

Letter from the President



Toru Koyama
President

Creating a path to the future by offering solutions to environmental and social issues through cooperation with our stakeholders

Our mission is leveraging our expertise in rubber and plastics to help resolve social issues

Toyoda Gosei has been offering high-quality automotive parts with synthetic rubber and plastics using our rubber and plastic material technologies for more than 70 years. The word “Gosei” (synthesis) expresses our philosophy of creating new things with these materials. That mindset has been passed on to the present day.

Under the company creed of “Boundless Creativity and Social Contribution,” Toyoda Gosei’s mission is to promptly grasp society’s needs and help to solve social issues with the leading-edge technologies and products we have cultivated and contribute to a sustainable environment and society. This will lead to sustainable growth for our company. It is important for us to anticipate changes and social issues five to ten years into the future, form an image of how we can contribute solutions and the strengths we can leverage, and promote our business models and grow our company while enhancing our competitive advantages (▶P.20) (Value Creation Process ▶P.16).

For example, one of our longstanding goals has been a safe, secure, and comfortable mobility society by reducing traffic fatalities, as expressed in the section on materiality (▶P.22). Through this, our airbag business has grown to acquire the top market share in Japan and 4th globally.

In Toyoda Gosei’s first project to develop a driver’s airbag in the late 1980s, I was involved as one of its members working.

At that time, we had experience with steering wheels, instrument panels and associated material technology, but airbags were completely new to us. Our knowledge of vehicle occupant protection systems and other safety technologies was limited, and our evaluation and analysis technology was weak. The cornerstone of our project was the spirit of delivering the airbags needed by customers as quickly as possible and a sense of mission to “save lives.”

Airbags are effective when installed in vehicles. Accordingly, we worked to comprehensively overcome issues in conjunction with vehicle and seat belt systems after closely studying how they are used in the market through occupant protection performance in crash tests. Finally, we achieved mass production.

Since then, we have worked continuously to spread our airbags through efforts to lower costs and build a supply chain that achieves the same quality globally.

In order to further reduce traffic fatalities, we have been developing new airbags by leveraging our accumulated technologies and our global development and assurance system. With a sincere concern for safety, we have pursued the potential of airbags to reduce casualties and protect vehicle occupants through analysis of global traffic fatality data, repeated computer-aided engineering analyses and test trials, and much discussion with and numerous proposals to customers.

From this new airbag business development, I learned that helping to solve social issues and other issues leads to corporate growth. We will embrace the actual problems for many people and propose solutions based on market conditions. We will then spread solutions throughout the world while continuing to develop our technology. This will lead to the sustainability of our business. Our spirit of taking on challenges, our know-how, and the global network we have developed are the source of our present competitiveness.

Solving major social issues through cooperation with our stakeholders

Stakeholders have steadily rising expectations of companies to help solve social issues. For Toyoda Gosei, a manufacturer of polymer automotive parts, our next big challenge is to achieve carbon neutrality.

As we address this difficult social issue, it is important to cooperate with our stakeholders in order to improve problem-solving ability, competitiveness, and speed.

I myself became keenly aware of the importance of cooperation with stakeholders through the development of airbags. This is why I believe one of my important roles as a leader is to build relationships with all stakeholders involved in our business, including customers, suppliers, employees, and local communities. For this purpose, I will share the company’s future vision and direction, and align our ideas with them through continuous dialog to achieve corporate growth and help solve social issues.

With the transformation of automobiles and the dramatically changing business environment, it is more important than ever to demonstrate to stakeholders the company’s direction and to undertake our initiatives with a sense of urgency. As the leader of the company, I will clearly present our medium- to long-term business plan as a means to share and gain understanding of our initiatives and promote solutions to the challenges we face in creating a sustainable society.

Achieving our 2025 Business Plan

A look back on FY2021

In FY2021, it was difficult to ensure profits on a global basis. The spread of COVID-19 caused a global semiconductor shortage and opaque production fluctuations. There were also soaring prices and a tight market for raw materials, along with rising energy, transportation costs, and labor costs.

