

MMSO

To Our Stockholders and Investors



Maintaining a Sustainable Growth Trend

Surpassing the record high of the previous fiscal year, Toray's consolidated net sales increased 8.3% year on year, to ¥2,388.8 billion in fiscal 2018, the fiscal year ended March 31, 2019. From a profit perspective, however, operating income declined 9.6% compared with the previous fiscal year, to ¥141.5 billion. This was largely due to rise in raw material and fuel prices and the impact of such factors as the economic slowdown in China in the latter half of fiscal 2018. Looking ahead, the Company is projecting a return to both net sales and operating income growth in fiscal 2019.

Currently, Toray Group is in the third stage of its long-term corporate vision, "AP-Growth TORAY 2020." In specific terms, we are working on "business expansion in growth business fields," "expansion and advancement of global business," and "strengthening competitiveness," as growth strategies under our medium-term management program, "Project AP-G 2019." As far as efforts for "expansion and advancement of global business" are concerned, we are pushing forward the Green Innovation Business Expansion (GR) Project in a bid to help resolve global environmental as well as resource and energy issues, and the Life Innovation Business Expansion (LI) Project in an effort to enhance the quality of medical care, ease the burden of medical professionals, and contribute



Making the Most of Its Unique Attributes, Toray is Committed to Becoming a Truly Excellent Company

Akihiro Nikkaku
President

to the realization of a society where people live long and healthy lives. Complementing these Group-wide initiatives, we are also focusing on the creation of new businesses that will serve as the source of earnings in the new growth phase from 2020.

Why Target Net Sales of ¥3 Trillion?

When formulating our current long-term corporate vision in 2011, our goal was to achieve consolidated net sales of ¥3 trillion around 2020. We are taking definitive steps toward achieving this goal. We believe that net sales of ¥3 trillion as a materials manufacturer equates to the ¥10 to ¥15 trillion of end-consumer assembly companies in the automobile and home appliance industries. This level of net sales is also essential for Toray Group to announce its presence as a global excellent company in its chosen field. The fundamental value of an end product will not change without an innovative change in its material. In other words, the use of innovative materials can help significantly increase the worth of an end product. With a strong sense of mission, and the firm belief that “materials have the power to bring about fundamental transformations in society,” we are confident in our ability to achieve net sales of ¥3 trillion by continuously developing and commercializing innovative technologies and advanced materials ahead of the global competition.

Steady Increase in Long-term Corporate Value

In 2018, we formulated the “Toray Group Sustainability Vision,” which incorporates The World as Envisioned by Toray Group in 2050. Under this vision, we are looking to implement four broad initiatives: (1) accelerate measures to counter climate change, (2) realize sustainable, recycling-based use of resources and production, (3) provide clean water and air, and (4) contribute to better medical care and hygiene for people worldwide.

With the global population expected to increase to 10 billion by 2050, there are mounting environmental challenges such as the aging demographics in developed countries, climate change, water scarcity, and resource depletion, facing the planet earth. Recognizing that sustainability is a common issue of the utmost global importance in the 21st century, contributions by the corporate sector to help solve these problems through initiatives such as the sustainable development goals (SDGs) adopted by the United Nations, are attracting widespread interest. Against this backdrop, Toray Group has positioned “contributing to society” as the focus of its existence since its establishment and identified “contributing to society through the creation of new value with innovative ideas, technologies, and products” as its corporate philosophy. Consistently dealing with global issues, we are confident that our efforts in conjunction with global partners are enhancing the Group’s long-term corporate value with each passing year.

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Adopting a Long-term Perspective and Engaging in Management That Sets Up Programs to Address Issues

Today, discontinuous change at an extraordinary pace is considered a common occurrence. In reality, gaps are emerging between expectations regarding the pace of demand growth and long-term investments in research and technological development. There are instances where projected sales and earnings can no longer be anticipated. Because of our technology reserves built up over the past decade or two, we are confident that innovative materials can indeed be developed. In addition, materials possess unlimited potential. When in tune with the requirements of the era, we have on numerous occasions witnessed the birth of major new markets. Initially developed for a different purpose, high-performance films, for example, have been used for reflectors and in the polarizer production process as a result of the emergence of LCD televisions, as well as in touch panels following the increasing use of smartphones and tablets. The development of materials is both interesting and problematic, with a huge difference from the end product assembly industry when it comes to the diversity in application development.

Naturally, securing anticipated sales and earnings through targeted applications is basic to any management approach. Engaging in continuous investment and development based on an optimistic forecast is never a recipe for success. Given the limited nature of management resources, it is only natural and prudent that a company withdraw from a business that is detrimental to its corporate value. For a materials company, however, a business that is currently underperforming may still offer potential sometime in the future. While the pace at which earnings can be generated is a key factor, a more important point in determining the potential of a business is the existence or otherwise of long-term social value. For this reason, it is vital to maintain a long-term vision. Our management approach is therefore to identify short-, medium-, and long-term issues based on a long-term vision. My philosophy is to stay focused on the basics, visualize how the Company should be, and do whatever has to be done.

