure to swiftly address, as well as to raise the effectiveness of our efforts to manage, those insights and issues raised through dialogue with those within and beyond the bounds of the Company. In particular, the Chinese business model has become a threat to all forms of business, extending to incorporating technologies and supply chains, rather than just increases in production capacity. Which is why it a key to our business strategy planning, to establish barriers to market entry that are unique to the Company as soon as possible. In order to illustrate the Toray Group growth story under the assumption of these discontinuous changes in the business environment, I will engage in business strategy planning that identifies the competitiveness of each business and that establishes winning patterns for the Toray Group. At the same time, since capital investments are essential for materials manufacturers, upon management, I will engage in decision making that prioritizes the allocation of limited management resources to businesses with an outlook for both growth potential and profitability.

Prioritizing Profitability Enhancements and Asset Efficiency Improvements

Within the Medium-Term Management Program, Project AP-G 2025 (hereafter, AP-G 2025), we included the two issues of profitability enhancements and asset efficiency improvements, for which ROIC stands as the KPI. Although ROIC for FY 2023, the first fiscal year of AP-G



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Material of the suit worn: WOLSTAR
(Toray Product)

2025, remained even with FY 2022 at 2.8%, we expect it to improve to around 4% during the current fiscal year as a result of strategic pricing, as well as structural reforms and various other initiatives which I will discuss later. Despite the high uncertainty of the business environment, at the present time I feel that we are on track for a recovery towards the AP-G 2025 target of approximately 5%.

In this regard, I believe the FY 2025 target ROIC of 5% is the minimum level we must first clear to raise PBR above 1x. Yet, this ROIC is still insufficient as an absolute value. We must therefore further improve profitability, and share the understanding in and outside of the Company that AP-G 2025 is little more than a milestone on our way to our vision for the Company. Although there are advantages and disadvantages to debating PBR for various industries in a uniform manner, it is obvious that any standing below book value lacks rationality. From the viewpoint of management, it is therefore my responsibility to apply ROIC in a way that optimizes the allocation of resources to drive innovation, as well as to improve growth potential and profitability. Along with the five basic strategies and the goal of maintaining financial soundness laid out in AP-G 2025, I will therefore advance seven key management measures and 18 challenges within the Company to raise the effectiveness of these strategies and goals.

Increasing the Effectiveness of the Basic Strategies through Seven Key Management Measures

I have received concerns over the so-called conglomerate discount because our business fields are so diverse. Toray's businesses are all based on the shared core technologies of organic synthetic chemistry, polymer chemistry, biotechnology, and nanotechnology. We deploy these core technologies as our strengths across the organization in a way that enables us to pioneer a broad range of applications, which makes Toray appealing as an essential materials manufacturer that supports all manner of industries and society beyond. Despite our ability to create new markets and applications, however, the speed of commodification in recent years has only accelerated. Which is why my vision for Toray is a high-profitability company that can secure resources for business expansion and the future, and that realizes the following virtuous cycle.

- (1) In the short-term: generate cash through improved profitability
- (2) In the medium-term: allocate capital, human, and other management resources to priority strategic businesses

(3) In the medium- to long-term: as a result, materialize and commercialize the outcome from capital investments and R&D, and reinvest in new businesses

In order to realize this cycle, we must also take action with a sense of speed that transcends organizations, as well as with product and operational excellence, in preparation for the considerable changes in the global business environment and stiffer competition from China and other countries.

Likewise, in a bid to increase the effectiveness of the five basic strategies laid out in AP-G 2025, I have set horizontally linked key management measures for management foundations that require strengthening, and have set out to apply these to specific issues in line with their timeframes.

In detail, the seven key management measures are: (1) enhancement of business competitiveness and business expansion, (2) optimal allocation of forces and invested capital, (3) creation of innovation, (4) function-centric enhancement, (5) enhancement of cost competitiveness, (6) human capital management, and (7) dialogue with capital market. Having organized and set 18 issues that are linked to these, I assigned a Board member or a Vice President as the person responsible for each issue. I myself am also responsible for some of the measures.

