

# Top Statement



*Hitoshi Kawahara*

President and  
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**Aiming to be a company that seizes upon opportunities for change, transforms itself, and tackles issues facing society in the next generation: "For people and the planet."**

## Embracing challenges is essential for a company to evolve and grow

Since its founding in 1926, the Kuraray Group has strived both to achieve business growth and contribute to society. Our first President, Magosaburo Ohara, and our second President, Soichiro Ohara, through their ingenuity and hard work surmounted technical challenges to provide value to society. At the same time, stressing the importance of the Company's social responsibilities, they focused on addressing a variety of social issues, including labor and environmental issues.

This conviction has been passed down to the present day, as expressed in Our Mission: "We are committed to developing new fields of business using pioneering technology that improves the environment and enhances the quality of life throughout the world. 'For people and the planet—to achieve what no one else can.'"

The business of the Kuraray Group is manufacturing, centered on specialty chemical products created using our proprietary technology. Fulfilling Our Mission through our business activities requires us to generate innovation in step with the changing times. It is vital to maintain the outlook and the drive to embrace challenges without fear of small failures.

From the outset, the Kuraray Group has had an uninhibited, open-minded corporate culture. As the business has grown, though, a somewhat conservative mindset has begun to take root alongside that culture. It's wonderful to think things through carefully and take action to minimize risk, but in an era that changes moment by moment, such an approach alone cannot be expected to lead to significant new growth for the Company.

In implementing the Medium-Term Management Plan "PASSION 2026," a critical element will be collaboration across the Group, which calls for actions that transcend existing frameworks. Nothing changes overnight, but I sense that the mindset of our employees is gradually moving toward a greater openness to taking on challenges. While capitalizing on Kuraray's capacity for considering things carefully before acting, we will pursue a further shift in the mindset of all our employees, which will guide us in becoming a company that seizes upon changes in society as opportunities and responds agilely, while pursuing its own transformation as it continuously evolves and grows.

## Developing a growth strategy highly attuned to developments in the market

Looking at business performance in 2023, demand was down in the second half of the year and sales volume was sluggish in many of our businesses, yielding a decline in operating income. Market conditions are cyclical, however, we are sure to see a rebound in demand at some point. The important thing is to develop a growth strategy that takes into account the timing of such a rebound in demand and the future vision for the Group.

I try to consider the situation of each of our businesses by grouping them mainly into these categories: 1. businesses and products likely to see a return in demand that hold the promise of growth; 2. businesses and products likely to see a return in demand but that face difficulties in generating profits due to structural problems in the business area or industry; and 3. businesses and products that are seeing waning demand.

We expect a turnaround in demand in the Vinyl Acetate business, a mainstay segment, in the second half of 2024. To this end, we made various investments in growth. Among them, we started operations at our new water-soluble PVOH film plant in Poland in the first quarter of fiscal 2024. We also started operations at our new optical-use poval film production line at the Kurashiki Plant in the second quarter, ahead of schedule. By steadily tapping into demand, we aim to achieve the plan set out in "PASSION 2026" while also moving to start expanding at a pace that exceeds the plan.

In the activated carbon business of the Functional Materials segment, moves to tighten per- and poly-fluoroalkyl substance (PFAS) regulations, currently under discussion in the United States, are expected to gradually spread to Europe, Japan, and Asia. Anticipating this, we will develop and execute a clear blueprint for growth, including capital investment as well as acquisitions and other business expansion. We will take a similar approach to the dental materials area of the medical business, where we expect growing demand over the longer term.

The isoprene segment sees highly cyclical demand for GENESTAR™ heat-resistant polyamide resin and isoprene chemicals, and we anticipate ongoing adverse market conditions for the time being. However, we expect demand for GENESTAR™ to expand in the future in line with the shift to electric vehicles. Although the isoprene chemicals business has been hard hit by the current downturn in construction demand in China, we plan to steadily tap into rebounding demand. Meanwhile, in the elastomers business, we will move forward with a strategy of adding further value.

