

Financial Strategy

Medium-Term '21 Plan: Financial policies and targets

In the medium-term business plan, the Medium-Term '21 Plan, announced in 2021, Toyo Tire Corporation set out its future vision for three management platforms (digital and IT infrastructure, sustainability management, and organizational and human resource infrastructure) designed to create value through the solution of social issues and ultimately generate sustainable corporate growth. Right now, we are steadily progressing each management platform and earnestly working to strengthen the financial base that underpins these platforms.

We have set specific quantitative targets in the Medium-Term '21 Plan for a consolidated operating income margin of 14% or more and consolidated operating income of 60 billion yen in fiscal 2025. We have also set a minimum 55% sales composition ratio for priority products, which is vital for achieving the aforementioned targets. We are promoting initiatives to maximize our strengths in order to increase profitability. As a result, we were able to achieve a consolidated operating income of 76.9 billion yen in fiscal 2023, ahead of the target of the Medium-Term '21 Plan, followed in fiscal 2024 by a record high consolidated operating income of 94.0 billion yen, with the consolidated operating income margin reaching 16.6%, again ahead of the plan target.

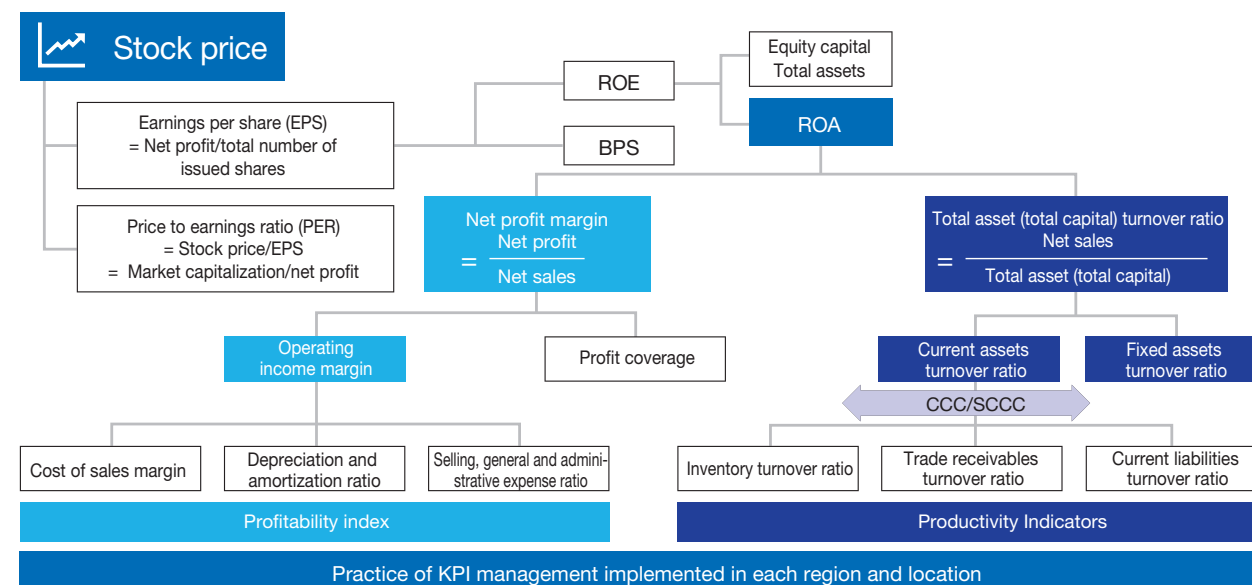
In addition, we have set a minimum target for return on equity (ROE) of 12% during the plan as a clear commitment to improving our capital efficiency along with profitability. In fiscal 2024, we achieved ROE of 17.2%, exceeding our target, and we are working to continue improving our capital efficiency in order to maintain an ROE of 12% or higher in the duration of the plan.

We are determined to continue improving our own

unique corporate value and to focus on enhancing quality by continuously pursuing these financial policies and targets. In order to achieve the quantitative targets set out in the Medium-Term '21 Plan and the annual plan for the following fiscal year, which is set out in November each year, we define key performance indicators (KPIs) at the beginning of each period, which are set from the perspectives of individual headquarters, regions and bases and managed on the Group-wide basis. The progress against the KPIs is monitored each month, and actions to achieve the targets are discussed across the Group.

In terms of individual KPIs such as the breakdown of tire sales quantities by type and region, sales progress of priority products, production quantity per base, percentage of jobs filled, cost and global inventory quantities, we achieved the quantitative targets of the Medium-Term '21 Plan and the annual plan as mentioned earlier by managing the numbers strictly through monthly review meetings. In addition, we intend to pursue stable management, even when faced with an uncertain and rapidly changing economic environment, by promoting measures designed to: improve capital efficiency by scrutinizing our business assets through consolidated asset surveys and other measures; achieve cash flow-focused management by strengthening our power to generate cash and accelerating cash cycles; and ensure financial soundness with due consideration not only to the balance between interest-bearing debt and equity capital, but also to shareholder returns. This way, we are determined to build a robust financial base that will contribute to improving our corporate value through KPI management.