Even in this harsh environment, we have been urgently working on business continuity plan (BCP) management to provide stable and timely production and quality, the lifeline of manufacturing, to our customers. Specifically, we have implemented continuous improvements through regular discussions on BCP at management and board meetings, and we have enhanced our ability to supply customers even during material shortages brought on by political instability or COVID-19 pandemic. We do this by utilizing our global network to procure alternative parts and establish backup production systems. In addition, to ensure global optimization and rapid responses, we have been reviewing our organization to strengthen global information collaboration and internal controls at affiliates in Japan and other countries, and developing regulations and systems to ensure investment decisions and fund procurement to avoid loss.

We are now beginning to see challenges in terms of profitability. It is extremely frustrating that we were unable to secure profits commensurate with the recovering trend in sales. Profits decreased due to worsening materials market conditions in the Americas, one of our primary sources of revenue, and a lack of flexible response to production fluctuations. This was despite an increase in net sales from FY2020 with the recovery in production following the significant drop caused by COVID-19 pandemic and growing sales in our non-automotive business. In order to efficiently secure profits in the coming years, we will make significant efforts to shrink losses from variable costs by responding flexibly to material market conditions and production fluctuations, and to reduce total costs through thorough cost improvement.

We will continue to make concerted efforts to build a foundation for efficient earning. While exploring new ideas for manufacturing that go beyond precedent or convention, we are making efforts to utilize IT for rapid improvements through timely visualization of productivity, yield, and defects. We are also expanding smart factories globally with more efficient work styles, environments, and information management.

Over the past year, the situation of the automotive industry has been changing dramatically. Our main customer announced their BEV strategy, and the ongoing transformation of automobiles has accelerated significantly.

Taking these unprecedented changes in the automotive business as an opportunity for growth, we will seek to enhance our ability to make farsighted proposals centered on carbon neutrality and responding to the shift to BEVs (▶P.26). We will also enhance our corporate capabilities by planting seeds for the future and solidifying our management foundation.

Forecast for achieving our 2025 Business Plan

We have reached the halfway point in our 2025 Business Plan (▶P.32), published in 2018. We have been working toward our goals of achieving revenue of more than 1 trillion yen, operating profit ratio of 8%, and ROE of 10%. Looking back over the past four years, the business environment has changed more dramatically than we had anticipated. We have asked each employee to think and act on their own with a sense of ownership and to be united in working on our policies and business plans. These initiatives have begun to bear fruit, and sales revenue of 1 trillion yen is now within sight. The safety systems business, a growth driver for the company, is spurring sales and earnings, and our other automotive businesses are focusing on regions where they can grow.

Meanwhile, there are a number of issues to be addressed in our commercialization of new technologies. Although the development of LED-related products for consumer use has progressed to a satisfactory level, the commercialization of new material-related products has been delayed due to a lack of maturity in the technology and weak commercialization strategies. We believe that a review is necessary. Through a re-evaluation of our new value creation development process since last year and our CVC activities (▶P.30), we have been supplementing areas where we lack technology or knowledge to promote early commercialization.

FY2022 is a year of preparation for our final push to achieve the 2025 Business Plan. We are taking early action on issues to achieve these goals, and allocating management resources to carbon neutrality and new businesses, which are growing markets and fields, with an eye to the future. We will work for corporate growth with effective and maximum utilization of our resources.

Strategy by Segment/Business Field

Business field / Segment	SS Safety Systems	IE Interiors and Exteriors	FC Functional Components	WS Weatherstrips	New Technology	Total
Japan	→	→	→	→		→
Americas	→	→	→	→	→	→
Asia	→	→	→	→		→
Europe	→	→	→	→		→

To achieve sustainable growth in today's changing environment, it is important for existing businesses to take an aggressive posture in continuing to change

Toyota Gosei has maintained a leading position in automotive parts made of rubber and plastics.

