

## Message from the President

**KOBUNSHI\*** is the keyword guiding us as we create new mobility solutions and build a robust management base.

### Katsumi Saito

President, CEO

\* "KOBUNSHI" is the Japanese word for "polymer," symbolizing the connections within Toyoda Gosei's businesses and organization.

**ONE TEAM,  
ONE TG.**



## Transformation Begins with Dialogue

On assuming the role of president in June 2023, it was my duty to envision the direction for the Company to achieve sustainable growth and development. This culminated in the announcement of our medium- to long-term management plan, 2030 Business Plan, in August last year. To foster understanding and engagement with this plan among our approximately 40,000 global employees, I began visiting our domestic and international Group companies, holding dialogue sessions to discuss our vision. In November, we also held a Global Summit, bringing together around 130 leaders from across the Group. Through open and multidirectional communication, we engaged in candid discussions on the strategies and initiatives necessary to achieve our management target. This focus on dialogue, something I deeply value, allowed us to come into alignment on our future direction and helped each individual feel personally invested in our collective vision. The vision set forth in the 2030 Business Plan is to become a company that pursues the possibilities of polymers to contribute to a future of better mobility and living. Our Company traces its roots back to a rubber research division within the Toyota Group, inheriting foundational expertise in polymer materials, including rubber and plastics. We have grown by refining our manufacturing techniques, skillfully manipulating and bonding polymers, as well as through advancements in equipment and mold technologies. We will continue honing our strength in polymers, fortifying it as the foundation for business growth. By introducing the concept of a “polymer-like organization,” we will extend the polymer principles we’ve cultivated in business to people and organizations. This concept reflects my aspiration for a flexible organization that values individuality and drives management innovation. Having long worked in human resources, I am convinced that people and organizations are the essence of a company’s strength, so laying a solid foundation in these areas is essential to building a successful company. During the dialogue sessions, I frequently received questions like, “What does a polymer-like organization look like in practice?” Without providing a direct answer, I encourage each individual to think and act independently, based on their roles and perspectives. I also explain that valuing each person and fostering a mutually stimulating environment enhances the organization, and the key to that is dialogue. Currently, we are advancing dialogue initiatives in various regions, including the Americas, India, and ASEAN. For example, polymer-inspired activities have been launched under the slogan “Break down silos” and are transcending regional

boundaries. I look forward to seeing these exciting initiatives expand further within each division and region.

## Speed and Regional Autonomy: The Key to Growth

### Environmental Changes

The business environment surrounding the entire automotive industry is undergoing significant and rapid transformation, led by developments in BEV. While Chinese automobile manufacturers are experiencing rapid growth and significantly expanding their BEV market share, particularly within China, Japanese automobile manufacturers are seeing a decline in production volumes. In response, we are focusing on expanding sales to these emerging Chinese automobile manufacturers in BEV-advanced markets, while also optimizing our production scale with an eye on the future of existing business. This will allow us to use our management resources efficiently and enhance our competitiveness. Although BEV sales have temporarily stabilized recently, we believe that global BEV adoption will continue steadily over the long term. In line with this trend, we anticipate that our main customers (Japanese automobile manufacturers) will develop their own BEV growth strategies. We aim to support Japanese automobile manufacturers, and ultimately Japan’s automotive industry as a whole, as a global supplier by enhancing our manufacturing strengths in areas such as quality, soundness, advanced manufacturing technologies, and environmental innovations. To achieve this, it is essential to transform our management approach, and I am personally committed to this goal. Two years ago, we introduced CxO roles centered on our global core functions to establish strategic business development within a polymer-like organization. To enable rapid and dynamic deployment of this strategy, we have shifted from a Japan-centric model to a globally decentralized structure, granting partial authority to regional operations to encourage regional autonomy. Additionally, we have promoted the Center of Excellence concept to support this strategic shift.

### Promotion in Overseas Regions

Establishing a framework for swift product development and customer proposals tailored to each regional market is key to enhancing our competitiveness. Responding to the needs of BEV-leading automobile manufacturers and the rapidly growing Indian market will require us to take action more rapidly than ever before to carry out development targeted at regional demand. Since the end of last year, we launched the Global Technical Conference, in which our CTO and CSMO collaborate



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with regional teams to concretely define sales and technology strategies for expanding our presence in each region. Through this initiative, we are enhancing technological collaboration across regions and executing strategies with a strong sense of urgency.