Building a strictly-disciplined, robust financial base for enhanced corporate value

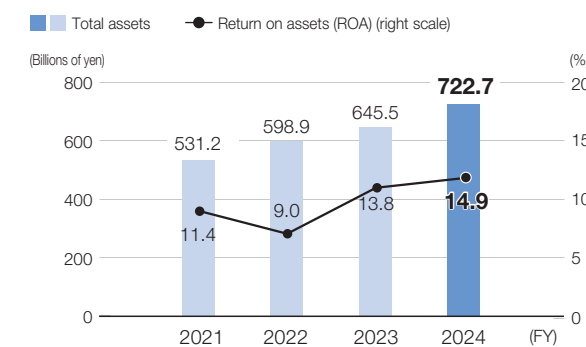


Financial situation

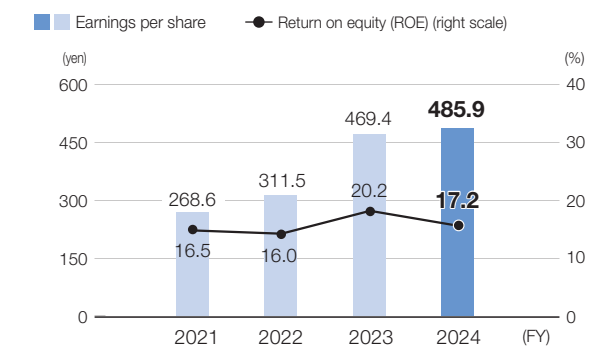
(Millions of yen)

	FY2022	FY2023	FY2024
Total assets	598,889	645,480	722,666
Equity capital	320,683	395,199	472,552
Cash and cash equivalents at end of the year	41,600	52,798	86,636
Interest-bearing debt at end of the year	135,436	102,714	108,449
Capital ratio (%)	53.5	61.2	65.4
Payout ratio (%)	25.7	21.3	24.7
Return on equity (ROE) (%)	16.0	20.2	17.2

Total assets / Return on assets (ROA)



Earnings per share / Return on equity (ROE)



Investment and financial strategies

We have established a policy regarding the allocation of capital with due consideration of shareholder returns, and formulated the capital investment plans based on the tandem pursuit of profitability and potential growth. When considering capital investments, we calculate the internal rate of return (IRR) based on future cash flows and compare it to the most recent weighted average cost of capital (WACC). As a general rule, management decisions to invest are made only for projects for which the IRR exceeds the WACC. In order to ensure objectivity, we use a WACC figure based on market information for comparison with the calculated IRR.

We plan to make capital investments of 194.0 billion yen over the five years of the Medium-Term '21 Plan. We intend to use operating cash flow generated during the period, along with additional procured funds if necessary, to cover the total amount of capital investment and shareholder returns.

Operating cash flow for fiscal 2024 increased by 67.1 billion yen due to the accumulation of profit while capital investments, including digital-related and other growth investments, amounted to 25.6 billion yen and dividend

payments during the fiscal year amounted to 20 billion yen, which were covered within the operating cash flow. In fiscal 2025, we expect to invest a total of 35.6 billion yen, including digital-related investments and additional capital investments at our U.S. plant. We will continue to invest within the scope of our operating cash flow, and remain disciplined to ensure that our free cash flow is stable and in a surplus.

As explained above, based on the allocation of capital over the duration of the Medium-Term '21 Plan and its basic principles, we planned to allocate 50% of cash flow earned from operations strategically to growth investment, 30% to capital investment necessary to maintain the competitiveness of our core business, and 20% to stable shareholder returns. Within this medium-term plan period, the total cash flow earned from operations from fiscal 2021 to 2024 was 203.3 billion yen, of which 77.7 billion yen (38%) was allocated to growth investment, 65 billion yen (32%) to capital investment and 50.9 billion yen (25%) to shareholder returns. In addition, we continue to sell and reduce strategic shareholdings to achieve capital optimization,

which has generated a cash-in totaling 49.6 billion yen over the four years from fiscal 2021 to 2024. Currently, our strategic growth investment and capital investment required to maintain core business competitiveness together make up 70% of the allocation, and this figure is below the combined target of 80% for the medium-term plan period. However, we have been investing sufficiently to maintain our competitive edge in a timely and appropriate manner while giving due consideration to shareholder returns at the same time.

In addition to the capital ratio and financial leverage, we will make quarterly fixed-point observations on the turnover ratio of trade receivables, inventory, trade

payables, and others as part of the above-mentioned KPI management, to properly manage the balance sheet and cash flow. While maintaining strict financial discipline in that manner, we will consider investing in strengthening our supply framework for large-diameter light truck tires as they harbor strong growth potential given that light trucks and SUVs, areas in which we excel, form the bulk of sales in the U.S. market, as well as in developing highly unique products that leverage our strengths. Through these strategies, we will maintain and improve our current profitability, promote capital optimization, and return profits to shareholders by increasing dividends in an effort to meet capital market expectations.