One of the reasons I organized these measures in this way comes from my reflection upon the fact that we have not always managed to take full advantage of large-scale capital investments in the past, and have at times failed to link these to profitability. Another reason is my sense of urgency regarding today's situation in which the speed of commodification for added-value products is faster than ever before.

I also believe that the products we deliver to the world to realize our corporate philosophy of "contributing to society through the creation of new value with innovative ideas, technologies, and products" must be added-value products and differentiated products that are founded on our technological capabilities. At the foundation of these products lies various forms of competitiveness, including advanced research and technology development capabilities, quality, supply capacity, function, price, and delivery. In addition to financial standards such as growth potential and profitability, I therefore make business decisions based on the newly established standard of judging future potential in the form of competitiveness, and will steadfastly reflect the competitiveness-based Toray growth story in our financial results.

Supporting the Brand Value of Toray Along the Dual Axes of Creation of Innovation and Strategic Pricing

I was involved in fibers and textiles sales for many years, and I have experience in launching product brands (i.e. MIRACOSMO™). These experiences have made me aware of the impact that our brands have on business and their importance. As a materials manufacturer, the names of our products rarely adorn the finished product, and the corporate name of Toray has few opportunities to appear in public. However, this is exactly why it is extremely important for us to ensure customers recognize that Toray products are essential when deciding on the materials that will affect the performance of their finished products. Similarly, the source of our value and our brand is the ability to establish barriers to market entry through the creation of new value based on the different forms of competitiveness I mentioned earlier. Creation of innovation is the measure we are currently undertaking to create added-value products, whereas strategic pricing is the measure we are applying to ensure profitability, namely by reflecting the value of the products resulting from the former measure in their prices. It is these two approaches with which we will support the Toray brand. Although it may seem obvious for a company, these activities are a so-called return to the basics, and I myself have taken the reins as the nucleus of our various measures.

As we see it, strategic pricing refers to the act of ensuring that prices reflect the value of our products from the viewpoint of our customers, in other words the Toray brand. Which means we only engage in individual negotiations following a thorough investigation into whether the value our customers receive from our products is economically reflected in their prices. Since strategic pricing assumes that Toray products are differentiated (branded) from competitors, if a customer feels that the price of a product is unacceptable, this necessarily indicates that the product fails to offer the level of value demanded by the customer. In this case, we share this fact with the research and technology departments, and race to develop a high-added-value product that can be differentiated (creation of innovation), or we make the decision to shut down production and withdraw the product from the market, to help improve profitability.

We advance these two measures through cooperation that transcends the production, sales, technology, and research organizations to establish a virtuous cycle, which is in and of itself our added-value strategy, the outcomes of which are reflected in ROIC. As just one example of

innovation, the ALCANTARA™ and Ultrasuede™ brands of ultra-microfiber nonwoven fabric with suede texture that are introduced in the Value Creation Special Feature (P.16-19) in this Integrated Report were realized by developing a one-of-a-kind technology that outputs an ultra-fine microfiber that had not existed prior to the 1970s. Produced in Italy and debuted at Fashion Week as a new material, we pioneered new markets through the combined efforts of production, sales, research, and technology development, and through countless negotiations intended to establish sales channels in Europe and the U.S. Thanks in part to these efforts, these brands garnered significant respect in regard to apparel applications. As profitability fell in response to changes in the business environment, however, the related departments again worked in unison to rebrand them for industrial applications and enhanced added-value, after which we applied a dual-brand strategy to successfully target automobile manufacturers and open new markets.