### Delivered Value for Further Corporate Growth

In addition to contributing to the spread of new mobility, as a company that primarily uses petroleum-based resources, we view our role in supporting decarbonization as part of our value proposition to society. Our initiatives are centered on safety, comfort, and decarbonization.

To promote safety and comfort, we have long worked to reduce traffic fatalities through a range of airbag products as part of our focus on safety systems. As motorization progresses in emerging countries where traffic accidents may increase, we aim to promote the adoption of airbags and develop new safety devices and technologies that protect people in diverse accident scenarios, ultimately reducing casualties from traffic accidents.

BEVs and autonomous driving are becoming more widespread, so vehicle structures and passenger postures are expected to change significantly, with increased safety demands for pedestrians, cyclists, and other road users. As mobility diversifies, staying attuned to a wide array of consumer needs and responding to the evolving landscape of automotive technology will allow us to enhance safety and comfort, one of our core values, through the development and provision of advanced occupant protection products. We are aiming to become a comprehensive systems supplier for safety systems (including airbags, steering wheels, and seat belts) and increased our investment in Ashimori Industry Co., Ltd. in November 2023 to help achieve this. This partnership lets us take an integrated approach, leveraging complementary airbag and seat belt technologies and maximizing each company's assets. In June, a former executive of our Company assumed the role of president at Ashimori Industry Co., Ltd., promoting synergy through shared expertise in management, manufacturing, and other areas of the value chain.

To help improve comfort in interior and exterior components and weatherstrip products, we are adapting to changes in vehicle structure due to BEVs by linking interior and exterior components with safety systems. This integration aims to offer new features, such as thinner instrument panels and illuminated components. As one of the few manufacturers handling not only steering wheels and airbags but also interior

components, we leverage our strengths and polymer technologies to create uniquely comfortable environments that appeal to passengers' senses and improve energy efficiency. To achieve this, we are advancing and accelerating development technologies through our polymer-like organization initiative, transcending traditional business and organizational boundaries.

In our decarbonization initiatives, we are leveraging our extensive expertise in rubber and plastic to develop eco-friendly, high-performance materials, advance the development of our own products, and promote material recycling, enhancing our delivered value. Achieving carbon neutrality and a circular economy will require collaboration across the entire value chain to maximize our impact on society. Europe has taken the lead with related regulations, such as the ELV directive, which governs recycling and restricts hazardous substances. This shift provides an opportunity for us to build resource cycles across the supply chain through polymer technology, such as easy disassembly design and material recycling. Alongside activities in competitive areas like quality and technological innovation, we are also focusing on collaborative efforts to build societal systems for resource recovery, aiming to contribute to a decarbonized, recycling society and pursuing sustainable growth. Hydrogen will play a vital role in achieving carbon neutrality, and we are now seeing large-scale support for hydrogen implementation in regions like Europe and the



Under the banner of ONE TEAM, ONE TG, we vow to make the 2030 Business Plan a reality



We held a dialogue session with young employees and engaged in candid exchanges of opinions



U.S., including the expansion of hydrogen supply networks. In Japan, the Hydrogen Society Promotion Law will take effect in October 2024, and is expected to accelerate R&D, infrastructure development, and the use of hydrogen. For hydrogen vehicles, infrastructure considerations and cost efficiencies suggest that large commercial vehicles with defined routes may lead initial adoption. We currently produce high-pressure hydrogen tanks for Toyota Motor Corporation's MIRAI fuel cell vehicle and Commercial Japan Partnership Technologies (CJPT) vehicles, driving innovation to secure future orders. With inquiries from both domestic and international markets, we feel confident that our hydrogen tank business will become a key pillar supporting sustainable growth. Beyond the automotive sector, demand is emerging from other sectors such as industrial machinery, shipping, and rail. In April 2024, our hydrogen energy tank was fitted onto Japan's first hydrogen-powered passenger vessel, its first practical implementation in this application. We consider our hydrogen tank business a crucial area in our drive toward a decarbonized society and aim to provide value through a broad array of product offerings.