## Building a more sophisticated business portfolio that informs concrete business restructuring strategies

We evaluate our businesses using the two axes of social and environmental value and economic value, and consider market growth as we seek to build a more sophisticated portfolio. We assess social and environmental value using two indicators: the Kuraray PSA system, based on the Portfolio Sustainability Assessment (PSA) product portfolio evaluation method established by the WBCSD\*1, which offers a high degree of objectivity and transparency, and internal carbon pricing (ICP). We evaluate economic value using the twin indicators of earning power (operating cash flow) and efficiency (ROIC). During the first two years of "PASSION 2026," we used these indicators to identify businesses and products with high growth potential and competitiveness.

The next step will involve the Portfolio Strategy Department, which we established within the Corporate Management Planning Office in January 2024, taking the lead in determining whether to expand, maintain, downsize, or withdraw from businesses and products. We will pursue specific measures and allocate resources based on their findings. Resource allocation will include human capital as well as capital investment and acquisitions. Although the growth of a given business may not be feasible, we are looking to shift the many talented people

involved in it into businesses due to be expanded or maintained.

We have earmarked several businesses and products positioned for further growth or to strengthen the Group's foundation, including EVAL™ EVOH resin, PVOH resin, optical-use poval film, water-soluble PVOH film, advanced interlayer solutions, GENESTAR™ heat-resistant polyamide resin, activated carbon, dental materials, and VECTRAN™ liquid crystal polymer fiber. On the other hand, businesses that will be hard to maintain are those that offer little synergy or sense of ownership, even if they are currently profitable, and products that are not amenable to passing on the costs of raw materials when those costs rise. We plan to engage in more rigorous discussions regarding specific business restructuring and resource allocation at future meetings of the Board of Directors.

\*1 Abbreviation for the World Business Council for Sustainable Development.

## Transforming people and organizations through Our Challenges

The shift in mindset I mentioned earlier is incorporated into Our Challenges, which were laid out in the "PASSION 2026" Medium-Term Management Plan.

In terms of the first challenge, "Sustainability as an opportunity," we are taking sustainability as an opportunity for business creation and promoting it with the collective strength of the Group. In terms of "Innovations starting from networking," we will create a new growth driver by connecting people with people and technologies with technologies, both within and outside the Company. In terms of "Transformation of people and organization," we will work to transform people and organizations via digital-driven process innovation and the promotion of diversity, which will help us bring to bear a broad range of ideas.

All these themes apply to the whole Group, shaping our efforts to work together as "One Kuraray." Through collaborative exchanges that transcend divisions and organizations, we will foster a culture that encourages people to embrace challenge, in which employees stimulate one another.



Our  
Challenges  
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## Sustainability as an Opportunity

### Accelerating the reinforcement of sustainability as a critical management strategy

Under the theme of "Sustainability as an opportunity," we have summarized our sustainability-related measures in the Sustainability Medium-Term Plan, based on the material issues of the Kuraray Group. We are working off a "3P" model, grouping measures into three Ps: Planet, Product, and People.

Sustainability is a critical element for a company to survive and grow. We also need to step up our sustainability initiatives to better serve society. We hear the concerns of consumer-facing manufacturers. They recognize that sustainability is a pressing issue. But they note that far-reaching measures like cutting greenhouse gas (GHG) emissions—including Scope 3 emissions—will require massive outlays and take several years to implement. Addressing the demands of the market is not something that can be done overnight. So they are giving a lot of thought and trying out a range of different approaches.

The Sustainability Committee I chair, which has met every quarter, is a venue for discussing Kuraray's response to such sustainability issues. To appropriately address rapidly emerging developments, we plan to increase the frequency of these meetings in 2024 to make faster decisions and take swift action.



#### Planet

Achieving net-zero carbon emissions by 2050 is a long-term theme guiding the efforts of the entire Group. We will reduce GHG emissions by 30% in 2030 compared to the benchmark year of 2019. Until around 2026, we plan to keep emissions below the 2019 level while expanding our businesses.

GHG emissions were down by about 500 thousand tons-CO<sub>2</sub>e in 2023 against to the 2019 benchmark, reflecting lower production amid weak demand in the second half of the year. We expect emissions to begin rising in 2024 due to production increases and the operation of new equipment to meet future demand growth, but we will address this by promoting renewable energy, mainly at overseas Group companies. In the United States, we are also exploring carbon capture, utilization and storage (CCUS\*<sup>2</sup>), where the carbon is a by-product of coal-based activated carbon production. We formed a cross-organizational project team and are seeking to expand this initiative as a corporate project. While exploring CO<sub>2</sub> capture equipment, the project is also studying potential storage sites, with an eye to obtaining financial assistance under the U.S. Inflation Reduction Act (IRA).