Promoting the Darwin Project as a Competitiveness-Based Approach to Restructuring

During the previous Medium-Term Management Program, Project AP-G 2022, we began promoting structural reforms for low-growth and low-profitability businesses based on four categories of growth potential and profitability, and have further strengthened this initiative under AP-G 2025. Alongside restructuring those businesses that were judged as having structural problems, in FY 2023, we launched the Darwin Project for specific businesses and companies in which the business performance have deteriorated due to changes in the business environment, and have a significant impact on the entire Group in terms of invested capital. Specifically, the Darwin Project seeks to acquire a thorough understanding of each business and company through a more refined analysis, and applies profitability improvement strategies according to the situation of the business. Here, the short-term issues include cost reductions, strategic pricing, and optimal product mix, for example. At the same time, we included the medium- to long-term issues of restructuring our structures and production systems throughout business advancement. With parts of this structuring already underway, we aim to have achieved the required structural reforms and the resulting profitability improvements by FY 2025.

In the Darwin Project, in addition to growth potential and profitability as the standards for the four categories, another critical factor is determining strategies based on

To Our Stakeholders

an understanding of competitiveness, as I described earlier. In this respect, we will set and achieve targets based upon an understanding of the competitiveness of Toray products and the supply chain, where this understanding will be founded on data analyses at the frontlines in regard to quality, cost, price, function, customer use, production bases, and delivery capacity. We will order revisions to production systems when a business is found to lack competitiveness and to be incapable of earning the marginal profit against invested capital. Moreover, because there is no ultimate end-goal for restructuring itself, we will maintain systems that keep these reforms open for discussion.

Accelerating Business Expansion in the Two Growth Business Fields of Sustainability Solutions and Digitalization

Under AP-G 2025, we have defined the Sustainability Innovation (SI) Business and the Digital Innovation (DI) Business as growth business fields, and we will maintain this direction for the foreseeable future amid increasing pressure to solve issues related to the global environment and sustainability more broadly. The fields in which Toray's innovative technologies and advanced materials can help realize carbon neutrality and circular economy continue to expand. For example, in the SI business, in addition to the existing carbon fiber composite materials and water treatment business expansion, hydrocarbon (HC) electrolyte membranes, which improve the performance of water electrolysis devices for the hydrogen-related applications, are finally entering full-scale commercialization stage. Also, in the development pipeline, we aim to develop a comprehensive supply chain for producing chemical products from inedible biomass using membrane-based bioprocess technologies. As we introduced at the IR Seminar on September 13, 2024, in the DI Business, we have the essential materials and engineering capabilities for fine pitch semiconductor and for semiconductor inspection processes, with which we aim to further expand business as digitalization progresses to support the realization of sustainability.

Embedding Sustainability in the Business Strategy

Despite ongoing uncertainty in the international situation, the pressure to ensure sustainability for society only continues to grow. In part because we were established on the shores of Lake Biwa in Shiga Prefecture, Toray has

maintained an unparalleled interest in water resource management since its founding. Given our awareness of chemistry-based manufacturing, we have passed down from generation to generation our approach to managing sustainability itself, namely seeking to develop human resources and taking all possible measures to protect the environment. Likewise, the Toray Group Sustainability Vision, formulated in 2018, illustrates our aspirations for the world, including carbon neutrality and a circular economy, and expresses our commitment to tackling the issues for realizing this vision.

In order to achieve carbon neutrality at the Company as our greatest environmental challenge, we will strive to conserve energy and promote electrification wherever possible. When electrification is not possible, we will transition to non-electrified, carbon-neutral forms of energy, such as hydrogen, ammonia, synthetic fuels, and biomass. Yet this energy shift faces significant challenges in terms of cost burden, and there are aspects of greenhouse gas reductions that we cannot address under our own power alone, including how to spread renewable energy and hydrogen, and how much raw material and waste emissions can be reduced throughout the supply chain. I believe that the path to growth for a materials manufacturer like Toray is to utilize society-wide greenhouse gas reduction frameworks such as the Japanese government-led Green Transformation (GX) measures and the private sector-led initiative GX league, and at the same time, to drive innovation towards carbon neutrality in an effort to support every industry.

The scope indicated by the term of "sustainability" continues to expand. Sustainability is something that every executive and employee at the Toray Group must take ownership, and which we must promote in unison with the business strategy on a daily basis. Because we must view sustainability from the stance of both the Company and the value chain, we must also clearly indicate our overall policy and strategy as the founding assumption of the business strategy. As top management, I will therefore maintain an awareness of both financial and non-financial goals, and engage in business management with a bird's-eye view of the value chain and timeframe.