As for staying focused on the basics, we refer to efforts

aimed at leveraging our core technologies while focusing on growth markets where issues need to be addressed. The important point here is to identify and target business domains that offer considerable potential. To this end, we recognize the critical need to conduct thoroughgoing analyses of the competition and other key factors. Based on these analyses, we acknowledge the importance of putting in place a meticulous implementation plan that unifies the production, sales and marketing as well as R&D functions to steadily push the plan forward in conjunction with related parties. As a materials manufacturer, it is vital that we paint a picture of the future that includes Win-Win relationships with robust partners. Under its Group-wide management strategies, Toray Group crystallizes its 10-year, broad outlook into a long-term vision. At the same time, the medium-term management program is formulated, which identifies management issues that need to be resolved. For the next three years during the mid-term, efforts are made to solve the issues. Rather than putting in place a "plan" that is grounded in a set of numerical targets, our focus is on the medium-term "issues." In short, Toray Group management implements "programs to address issues," in the belief that forecast results and numerical targets will follow after solving each issue.

Intense Tenacity Helps Create Business Opportunities

Toray Group's intense tenacity is second to none. This attribute is also a feature in the Group's commitment to a "long-term continuity" approach. For example, the advent of an era in which carbon fibers, which are light, strong, and do not rust, would be widely used in the manufacture of aircrafts, was readily predictable. However, many companies withdrew from this field as a result of difficulties in securing profits in the short term. Under these circumstances, we discovered alternative applications for carbon fiber in the manufacture of such items as fishing rods and golf clubs. On this basis, we have tenaciously continued with the development of new technologies. More than four decades have now passed since these R&D efforts began. Today, carbon fiber composite materials are used as structural materials in the manufacture of all aircrafts. Application has also expanded to automobiles, and Toray Group's carbon fibers have forged an unwavering position as the market



leader. This “long-term continuity” approach, which serves as a wellspring for the creation of business opportunities, is not limited to carbon fiber. We are broadening this approach to encompass a wide variety of materials.

All Answers can be Found at the “Genba” (Workplace)

Toray Group’s commitment to a “Genba” (Workplace) approach is also a key defining feature. The very essence of Toray Group’s management is grounded in its comprehensive understanding of conditions at the workplace and the decisions made from a long-term perspective. The source of our competitive advantage is the ability to create value by drawing on the technologies and expertise accumulated at the workplace as well as our ability to evaluate multifaceted opportunities and risks based on a wealth of knowledge. By keeping a close eye on each workplace and understanding the true nature of activities, we are better placed to clarify what needs to be done and how to resolve issues. Our focus on the workplace is therefore maintained on a daily basis with important decisions, on whether to act or not and whether to continue or suspend operations, made in conjunction with onsite input. This approach to position workplace information at the heart of management is employed in the resolution of issues by all divisions and departments including production, sales and marketing, and research and technological development.

About the Plastic Free Movement

Despite signs of a growing global movement to go plastic free, plastics have historically helped enrich people’s lives. While recent debate tends to focus on the negative impact that plastics impose, it is imperative that attention is directed toward the issue of disposal and how best to promote effective use. We recognize the need to reduce plastic usage and the importance of advancing recycling across the entire supply chain while putting in place the necessary incentives.

As far as film packaging materials and the reduction of plastic usage are concerned, steps are being taken to lower the amount of use through thin-layer formation technology, the replacement of containers with films, and ongoing efforts to cutback food loss. From a recycling perspective, we have

been engaging in business activities that employ materials derived from the collection of PET bottles and paying particular attention to the recycling of carbon fiber reinforced plastic. Moreover, we are conducting research and development into plant-based bio-PET, working toward the production of various chemicals that use the cellulose from agricultural product residues as a raw material, and vigorously promoting the development of processing technologies for the manufacture of cellulose-derived sugar.

People-centric Management

Another noteworthy aspect of Toray Group is its “people-centric management.” Throughout our history, we have adhered strictly to the philosophy that “the success or failure of a company is decided by its people, and that employees shape its destiny.” Referring to the function of Toray Group’s inaugural production facility, the location of the Company’s foundation, Asahiko Karashima, as the first general manager of Shiga Plant also commented that “The Plant should be a place for the cultivation of human character. Companies should not only manufacture products, but also help develop human resources. People represent a key asset that is not posted to a balance sheet.” This concept remains a common thread throughout each generation of Toray Group’s management. Cherishing its employees, every effort continues to be made to instill a sense to loyalty and to enhance motivation. Making the most of this unique style of Japanese management, our employees are contributing significantly to the success of the Company over the long term. We are also seeing the growth of overseas employees who will guide our operations in the future. We are convinced that this is an extremely important factor that will help increase Toray Group’s long-term corporate value.

To this point, I have outlined details of the key concepts that underpin Toray Group’s corporate value: “long-term perspective,” “intense tenacity,” “Genba approach,” and “people-centric management.” I hope that all stockholders and investors evaluate the Company in light of these key words and ask for your continued support and understanding.

Akihiro Nikkaku

President