\*<sup>2</sup> Carbon dioxide Capture, Utilization, and Storage: An initiative to utilize or store CO<sub>2</sub> separated from exhaust gas from industrial facilities.



#### Product

We use the Kuraray PSA system to assess products that contribute to the natural and living environments. In 2023, we completed assessments of products accounting for roughly 80% of Group-wide sales. We were also able to achieve a 56% sales ratio of such products in 2023, in advance of the 54% target set for 2024 under "PASSION 2026."

We are particularly looking to activated carbon and EVAL™ EVOH resin as businesses and products that can make a significant contribution to the natural and living environments.

Activated carbon aids in water and air purification and in the removal of PFAS. As I mentioned earlier, market expectations are rising here, especially in the area of water supply, as PFAS regulations become more stringent, especially in the United States and Europe. Virgin activated carbon is not the only major



strength of the Kuraray Group—we have also built a system to collect used activated carbon from customers and reactivate and re-supply it. The issue, however, is that the manufacturing process for coal-based activated carbon inevitably produces CO<sub>2</sub> as a by-product. We are moving ahead with CCUS initiatives to resolve this issue.

A characteristic of EVAL™, used as a barrier layer in food packaging materials, is that it is difficult for oxygen to pass through. The material is thus useful in extending the expiration date of food, helping to reduce food waste. Storing harvested grains and seeds in storage bags made with EVAL™ also prevents oxygen from entering, creating an environment in which microorganisms and pests cannot survive. This helps in maintaining the quality of grains and seeds and expanding supply. Another outstanding feature of EVAL™ is its ease of recycling. Amid mounting attentiveness to the importance of a circular economy, we are receiving increased inquiries about EVAL™, especially in Europe. This is due to the fact that this material is effective when only a small amount is used and because it does not interfere with the recycling of the base polypropylene and polyethylene materials. We therefore resolved to build a new EVAL™ production plant in Singapore in March 2024. The Kuraray Group is aiming to further expand its business as a leading company in EVOH resin and barrier materials, continuing to contribute to the natural and living environments.



## People

In the manufacture of products, increasing importance is being placed on the provision of positive working environments and the responsible sourcing of raw materials. In light of this international trend, we formulated the Kuraray Group Human Rights Policy, which incorporates measures for carrying out human rights due diligence. We will continue to progressively implement such due diligence.

Since the early 2000s, the Kuraray Group has expanded its business scale through overseas acquisitions. Respecting local autonomy, we have pursued a gradual approach to post-merger integration<sup>\*3</sup>, slowly but surely gaining worldwide buy-in to our mission: "For people and the planet." However, there have been delays in compiling the data needing to be standardized globally, which have prevented our personnel systems from keeping up.

We are currently developing a common global HR platform and talent data, and working to give greater visibility across the Group to employees who are candidates for key positions. Part of this effort involved setting various key indicators for 2024 to measure the progress of our actions, including diversity in management and key positions (ratio of women and foreign nationals), the rate of preparing executive candidates, and the rate of participation in global talent development and diversity and inclusion training.

In terms of our HR approach, since laws and customs differ depending on various locations, countries, and regions, there are obviously areas where local management makes the most sense. While maintaining a certain degree of flexibility, we will define facets of our personnel approach that should be common across the Group. I believe this balance is important.

We conducted our first global engagement survey in 2022 to gauge the mutual relationship between employees and the Company, but an analysis of the results showed that our management policies and measures had not achieved full buy-in in the various workplaces and that feedback from the front lines was not being properly taken into account. We take these findings seriously. Our first step is to gauge the actual situation on the ground, and then work to identify issues and pursue improvements in dialogue with various departments. We will continue to conduct surveys and share the Group vision with all employees to boost engagement and bring greater vitality to the organization.

<sup>\*3</sup> Post-merger integration refers to the process of integration after a merger or acquisition. It consists of three stages: management integration, business integration, and awareness integration.



