

Roundtable Discussion with Outside Directors



Masaru Nakamura
Outside Director

Mr. Nakamura has extensive experience and wide-ranging knowledge from his career that commenced in 1977 at Sumitomo Corporation where he went on to serve such as corporate officer, executive officer, managing executive officer, senior managing executive officer, and advisor. He joined Toyobo as an Outside Director in 2017.

Takafumi Isogai
Outside Director

Mr. Isogai has a specialist perspective and wide-ranging expertise in quality control field from his career in academia that began in 1987 as an Assistant Professor and then Professor at Osaka University and subsequently at Kobe University and the University of Marketing and Distribution Sciences. He joined Toyobo as an Outside Director in 2018.

Kimie Sakuragi
Outside Director

Ms. Sakuragi has extensive experience and wide-ranging knowledge in corporate ethics, compliance and sustainability fields from her career at Benesse Holdings. After joining Benesse in 1981, she held the Chief of Business Ethics and Compliance Office and the Audit and Supervisory Board Member. She joined Toyobo as an Outside Director in 2019.

Masaaki Harima
Outside Director

Mr. Harima has a specialist perspective from his background as a lawyer and wide-ranging expertise gained from his career that started as an Assistant Judge in 1977. He later founded the Harima Law Office (now the Fushimimachi Lawyer's Office). He joined Toyobo as an Outside Director in 2020.

That experience and those skills are the basis for my input to discussions.

Harima I have felt completely open about stating my opinions during the two years I have been on the board. The revised criteria for submission to the board's discussion agenda has reduced the items requiring a decision by the board, which is giving us more time to discuss important topics.

Nakamura In addition to attending the board meetings, the outside directors participate in twice-monthly briefings on the agenda items when we can ask for further information or clarification. The time saved from not needing to verify details is giving us more time for deeper discussions at the meetings. The volume of information provided to the outside directors has also been increasing over the past few years.

Sakuragi That freedom to voice opinions has led to some very long and heated discussions that can last over several meetings. Sometimes it's a shock to come out of the meeting and find it's dark outside. The system creates a good atmosphere.

One area I think we should spend more time discussing is the longer-term management strategies. I think the board's primary purpose should be to deliberate and set long-term strategies, business portfolio strategies, and investment strategies. We naturally spend much time on those topics when preparing the Sustainable Vision 2030 (long-term vision) and 2025 Medium-Term Management Plan [FY2023-2026] (2025 MTP), but I believe they warrant continuing discussion going forward.

Isogai I once asked the board why there was so little discussion about the future, and they did then start talking about it more. So they are open to talking about issues for the future, but I agree that more discussion is needed.

Nakamura Much of the discussion over the past three years has been about the fire accident and quality-related misconduct incidents. Those discussions were necessary and I believe that because we kept talking about it we were able to formulate the measures that have been reasonably effective. Of course, we continue to discuss those issues. At the same time, now that the long-term vision and 2025 MTP are under way, I would like to see the board shift its focus to a longer-term perspective on ESG, DX, and the business portfolio.

Isogai I agree. I also think the twice-yearly open discussion meetings with corporate auditors and the information we receive about the annual audit plan and the discussions between the president and corporate auditors are extremely informative. I think the board should also consider holding those meetings more frequently.

Governance for sustainable growth

Evaluation of the governance system and its effectiveness

Nakamura When I was appointed as an outside director in June 2017, there were two outside directors. When the number rose to four in 2019 to meet social standards for governance, I remember feeling that it was easier to share my opinions. Having that feeling made me understand the importance of a Board of Directors that is balanced with outside directors.

Isogai Ms. Sakuragi, you were appointed in 2019.

Sakuragi Yes, I became Toyobo's first women director in

June 2019. To be honest, I felt a lot of pressure.

Nakamura Since you joined the board, it's been very interesting to hear your insight on ethical perspectives. Your views on women's topics like advancement in the workplace and on candidates for when creating succession plans are also invaluable contributions.

Sakuragi Initially, I was worried because I had no experience in the manufacturing industry, but the company was very welcoming. My first impression was that Toyobo greatly values its corporate philosophy. Purpose management has been a popular phrase in recent years, and it is an active part of Toyobo's corporate philosophy. Managers here often talk about the purpose of our business, and the outside directors are often asked too, which makes me feel everyone is

truly committed to the corporate philosophy.

Harima I think the Board of Directors' monitoring function is still getting stronger. In June 2022, the number of outside directors grew to five of the 10 members of the board. Diversity remains an issue though, because there are still few women and no non-Japanese on the board.

Nakamura Diversity in skills is also important. Most of the internal directors came up through the company, so their range of skills can be narrow. Outside directors bring a range of skills. The balance of internal and outside director roles is balanced now, but the experience and knowledge of non-Japanese will be crucial when begin focusing on overseas markets. I believe that this will be an important perspective to keep in mind when considering candidates for director in the future.

