

Message from the President



Takashi Shimizu

Representative Director,
President & CEO

Further integrating sustainability into our business strategies and leveraging our strengths to maximize economic value and create environmental and social value

A year spent reflecting on who we are and what we are aiming for

Last year, when we published our first integrated report, I indicated that we view the report as a theater stage and that the report is an important tool for readers to confirm our potential as a company. In compiling this report, we have prepared answers on each page to the fundamental question, “who are we?” Readers can find information on our ideals, history, medium- to long-term management strategies, financial situation, capital policy, sustainability initiatives tied to the material issues we have identified, and our governance structure. There are many different aspects that need to be covered when introducing a company and communicating its business to the public.

By evolving and organically integrating these aspects, readers can confirm our potential as if we were a single living organism.

We have asked ourselves what added value we offer, through what kind of business processes, from what kind of social capital. And based on the output of such processes, we have examined which social issues we are trying to solve and what kind of value we are trying to create for society over the medium to long term. We believe that our ability to demonstrate our value creation process, which systematizes these processes, is of great significance in two respects.

Revisiting our business at the core of the value creation process

Firstly, we have reconfirmed the need to align our business processes, which are lie at the heart of our business management activities, with the value creation process. Although we do not necessarily have scale advantages in the same business domain, we have worked to optimize our business management structure by maximizing our resources. We excel at capitalizing on our unique strengths by ensuring that all our functions powerfully communicate their intentions and appropriately collaborate on a single strategy. While our human resource base and technology base support the fulfillment of these functions, we are strengthening our governance base and risk management to ensure our sound corporate growth. In this respect, we have reconfirmed that we are producing output from such a portfolio that sets us apart from other companies.

Secondly, we feel that our value creation process provides insights into how to approach our business. To

raise awareness of the outcomes, we are breaking down the value creation process at the division level under each organizational function. As part of our philosophy, we advocate management that is conscious of our social contribution, “to create excitement and surprise with our products that exceed customer expectations and enrich society.”* So, what specific value are we creating for society? This is something we need to clarify. More often than not, a business will push ahead to achieve results without questioning what our true purpose is. However, we need to remain conscious of such purpose as a company and strategically promote our business to pursue profits from a long-term perspective. We have embarked on activities to create such a culture within the framework of business promotion, with division general managers taking the lead.

*Our Mission

Steady outputs support outcomes

We have turned the halfway point of our five-year Medium-Term '21 Plan, which started in 2021. In 2024, we are making steady progress on the second half of our medium-term management strategy. In fiscal 2023, we achieved record highs in net sales and all profit items. We recorded operating income of 60 billion yen, the figure we were aiming for in the final year of our medium-term plan, and our operating income margin was 13.9%, 0.1% short of our medium-term plan target. In addition to the favorable impact of the depreciation of the yen and other tailwinds, I believe that our pulling together as a company to tackle the unprecedented difficulties we encountered in 2021 and 2022 has paid off, opening the way for the results we achieved in 2023.

In particular, our market supply strategy for high value-added products, which is devised to meet the expectations of customers and to please them by delivering tires, engages the gears of each organizational

function to meet customer insights, creating our unique added value to society, and contributing to raising our profit levels. This year, my mission once again is to lead the company by conscientiously continuing our meticulous business management from such a customer-oriented perspective. I will steadfastly support the economic value and output required for the creation of social and environmental value by moving ahead with our current work, while keeping an eye on our medium-term plan.

Our business environment is sensitive to the price of raw materials and foreign exchange rates and so it is imperative that we optimize other cost-related and operational factors. We will also hone the precision of our unique business strategies by focusing on an optimal and high-quality product portfolio that meets the market and customer demands as well as maximizing the effectiveness of operations at our production bases.



Further improving our North American base and raising the quality of other markets

In the North American market, we intend to focus on capturing trends in the large-diameter tire category and we will continue to deliver attractive tires in a timely manner. The global adoption of electronic vehicles (EVs) has been astonishing, but the momentum is showing signs of temporarily slowing down, which means we need to keep a close eye on the situation. The trends of switching to EVs and the expectation of their role in realizing a carbon-neutral society have not changed, and we believe that it is now important to take the initiative for the future, to ensure our presence in the market.

The performance requirements for tires will become more sophisticated as the load and torque increase with electrification. We are aware that this works to our advantage, because tires supporting EVs require larger diameters. Our strength lies in our ability to offer products

that combine unique added value, such as ultimate driving enjoyment and a range of designs, while satisfying, at a high level, the basic elements required for EV tires, such as reduced rolling resistance, wear resistance, and quietness, even though such elements may contradict each other.

We intend to seize this opportunity by strengthening coordinated functions centered on marketing, which involves building good relations with our customers so that we can identify their latent needs and provide feedback to the development team. Assuming that our competitors are strengthening their large-diameter tire strategies, we will enhance the leading position in this category in the North American market and capitalize on our unique strengths, namely the trust we have built up and our agility.

I believe we need to be even more ambitious in raising the level of the technological platforms that support our product strengths, and we will continue to make solid investments in this area. We will also work to advance our collective technological strength by leveraging the characteristics and roles of each of our R&D centers in Japan, the U.S., and Europe. Furthermore, through proactive and continuous participation in motorsports activities, we will link the knowledge we gain through such participation to the improvement of our technological prowess and systematically and effectively develop EV-compatible tires in the off-road field.