## To Remain a Company of Integrity

### Commitment to Quality

Recently, fraudulent actions in certification applications by domestic automobile manufacturers have come to light, sparking serious concern. At our Company, an investigation into past activities confirmed that no such issues were found in our product certifications. However, seeing this kind of misconduct reinforces the importance of establishing a corporate culture where psychological safety and open dialogue are prioritized. Following last year's issues in the automotive industry, each division head engaged directly with employees in regulatory and performance evaluation roles, listening to their challenges in real-time, including test evaluation and performance evaluation. I, too, held dialogues with employees, gaining candid insights into various concerns. Among them were concerns on aging testing facilities and evaluation process, and with labor and management together, we have already started addressing these concerns and are monitoring their effectiveness. Recognizing that this requires ongoing attention, we held a second round of dialogues this fiscal year to ask employees directly, "Has the culture or mindset shifted?" and "Are there any new challenges?" We are committed to continuous dialogue to foster a workplace where employees can work with pride and peace of mind, delivering quality products to our customers. We will continue to invest the necessary

time and resources into essential safety and quality initiatives, always striving to improve the workplace environment to maintain a reputation of integrity and trust.

### Sustainability Initiatives

Our core strength lies in our advanced polymer materials, yet these rely on petrochemical resources that contribute to resource depletion and greenhouse gas emissions, which are linked to global warming. To deepen our commitment to decarbonization as part of our 2030 Business Plan, we have accelerated our goal of achieving carbon neutrality in Scopes 1 and 2 emissions, moving our target from 2050 to 2030.

Greenhouse gases primarily arise from processes such as molding, coating, and plating. We are implementing a detailed component- and process-based analysis of CO<sub>2</sub> emissions for each product to identify the most effective ways to reduce emissions through innovations in materials, processes, and equipment. Alongside ongoing energy conservation efforts, we are advancing our production technology innovation on a global scale to meet this ambitious goal. Internally, our environmental awareness has grown, leading to initiatives such as our business idea contest, where employees propose new environmentally-conscious business concepts. By integrating our core polymer technology with environmental preservation, we aim to drive sustainable growth.

As we expand our presence globally, effective global talent management is essential. Of our approximately 40,000 employees, around 80% are local hires from overseas, a proportion that will continue to increase. To ensure that each individual can realize their full potential, we are building a structure based on our human resource portfolio, with a stronger focus on developing local staff for leadership roles. By fostering regional autonomy, we aim to establish a management framework led by local talent, ultimately enabling swift decision-making and dynamic business operations driven by regional leadership.

Our workforce is predominantly comprised of individuals with expertise in automotive parts technology, manufacturing, and sales. However, we recognize a need for talent with experience in launching new business ventures and advancing DX, areas where we are currently under-resourced. To address this, we are leveraging our Corporate Venture Capital (CVC) investments to support talent development and encourage transformative change among employees. Through our CVC, we are actively investing in several start-ups that align closely with our core technologies. We hope that employees who gain experience in these innovative environments will bring back insights to catalyze change in our work



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culture and operational approach. In June 2024, we appointed three new outside directors with skills in new business development and DX. Their high-level perspectives and expertise have provided valuable guidance, contributing to our strategic supervision and accelerating our progress in these areas. Regarding governance, discussions in our CxO meetings have enhanced pre-decision frameworks, significantly speeding up company-wide decision-making. As of June 2024, the ten members of the Board of Directors, which is the core of corporate governance, includes five outside directors. Outside directors, with diverse backgrounds and experiences that cannot be gained in our Company, make up the 50% of the Board of Directors, which broadens the scope of our discussions. We are already receiving insightful suggestions and feedback from these directors, and we are committed to sharing relevant information to deepen their understanding of our Company.

## Achieving the 2030 Business Plan

The auto industry is undergoing a major transformation. The future is unclear and difficult to predict due to changes in people's values, worsening environmental and social issues, geopolitical risks, and other factors. Amid these challenges, we have set management targets of 1.2 trillion yen in revenue, 100 billion yen in operating profit, an operating profit ratio over 8%, and an ROE above 10%. Central to reaching these targets is adapting to new mobility solutions, including BEVs. This year, we have actively promoted our products at new product exhibitions and through PR efforts at overseas bases, generating numerous evaluations and business opportunities from domestic and international automobile manufacturers. Expanding our reach to local manufacturers in overseas markets is one of our priority measures, and we are making progress with orders for new vehicles entering the market. We will continue proposing solutions based on our advanced polymer technology to a diverse range of customers, including emerging automobile manufacturers, with an assertive, forward-looking approach. With the accelerating development of BEVs, we anticipate more specific requests from our customers. BEVs, equipped with cutting-edge technology, often incur higher costs than traditional internal combustion engine vehicles. Therefore, enhancing added value while reducing costs will be crucial to creating vehicles that satisfy users. For instance, integrating the front module can improve fuel efficiency and vehicle performance

while simplifying assembly processes and reducing design time for automobile manufacturers. The lack of engine noise in BEVs also increases the demand for quietness features to minimize external noise. To enhance product value in line with these changes, we aim to advance our IPL strategy to differentiate ourselves from competitors, prioritize key products, and identify the right timing for development.

