

Message from the President



Takashi Shimizu

Representative Director,
President & CEO

Strengthening our presence as we step on to the next corporate stage

Can you share your thoughts on the release of the integrated report?

Showing where we are with management reform and business operations

In 2021, we embarked on the Medium-Term '21 Plan, our five-year medium-term business plan. At the heart of this plan lie business strategies that seek to improve the quality of what we do rather than to pursue quantitative growth. In parallel to that, it also aims to strengthen the foundations of the Group's management in many areas. The Medium-Term '21 Plan shows our determination to move up a gear with these transformational changes as we step on to the next stage.

The plan is our declaration that we are going to merge

business and sustainability over this five-year journey, which means playing our role in making a sustainable society a reality by creating social value as well as economic value through our business endeavors.

An integrated report is an important tool to help our stakeholders understand where we are in our ongoing management reform initiative, and I feel that the publication of this first report is in itself a significant step that symbolizes the transformation we are going through.

The significance of the underlying Philosophy

At the start of the Medium-Term '21 Plan in April 2021, we established the Sustainability Committee, which reports directly to the Executive Committee, and I assumed the role of its chair. The Executive Committee is the highest decision-making body in the Group, to which matters on corporate management are referred. It is immensely significant in our history that our new, seventh special committee is one that has been specifically tasked with sustainability.

In the first year of establishment, the committee spent considerable time in discussions to develop the basic policy that would set the course for our sustainability

action, identify the material issues we should prioritize, and draft the action plan, targets and KPIs linked to the materiality.

When defining the basic policy and materiality, our key focus was to ensure that they were connected with our Philosophy. This is because it is important that we face sustainability challenges without losing sight of what makes us the company we are, and it is therefore essential that our sustainability actions are underpinned by our Philosophy, which expresses our purpose. We believe that this connection will enable us to merge sustainability and business.



Engaging in dialogues with our stakeholders to further explore what our integrated report should be

Stage to demonstrate our potential

We see our integrated report not merely as a medium but as a theater stage on which we have an important job of showing to our stakeholders the value we are seeking to create, the capacity we have and are building, and our potential as a company.

The awareness of sustainability issues within the organization has significantly and tangibly grown even compared to just two years ago. However, despite the emerging linking of awareness to action, it is hard to map out what sort of business we will be engaged in in ten, twenty or thirty years from now or what value we will be able to provide to society while earning profits, when the business environment we are facing in the short term seems unclear. We have realized that it is not going to be an easy task to express in words our vision of the future of business and sustainability.

In the end, we believe that we have succeeded in providing a systematic overview of our business

processes based on the business strategies defined in the Medium-Term '21 Plan, as well as our strengths and weaknesses, and presenting a clear picture of how our business operations are linked to sustainability issues in this report.

We have also been able to show how our business activities generate not just financial results or products and services but wider outputs, which bring outcomes that impact on capital in the form of social value, and how this capital can in turn be leveraged in our business operations. I believe that the work we undertook to produce the report has been vital in merging business and sustainability.

We hope that the readers will be able to observe our value creation processes in our first integrated report. To us, this report is not a finished product but the starting point. We look forward to engaging in dialogues with our stakeholders to further explore what the report should be.

implement them. This change had a major impact on all parts of the organization, affecting the way tasks on the shop floor and frontlines of our business were carried out, and this made the Group more responsive and agile. The financial result of the second half of fiscal 2020 reflects the benefit of the change, and I understand it also had a positive effect on the process of developing the Medium-Term '21 Plan, which was going on at that time.

Since the reorganization in 2017 to create a function-based organizational structure, we have aimed to be a company where production, sales, R&D and corporate functions work as one to improve our strength. Functions are placed in a flat hierarchy, directly reporting to the

President, so that they can share information and challenges in a timely manner and work collaboratively. It seems that the pandemic unexpectedly helped to bring the functional units closer and strengthen our organizational foundation.

This meeting body, which started as an emergency response, is still continuing as one of the good habits we acquired back then, under a different name that reflects the permanent position it holds today. It is a place where the top team can pick up management issues early as they appear and discuss how to respond. It has become embedded in the Group as a unique feature of our management style.

Sharing the idea of how we should be

The current state of the Group's management performance and governance will be made public so that the information can be assessed against the commitments stated in the Medium-Term '21 Plan as the central core of our business strategies. For details, please refer to the financial results to be announced officially along with the materials explaining the current status of the Plan. Here, I would like to touch on my vision of how the Group should be, as well as the strengths of our portfolio.

The key concept of the Medium-Term '21 Plan is to achieve qualitative transformation rather than making everything new or aiming for a spectacular growth, as we define these five years as an important period to prepare for the move to the next stage. Internally, I have presented three key concepts of our future direction that everyone needs to understand.

The first is to work on our strengths to further enhance them. This applies, for example, to our presence in the North American market, which I will explain later.

Solidifying this existing strength is an obvious approach we should take. The second is to demonstrate how "leanness" can be a strength. We should not see limited resources as a negative and instead see it as being unencumbered and turn it into our strength. Or we can be nimble by actively using external resources and turn it into our unique strength. This can be one of the ways of our being. The third and last is to internalize changes and evolve. This means thinking outside the box and challenging ourselves to achieve transformation in order to solidify all the bases we have left untouched until now.

By indicating the direction of travel simply and clearly, we have ensured that the entire Group understands the tasks ahead and that everyone's thinking is aligned. We have been able to establish across the Group a shared understanding of the way forward so that everyone is motivated to implement the Medium-Term '21 Plan and drive it strongly.