Growth investment

Regarding growth investment, we are promoting investment that is essential for ensuring future growth in the medium- to long-term, namely digital-related investment, market investment and investment in new R&D fields.

First, on digital-related investment, we aim to improve profitability by fully renewing our enterprise resource planning (ERP) system in order to strengthen global data governance by, for instance, visualizing management resources and risks, accelerating business processes and improving the quality of our decision-making, as well as by practicing data-driven management that leverages a wide variety of data.

Second, in terms of market investment, we will invest management resources in building user-centric sales

and marketing, including digital marketing that makes full use of social media and other channels, engagement activities designed to enhance our brand power through our sponsorships of the Major League Baseball, the Japan national football team and the Ladies Professional Golf Association (LPGA) Tour, and promotional activities to expand sales.

Third, in terms of investment in new R&D fields, we will endeavor to establish and commercialize technologies for next-generation vehicles, including predictive tire wear diagnostics technology, airless tires and CO₂-derived butadiene synthesis, in order to create forms of sustainable mobility that are worthy of a carbon-neutral society.

Environment and social (ES) investment

We expect to make further sustainability-related investments going forward in order to promote a shift toward sustainability management. Regarding decarbonization-related investments in particular, it can be difficult to incorporate any CO₂ reduction impact into the profit simulation used for verifying profitability and determining whether or not to promote regular investment projects. As a result, those investments may be considered unsuitable in terms of sustainability management.

With that issue in mind, we introduced internal carbon pricing (ICP) on a trial basis in fiscal 2023. ICP translates the impact of reducing CO₂ emissions into a quantifiable monetary value and makes it visible, allowing it to be incorporated into a quantitative model. Following

a review of the performance of our decarbonization investments using the trial ICP, we decided to introduce ICP as an official evaluation standard from fiscal 2024 based on external ICP price-setting trends. The ICP will be periodically updated, and for fiscal 2024, we have set the monetary value of the impact of emissions reduction at 10,000 yen per ton in calculating the investment effects of measures to reduce emissions. This price is used in making investment decisions on projects such as the installation of photovoltaic power generation and cogeneration facilities at production plants. It is hoped that considering the impact of CO₂ emissions reductions as a monetary value in investment decision-making will help to expand decarbonization-related investment.

Shareholder returns

In our new corporate stage, we will set policies for capital investment and shareholder returns in addition to ROE indicators, and we will pursue both profitability and efficiency in a well-balanced manner.

Under this policy, we aim to return at least 30% of net profit for the current period (excluding extraordinary profit and loss, i.e., net profit that reflects the actual performance of the business) to shareholders as dividends. We will also consider returns based on the link to shareholders' equity, such as dividend on equity (DOE) ratio, which we have set at 4.5% as a benchmark, and the actual amount of dividends. By taking all these factors into overall consideration, we strive to provide

long-term, stable returns to shareholders.

Regarding specific dividends, we paid an annual dividend of 120 yen per share in fiscal 2024, an increase of 20 yen from the previous year, and in fiscal 2025, we expect to pay 125 yen per share. This will be done by adjusting for non-recurring special gains and losses included in profit attributable to owners of the parent and linking returns to real profit that more closely reflects actual profit values. We will work to provide stable returns in a way that both provides stability and reflects business performance, maintaining the trend of dividend growth.

Policy on strategic shareholdings

We hold strategic shares only in cases where such holdings are deemed reasonable due to business alliances or a need to maintain or strengthen trading leverage in business activities. We are also pursuing efforts to reduce strategic shareholdings by having the Board of Directors conduct a review of each individual issue on an annual basis to ascertain the appropriateness of the holding and decide whether to continue holding the shares, and sell off any shareholdings that are judged to be no longer necessary.

In fiscal 2024, we reduced strategic shareholdings

by three issues, reducing the number of holdings to 43 issues as of December 31, 2024, which represent 1.1% of consolidated net assets (7.7% if deemed shareholdings are included).

In exercising voting rights on the strategic shareholdings, we scrutinize the purpose and details of each proposal individually, and exercise such voting rights appropriately after deciding on the overall merits of the proposal as to whether or not it will contribute to the enhancement of the corporate value of both the Company and the investee.

Number of issues of strategic shares held and balance sheet amount

Category		2020	2021	2022	2023	2024
Number of issues (Security titles)	Listed	28	18	13	12	10
	Unlisted	38	37	36	34	33
	Total	66	55	49	46	43
Balance sheet amount (Millions of yen)	① Listed	37,770	47,499	24,983	15,764	4,701
	② Unlisted	352	350	347	342	330
	③ Deemed shareholdings	15,914	21,055	18,125	25,905	31,460
Percentage of consolidated net assets	①+②	17.1%	17.0%	7.8%	4.1%	1.1%
	①+②+③	24.2%	24.5%	13.5%	10.6%	7.7%

Trend of shareholdings