To achieve sustainable growth in the midst of the recent major environmental changes, we need a “cycle of corporate growth” to ensure profitability. This includes reviewing our business and product portfolio and further evolving our existing designs/materials and manufacturing capabilities, developing new products based on these management resources, and sending them to the market. Without an aggressive posture, we will not be able to maintain our position as a leader in this field, and will have little prospect of further growth.

In the SS business (▶P.34), a growth driver for Toyota Gosei, we will take an aggressive approach to new product development with the aim of capturing the top market share. In India, where the automobile market is expected to grow, we will strengthen our development and production systems and further enhance collaboration with business partner Daicel Corporation in order to respond to the coming shift to 6 mandated airbags for passenger cars by law. To ensure that we do not miss any business opportunities, we will implement winning business strategies such as local procurement of components. We will also implement sales strategies to meet a wide range of customer needs by proposing collision safety systems that optimize airbags and seatbelts as a whole to increase our market share. To further improve safety performance, we will expand high-performance far-side airbags, develop high impact-absorbing airbags for BEVs, and propose steering

wheels that incorporate advanced design and high levels of safety.

Even as vehicles change, we will continue to improve the safety technology of our airbags to address the social needs of protecting as many lives as possible in traffic accidents and providing safety in a timely manner to users around world.

In the IE business (▶P.35), we aim to further grow sales by strengthening our products and production engineering to reliably meet changing design and function needs associated with the shift to BEVs and autonomous driving. Examples in exteriors are stylish products that transmit millimeter waves, light, and sound, and the development of environmentally-friendly materials and decorative technologies. In interiors, we will make timely proposals for new products that leverage our accumulated technologies, focusing on next-generation interiors such as functional LED lighting and thin instrument panels that integrate airbag technology.

The FC business (▶P.36) requires the most flexible response to market changes. We focus on the development of next-generation cooling pipes for BEVs and hydrogen tanks for FCEVs to keep up with the wave of change. At the same time, we are developing a production system that can handle the shift from gasoline to electric vehicles.

In the WS business (▶P.37), more advanced technology is needed to reduce driving noise more than engine noise with the move to BEVs. We will propose products with improved quietness performance with our expertise in rubber materials cultivated over 70 years.

Toyota Gosei's identity lies in a high level of knowledge of rubber, plastics, and other polymer materials, and accumulated experience in new business development,





including LED and airbag products. We hope to further refine the technologies developed and passed on to us from our predecessors and contribute to solving social issues through the creation of new value that goes beyond the framework of automotive parts.

Using our strengths to maintain coexistence between the environment and polymer materials

The world has become keenly aware of the importance of tackling environmental problems on a global scale. Environmental problems caused by plastic and rubber waste are being closely watched around the world. It is also true that we cannot go back to manufacturing without polymer materials. Recycling and effective utilization of rubber and plastic materials have become crucial for the positive coexistence of the environment and polymer materials.

Toyota Gosei's extensive knowledge in rubber and plastics, compounding technologies, and using these materials to full advantage can lead to major business opportunities without adversely impacting the environment. Currently, we aim to expand material recycling, including recycling of waste materials and utilizing recycled materials in our products. If a company can establish green technology in the areas of rubber and plastics, it will open up a whole new world of business opportunities. We are collaborating with other companies on material recycling to make it into a viable business as soon as possible.

In addition to material recycling, we are making a wide range of other initiatives, including reducing the amount of materials used, improving yields during production, and substituting with bio-materials. We aim to become the leader in carbon neutrality among polymer automotive parts manufacturers by making major changes in design and production engineering and cooperating with our suppliers.

Leading the Toyota Gosei of today into the future

We are rapidly accelerating our sustainability activities. Last year, we launched a new Sustainability Meeting to discuss global issues presented in the Sustainable Development Goals (SDGs) and management issues related to the environment, society, and governance from a medium-term perspective. The presence of outside directors and outside Audit and Supervisory Board members helps to ensure that our supervisory functions work well and that balanced policies are agreed upon and implemented. We will continue to take the lead in

sustainability activities in order to lead Toyoda Gosei into the future.