How do you rate the progress of the Group's management?

Closer collaboration between organizational functions

At the end of 2019, novel coronavirus COVID-19 started its devastating spread across the world, which became a global pandemic that lasted three and half years. In February 2020, as soon as I realized the magnitude of the incoming crisis, I gathered the officers responsible for organizational functions around a table so that we could start sharing information on what was happening in

different parts of the world. We needed to know what impact business units in different regions around the globe were facing and decide what we had to do in response. We created a new system, where the top management team held daily morning meetings to look at the issues we were facing from the same level and same perspective, discuss what measures to take, and move quickly to

All hands on deck to solidify the foundation of North American business

Our main market is North America, where customers highly rate our products and we have been able to establish a particularly strong presence in the large-diameter tire category. We have focused on strengthening inter-functional cooperation, through which we feed untapped needs we learn from our close relationships with our customers back to the product development team. This approach has also been highly

effective in driving the Medium-Term '21 Plan forward.

We have also reorganized our sales channels in order to solidify our loyal customer base further, and have significantly expanded the distribution network of our branded products. This bold expansion strategy helped to boost our market presence, which not only minimized the damage from weakening demand during the pandemic but also enabled us to respond quickly

when demand started to recover.

We have reallocated more of the U.S. plant's production lines to large-diameter tire products and have also started shipping products to North America from our Serbia Factory, which started operation in 2022. We are translating our commitment to enhancing our

strengths further into strategic actions, including augmenting supply from other factories. As of this point in 2023, our operations are on target in line with the road map, and we will make every effort to continue driving this strategy forward.

How do you rate the progress of sustainability management?

Improving management quality by facing challenges head-on

In the first fiscal year of its launch, the Sustainability Committee discussed our approach to be presented as the Group policy for the entire organization, reviewed a wide range of issues and carefully mapped out the areas of action we should tackle comprehensively. We have now gone through a full cycle of activities we started Group-wide and have turned over the half-way point of the second year.

Each theme has a specific promoting body assigned to it, such as a main supervisory department or a company-wide interdepartmental taskforce, which defines clear targets, plans and administrative frameworks. The Sustainability Committee checks their progress, reviews the issues in focus from a medium- to long-term perspective, and discusses topics to be referred to the Executive Committee. There are many tasks we are only starting, such as collaboration with

other special committees such as the Technical Committee and the Organization & Personnel Committee, reporting and discussions at the Board of Directors, but I believe that we are making a steady progress in our governance of ESG issues.

In the meantime, numerous new challenges to the environment, society and economy are emerging, and the international organizations, states, regions and industries are required to respond ever more quickly, with no signs of the turmoil abating. We need to continuously watch and see what new risks and opportunities our business operations are facing and take action from a medium- to long-term perspective. The issues in front of us are extremely challenging, but I firmly believe that, by facing them head-on, we can further improve the quality of our management and seek the Group's purpose in society.

ESG thinking beginning to be embedded within

Inside the Group, ESG actions are starting to become a day-to-day part of our work.

For example, it is clear that the big issue of climate change is no longer seen as something distant from us but is felt much closer today. Procurement of renewable energy is now incorporated in the yearly plans on the basis of a medium- to long-term plan, and is implemented after appropriate internal examination. We have designed a system of investment appraisal for decarbonization and introduced it in our meeting bodies. Also, having stated our endorsement of the TCFD recommendations, we are currently making the necessary preparations for disclosure. Quantifying the financial impact of our action to tackle climate change will enable us to demonstrate our sincere commitment to decarbonization as a

management issue. It is a direct responsibility of the management how we can mitigate climate impact on our businesses.

We are also expanding our view across our supply chain and applying more in-depth look at it, which we are naturally expected to do. We are starting to examine who we share our approaches with as we operate our business and making it our mission to ensure that we have healthy approaches, appropriate relationships and a sound spirit.

We believe that the spirit, enthusiasm and ambition of the human resources that drive all corporate activities need to be healthy and positively motivated in order to support a company's sustainability and creation of social value. We are committed to further improving and advancing the work to build the foundation of our human capital.

Strengthening our presence in the incoming tide of EVs

Next-generation mobility is the near future of our industry sector, and the speed of transformation to make it feasible is accelerating. The most important question for the sustainability of a mobility society is how much we can reduce the environmental impact of mobility, and electric vehicles (EVs) are one of the key solutions. EVs do not look particularly different from conventional cars in terms of appearance; the difference lies in their drastically different internal mechanism and their weight. Likewise, tires that support EVs may not appear different, but the role they play becomes much more important. At the minimum, they must be able to meet and exceed three requirements: larger diameter; lower rolling resistance; and low noise.

Being a large-diameter tire specialist, we are at an advantage, and it is essential that we aim for differentiation considering the size of our business. In the expanding and diversifying EV market, we should put the unique joy of driving that we can deliver front and center,

and preempt and meet the needs of discerning customers. Our medium- to long-term scenario to ride this incoming tide is to employ a unique strategy like this. Even with rugged tires for pickup trucks, which at the first glance may not be expected to perform well in terms of environmental impact, we will take an approach of offering distinct, attractive styling combined with a profile design that reduces air resistance in order to elevate environmental performance.

Our ambition is to provide solutions to social issues through our business and create social value, and we are working to integrate corporate management and sustainability and to improve its quality through dialogues with our stakeholders in order to achieve this ambition. We welcome and appreciate the opinions and advice of the readers of this report to help us improve our corporate management. Thank you so much for your continued trust in and loyalty to the Toyo Tire Group.

Fostering greater awareness
of creating value for society
through our business