Our Challenges

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## Innovations Starting from Networking

### Achieving new business creation leveraging the comprehensive strengths of the Kuraray Group

The top mission of the theme "Innovations starting from networking" is to create new businesses. In a context in which global circumstances and customer needs are changing at a dizzying pace, the Research and Development Division is taking the lead in pursuing essential innovation based on our core technologies, focusing on backcasting from a market perspective and exploring development that contributes to sustainability. Meanwhile, the key to cultivating new markets and creating new businesses is organizational collaboration, centered on the Innovation Networking Center, which acts as an accelerator for Group-wide innovation.

The approach of the Innovation Networking Center is to address social issues by leveraging the comprehensive strengths of the Kuraray Group at points of contact with customers and markets. By taking a bidirectional approach, both proposing research seeds and responding to market demand, we will intentionally increase opportunities for new business creation. INC brings together a diverse team of people with the backgrounds and skills needed to launch new businesses, including R&D, engineering, production processes, sales and marketing, and project management. Team members bring their skills to bear on each of our themes, creating a system that allows us to both embrace new business challenges and hedge risks by identifying them early on.

We engaged in discussions in 2023 regarding the six strategic areas where the Group is targeting innovation—Automotive, Paper & Packaging, Agriculture, Sports & Outdoors, Architecture & Construction, Life & Personal Care—and the ways we should seek to compete in these areas (innovation

strategy). We established priority areas and are working to strategically allocate resources to these areas as we seek to generate innovation.

We are currently pursuing action on more than 20 themes among the priority areas. In line with changes in the market environment, we will revise these themes as appropriate every year or two, changing themes as necessary.

### Our Challenges 3

## Transformation of People and Organization

### All employees will evolve into digitally savvy personnel, gaining a strong competitive advantage

The Kuraray Group set out a DX Vision in January 2022: "Improve competitiveness, continuously evolve, and contribute to the world as a digitally savvy company." Guided by this vision, we are pursuing digital transformation ranging from putting IT governance structures in place to taking concrete digital measures.

Digital technology is no more than a means to an end. Our ultimate goal is to capitalize on digital technology to transform the business model, address the issues we face, and achieve our targets. I realize we lag behind companies in Europe, North America, and China, but we are moving forward with actions in the confidence that we will catch up in the final phase of the marathon.

At present, we are carrying out a DX Talent Development Project as a step toward raising the level of digital literacy across the Group. There are three classes of digital literacy—Gold, Silver, and Bronze—and we are making sure that all employees acquire at least Bronze class certification, which equips them to harness digital transformation in their business operations. By assigning Gold class

personnel to each department to lead digital transformation projects and Silver class personnel to pursue digital transformation in collaboration with the head office, we aim to be a corporate entity in which all of our organizations are made up of digitally savvy personnel.

Furthermore, in 2023, we began exploring the cultivation of data scientists and other highly specialized talent.

### Developing core businesses with an eye to the next generation: "For people and the planet"

It is undeniable that the chemical industry is sometimes viewed in a negative light from the perspective of climate change and biodiversity. We recognize the need to develop technologies to reduce the negative impact the industry can have. Nonetheless, the chemical industry has a positive side as well: throughout the years it has solved a wide range of problems and contributed to the development of society. The industry holds great potential for the future.

In 2021 and 2022, although we were compelled to raise prices due to flagging demand amid the pandemic and soaring raw materials and logistics costs, our customers accepted the fact that our revised prices were an appropriate reflection of higher costs. To me, this once again brought home the fact that the products the Kuraray Group makes are essential materials that are truly indispensable to society. We will boost asset efficiency and earn profit as we continue to invest both in growth and in the environment and society, including in the reduction of GHG emissions.

The Kuraray Group has the power to create new things. My role is to develop our core businesses to enable the Group to carry out our mission in the next generation: "For people and the planet."

Beyond that, the Kuraray Group may well evolve from being a Specialty Chemical Company into a new corporate entity whose shape we can't yet imagine. However, no matter what kind of corporate entity the Kuraray Group becomes, we will continue to hold fast to our mission—"For people and the planet"—reflecting this commitment in all our businesses. By doing so, we hope to be an extraordinary presence in society.

To give our stakeholders a sense of confidence in the Kuraray Group, trusting that we are a company that can make hopes and dreams a reality, I will continue working hard to manage the business with integrity. I look forward to your continued understanding and support.

**Hitoshi Kawahara**  
President and Representative Director