Environmental activities are one part of the ESG concept, the foundation of management. For about 30 years, we have been sincerely committed to reducing CO₂ emissions and protecting the environment, by setting specific activity goals every five years. Since last year, we have been working toward our 2025 mid-range targets. This increases the feasibility of a 50% reduction in CO₂ emissions and 50% use of renewable energy (Targets 50 & 50) by 2030 and achieving carbon neutrality by 2050. We will evolve as a leading company for carbon neutrality in the field of automotive rubber and plastic parts. We can accelerate industry-wide initiatives for carbon neutrality and a circular economy by more quickly building a track record of activities targeting Scope 3 emissions and spreading that positive impact throughout the auto parts industry. We also want to contribute to clean hydrogen energy societies (▶P.28) through our hydrogen tank technology, and continue our efforts to leave a safe global living environment for future generations (Environment Initiatives ▶P.42).

Since last year, we have also strengthened our initiatives to enable activities by a diverse workforce. We have always respected each and every one of our employees, and have tried to make it possible for them to display their maximum abilities. With the establishment of a new Human Rights Policy, we hope to promote a culture of mutual respect throughout the Toyoda Gosei Group and extending to all other stakeholders involved in our business activities. The world is entering a period of major shifts in the social environment, with declining birthrates, aging populations, diversifying work styles, and changing values. We see this as a turning point in our efforts to improve our corporate capabilities, and we are examining and implementing personnel policies from various perspectives to ensure that employees with diverse ways of thinking and talents will respect each other and display their maximum individual strengths. This will lead to business growth opportunities and effective responses to corporate risks based on new perspectives. Since each employee needs to acquire skills that meet the needs of the times, we are also putting greater emphasis on the reskilling necessary for the DX that is currently underway at Toyoda Gosei and the generation of new business ideas. Employee job satisfaction and motivation are also crucial to these activities, and so we conduct employee engagement surveys to obtain their true opinions, which we link to company policies and workplace improvements with the aim of creating vibrant and energetic workplaces (Social Initiatives ▶P.54).

To continue as a company of integrity, a cornerstone of our company, our governance system must constantly change and evolve in response to the circumstances of the times and the opportunities and risks we face. Last year, in line with revisions to Japan's Corporate Governance Code, we

reviewed the operation of the Board of Directors and other functional bodies. We will make global initiatives to build a foundation for sustainable increases in corporate value by developing an Internal Control Committee in addition to a new internal audit status report to manage and correct corporate risks in an integrated manner. Compliance and risk management, which have been handled individually, will also be discussed from multiple perspectives (Governance Initiatives ▶P.68).

To our stakeholders

The world is going through chaotic times, with political instability, escalating environmental problems, and the spread of COVID-19. The automotive industry is also undergoing a huge transformation. Even in this uncertain business environment, we are leveraging our management resources and core competencies with a sense of integrity to continue achieving sustainable growth.

We strive to be a company that contributes solutions to environmental and social issues and moves into the future by working together with our stakeholders and partners who share and understand our initiatives. For this purpose, the entire company is united in taking on new challenges with energy and enthusiasm.

We would like to ask all of our stakeholders for their continued understanding and support.

Toru Koyama

President
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Photo taken at Toyoda Gosei Memorial Gymnasium (ENTRIO)

Entrio was opened in September 2020 with the concept of being a place that would bring people together through sports, make them smile, and energize them. In addition to hosting the official games of Toyoda Gosei's sports clubs and internal company events, it creates excitement and contributes to a sustainable society as a meeting place for people and people, people and companies, and companies and companies.

Origin of the name ENTRIO

The gymnasium was named for the three "en" (connections) of work, community, and sports that we treasure as we support each other and grow, and "trio" meaning three.