Cost reduction through innovation in manufacturing is equally essential. Specifically, making production processes smarter and more automated will also address the global challenge of securing skilled personnel. We plan to increase our FY2024 capital investment by approximately 10 billion yen to 60 billion yen. By optimizing personnel allocation, utilizing IoT for quick defect analysis, reducing production lead times, and lowering energy consumption, we expect these investments to be highly profitable and effective as strategic investments for the future.

As we experience this Fourth Industrial Revolution, we recognize that advanced technology-driven automation is vital means of enhancing our competitive edge. At our Thailand facility, we proactively anticipated rising labor costs and focused on cost-effective automation through karakuri technology and collaborative robots. Through continuous trial and error, we have steadily accumulated both technology and know-how while developing skilled personnel. We refer to this as smart automation and are now expanding it globally to further enhance our manufacturing capabilities. This initiative epitomizes our Center of Excellence strategy, where the independent efforts of local national staff are reflected in our global operations, laying the foundation for a multi-polar management approach.

Our 2030 Business Plan places a strong emphasis on the Americas, a region showing steady growth. Although a significant increase in vehicle sales may be unlikely, our added-value propositions through superior QCD (quality, cost, and delivery) are helping us expand business with Detroit's Big Three: GM, Ford, and Stellantis.

India is another promising market with its growing population and economic development. To achieve business growth exceeding market expectations, we see high-productivity capacity expansion, driven by the smart automation developed in Thailand, as essential.

Expanding sales to local manufacturers, particularly through product proposals to companies like TATA, and supporting the Make in India initiative through local procurement are also crucial strategies. With India's high rate of traffic fatalities, awareness of automotive safety is rising. As demand for our safety system products is expected to grow further, we are committed to strategically investing, expanding operations, and fostering talent in response to this demand.

In China, the slowdown in economic growth has led to reduced domestic demand and intensified price competition among automobile manufacturers. Anticipating a consolidation of companies in the Chinese market in the future, we are closely monitoring the strategies of Japanese automobile manufacturers in China while establishing an efficient and flexible production system to mitigate the risk of declining sales. We are also aiming to enhance alliances to enhance our technological capabilities and responsiveness, expanding our reach to high-growth Chinese automobile manufacturers.

## Enhancing Corporate Value

In FY2023, we achieved a record-high revenue of 1 trillion yen and an operating profit of 67.7 billion yen, with an operating profit ratio of 6.3%, driven by increased production among major clients.

Moving forward, we are targeting an 8% or higher operating profit ratio as outlined in our financial objectives in the 2030 Business Plan. To achieve this, we will actively invest in high-growth fields while focusing on ROIC across our business units and regions. We will also address low-revenue areas and reconfigure our business portfolio. To support sustainable growth in priority businesses and regions, we plan to increase investments in R&D and human capital, as well as pursue strategic M&A and alliances to achieve our financial objectives.

We updated our shareholder returns policy from a 30% or higher payout ratio to a minimum DOE (Dividend on equity

attributable to owners of parent) of 2.5% starting in FY2023. Additionally, we will continue flexible shareholder returns, such as the purchase of treasury shares that was completed in November 2023. We aim to enhance capital efficiency and maintain a stable, long-term total shareholder return (TSR) that exceeds the cost of equity attributable to owners of parent.

## To Our Stakeholders

Reflecting on our 75th anniversary, I have spent this past year considering what I must achieve as the new president to lead our Company toward a future of sustainable growth. Ensuring business growth and development is a core part of my role as president, but that alone is not sufficient. As seen with recent automotive industry issues, if the management base stops emphasizing safety and quality, the very survival of the company could be at risk. My mission is to foster open dialogue with management and employees, establish a shared vision, and embrace change as we move forward together, ensuring our Company achieves sustainable growth and development in the future. By setting a clear path and empowering the next generation, I am committed to leaving a strong legacy for the future. To all stakeholders, I sincerely appreciate your continued support.

**Katsumi Saito**

President, CEO

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