Enhancing People-Centric Management

People-centric management serves as one of the values and management views passed down as part of Toray's corporate culture since its founding. The second chairman of the Company Asahiko Karashima left us with several pieces of wisdom, such as "make the plant a place

for cultivating human character," "companies must make more than products, they must also make people," and "people are assets that do not make it onto the balance sheet." In this way, Toray has maintained a clear stance of prioritizing human resources development since its founding, and has fostered a corporate culture of developing people. As part of people-centric management, we have deployed the philosophy that "success or failure of a company is decided by its people, and employees shape its destiny," in Japan and abroad, and practice Toray-style management across the globe. In response to the changing business environment, diversifying values, and increasing awareness of career independence, however, in AP-G 2025, we raised enhancement of people-centric management as one of the basic strategies. With a focus on Including Diverse Personnel and Values, Developing Personnel and Organizations that Adapt to Change, and Building Rewarding Careers that Align with the Toray Philosophy (Engagement), we have formulated human resource strategies, and are advancing the related initiatives, for maximizing Toray corporate value and for enhancing employee well-being.

Maximizing corporate value is simply impossible within an environment that fails to leverage employees and their abilities. A prerequisite for maximizing corporate value is that the pioneering spirit, as a part of our corporate culture, is instilled within the Company. To date, Toray has not only tied the outcomes of our tireless research and technology development activities to bettering the lives of people, but also boldly undertaken the challenge of new initiatives in various fields, including entering overseas markets ahead of our competitors. Although this desire and action has been praised as the pioneering spirit of Toray, I have received feedback to the effect that the power to take new first steps has weakened, perhaps in part due to the negative effects of more sophisticated management or to the wider trend of respecting the individual. In response, we established the "Hajime no Ippo (First Step) Award" in 2023 to share the efforts of those with whom we work, and to ensure that we respect each other's individuality and independence. I realized that my concerns were unfounded when we received more submissions than expected for this award from employees who work every day with a positive attitude for their colleagues, customers, Toray, and their own self-realization, and felt Toray's corporate culture is securely being passed on. Through REAL TALK, an arena for direct communication with employees, and the President's message, I will continue to say it is important to "swing for the fences" (pulling out all the stops to challenge) as one team, and

encourage pioneering spirit. However, swinging for the fences alone is simply about self-importance. Engaging in dialogue with stakeholders in and outside of the Company and acting on the results from those conversations is how we earn the trust of society while ensuring the well-being of our employees. Therefore, I would like to continue to communicate the fact that employees must also prioritize dialogue as a starting point for action.

Maximizing the Intrinsic Value Possessed by Materials and People

The Toray Group's employees hold pride in manufacturing materials. I am proud to say that because finished products cannot exhibit their functionality without our materials, we support every industry and contribute to society, even if the products that reach the consumer do not display the Toray name. Having kept our focus on the world's markets throughout our history and having aggressively expanded overseas can also be considered to have had a potential impact on this feeling of pride.

The ultra-microfiber nonwoven fabric with suede texture covered in the value creation special feature in this Integrated Annual Report is just one clear example of how we developed, as well as created new markets for, a material that had not existed previously. I believe that the reason that all employees involved in this challenge, including R&D, production, sales & marketing, engaged intently was because the pioneering spirit that has served as Toray's DNA since its founding is so deeply rooted in our employees, and the passion and belief in manufacturing and market development has been passed down continuously. For Toray and the greater society beyond to achieve sustainability for the coming age and the next 100 years, however, we must transform the potential value possessed by materials into both economic value and social value. In order to realize this, every employee must be able to demonstrate their potential to the fullest as we design winning patterns through product and operational excellence. There is still much we as management must do to draw out and maximize the intrinsic value of materials and people, so I am committed to continuing with and devoting every spare moment to dialogue. We appreciate the continued understanding of our stakeholders.

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