Our assets include our relationships of trust with suppliers, who understand the appeal and value of our products and support our sales, and our strong customer base. Going forward, we will continue to maintain our unique agility, which is one of our strengths, by limiting focus areas to our advantage.

In regions other than North America, we strategically select value-added products in line with the market trends in that region and focus on supplying such

products. In Japan and Europe, we are promoting structural reform and focusing on our key policy of pursuing quality, rather than quantity, in our business activities. And we are building win-win relationships with sales partners who share our way of thinking and deliver products to users. We can see the results of these efforts reflected in our business performance from the second half of 2023. Having closed our Silverstone plant in Malaysia in 2021, we are now shifting our focus in Asia from the Silverstone brand to Toyo Tires brand products. As a result, the Toyo Tire brand has steadily established and improved its presence, resulting in dramatic improvements in profitability in Malaysia.

Generally speaking, as of 2024, we have raised our competence to a level at which we are more than capable of meeting the management targets set forth in our medium-term plan. However, we must never forget that we live in a time in which change is the norm. We will continue our efforts to achieve outputs that exceed our targets in 2025, the final year of the plan.

Internalizing the sustainability cycle amidst bewildering external change

The Sustainability Committee, established at the start of the Medium-Term '21 Plan, has been active for three years. A cycle has been established in which activity themes linked to material issues are incorporated into each organizational function's business plan, and the progress of such plans is monitored and managed. Decarbonization and supply chain task forces under the jurisdiction of the committee promote their initiatives efficiently and effectively while pursuing company-wide optimization, and they have now started to work on higher level issues in a more autonomous manner. We believe that we have steadily promoted ESG governance, including giving advice to the Executive Committee and reports at the Board of Directors meetings, and that we have integrated business management and sustainability to some extent as set forth in the Medium-Term '21 Plan.

Meanwhile, numerous economic, social, and environmental issues have continued to emerge during

the past three years. International organizations, states, regions and industries are required to respond to these issues ever more quickly, with no signs of the turmoil abating. What risks and opportunities does this create for Toyo Tire's business operations? We need to continuously watch such trends and take action from a medium- to long-term perspective.

At the final Sustainability Committee meeting in fiscal 2023, we conducted a rolling inspection of our medium- to long-term sustainability targets and plans on whether they are effective amidst environmental changes, including the global situation and trends at other companies, and how such targets and plans are linked to outcomes through our value creation process. We are currently promoting the integration of business and sustainability based on the medium- to long-term targets starting from 2024.

Updating both awareness and behavior for enhanced effectiveness

Our willingness to address climate change, a big issue on a global scale, has been increasing each year. We are promoting the use of renewable energy, a priority measure for decarbonization, in line with the medium- to long-term plan discussed by the Executive Committee, and we have the CO₂ reduction target for 2030 in our sight. However, we need to consider more effective measures in light of the harsh international view of the current state of CO₂ reductions as well as discussions in Japan and abroad around next-generation energy. We will officially introduce internal carbon pricing (ICP) this year, which we believe will be effective as one of the evaluation standards for decarbonization investments. In May 2024, we submitted a letter of commitment to obtain science based target (SBT) certification. We plan to set more effective targets for Scope 3 and to apply for certification this year.

Reducing the environmental impact of dust from tire

wear and preventing deforestation in the natural rubber supply chain are urgent issues for the tire industry. It is now also imperative that we take action to ensure the sustainability of the natural capital we have enjoyed in our business activities thus far. We are working with industry groups and suppliers to strengthen our response and thoroughly manage the impact of our business.

In 2023, we conducted a human rights risk assessment of our entire value chain and identified key risks. We are now in the process of implementing action plans to address these risks, the progress of which will be monitored by the Sustainability Committee. Needless to say, companies should respect human rights, not just as a legal obligation, but as a prerequisite for doing business in society. We need to understand that respect for human rights is a basic assumption for building appropriate relationships with stakeholders, and the committee is working to promote such awareness throughout the

organization. Human capital, which is inseparable from human rights, is a source of value creation for society. Only when people are motivated to fulfill their responsibilities and take on challenges in a healthy and enthusiastic manner, do they bring returns to the company. We view human capital as an integral part of our business strategy and plan to invest in it based on our grand design, through which diverse talent with different abilities, ideas, and careers will be able to enjoy various opportunities and thrive.

We recognize the importance of ensuring the effectiveness of our measures when addressing various sustainability-related ESG issues. We need to establish and manage effective measures for our targets. In other words, it is important to measure effectiveness, make

corrections based on the results of assessments, and continuously make improvements. We plan to further enhance the monitoring function of the Sustainability Committee from such perspective.

In parallel with the implementation of strategies to achieve the Medium-Term '21 Plan, we have already started to formulate the next medium-term plan, which will cover the five-year period from 2026. We will continue to use this Integrated Report as a basis for constructive dialogue with stakeholders in order to further strengthen the integration of business and sustainability that we have been promoting in our current medium-term plan, and to ensure the content really does enhance our corporate value. Thank you so much for your continued trust in and loyalty to the Toyo Tire Group.