Isogai I agree that the skill matrix of candidates is important. My specialty is in quality control, and I have worked with numerous companies on quality issues.

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Fire prevention measures and response to the quality-related misconduct incidents

Harima Regarding the safety and disaster prevention measures after the fire, the board recognizes that an excessive focus on short-term profits and too much distance between the worksites and the head office were among the causes of the accidents, and it is actively working to establish a new organizational culture that puts safety ahead of everything. One key part of the safety and disaster prevention are the steps to make it easier for people at the worksites to communicate with the head office.

Isogai The company also has established a case committee of corporate auditors and outside directors—including all four of us—to review the quality-related misconduct incidents. The executive department has been resolutely implementing the prevention measures the committee has recommended, and the conditions are improving.

Harima The effectiveness evaluations of the Board of Directors in fiscal 2022 indicated a need to strengthen the internal auditing. In the past, much of the Internal Audit Department's staff were from accounting, and the general corporate audits tended to be primarily examinations of financial items. The internal audits were weak in the area of quality assessments. We recommended that the audits could be improved by staffing the Internal Audit Department with personnel with various areas of expertise, not just financial. We also recommended having an executive officer be in charge the department, which has been done. There is also now a system for regular reporting of the status of the internal audits directly to the board.

Nakamura The company has also created the Risk Management Committee to strengthen its risk management, and there has been a certain degree of improvement in safety and disaster prevention and response to the quality-related misconduct incidents. The 2025 MTP also contains measures in these areas. The executive department is fully engaged in these efforts, and, through the board, we are keeping on top of the situation, providing our advice, and monitoring the progress.

Isogai There have been instances where companies with divisional structures have not shared information because they are in competition with each other. That has led to many times when a business has developed quality issues and other problems because it was pursuing profits. Digitalization is making it easier to create connections between business divisions. I would like to see the company take this as an opportunity to make fundamental changes and to continue working toward realizing comprehensive quality control.

Sustainable Vision 2030 and the 2025 Medium-term Management Plan

Sakuragi The announcement of the long-term vision has finally provided a clear picture of the company's path forward. The long-term vision statement says Toyobo is working for "people and the earth," and we are committed to not being overly rigid in our thinking and to responding flexibly to changes in the surrounding environment. In that spirit, I would ask the board to not view the long-term vision for 2030 as set in stone, but to be willing to modify the vision as necessary.

Harima I also have high expectations for "employee well-being" one of the five social issues set forth in the long-term vision. The long-term vision is to be a company that is people first, with safe work environments where employees can work with peace of mind, pride, rewarding in their work. Management has been trying to work with the worksites since the fire accidents and quality-related misconduct incidents, but there still seems to be some distance between them at times. I really would like to see the company put its total effort into its vision for employee well-being and create a fresh atmosphere. That very well could become the foundation of all the strategies.

Sakuragi Yes, it could. I've also thought that the "inward-looking" aspect of Toyobo's organizational culture could have contributed to the quality incidents. I don't think that aspect has been completely eliminated. I think it's important for each individual employee to look at the changes not just inside the company, but in Japan and the world as well, independently and with their own eyes. I feel strongly that we need to take that wider perspective on the company or else it will be difficult to fully achieve the Sustainable Vision.

I believe that, on the most fundamental level, Toyobo's corporate philosophy and mentality closely match the current sensibilities in society, and I encourage the company to do all it can to incorporate society's perspectives into its businesses and operations.

Isogai The long-term vision and 2025 MTP also reminded me that Toyobo is a deeply committed to its objectives and puts 100% into everything it does.

When I hear the Research Center announcements, I'm astounded by some of the amazing leading-edge technologies they develop. There are so many that have real potential, such as the desalination membranes that turn seawater into drinking water and the super fibers that can be used on floating offshore wind turbines. I was really surprised recently when I heard that Toyobo is developing low environmental impact "sustainable food" production. I had no idea Toyobo was even doing research in that field!

Nakamura That's what Toyobo does. It looks for ways to apply promising technologies to various markets and turn them into successful businesses. A highly sophisticated technology may not have a market. We can't make a product and try to sell it, we have to follow what the market wants.

Isogai That's why finding partners for open innovation and collaboration is also important.

Nakamura The markets are changing so fast that the company needs to accelerate its technology development just to keep up. The company also must formulate a new business model.

Achieving long-term growth

Sakuragi I was most impressed with the detailed numerical targets in the long-term vision and 2025 MTP. When framing a vision for long-term growth, setting ambitious targets for net sales and operating profit is essential, and being obsessive about meeting those targets is critical.

Nakamura President Takeuchi has called the time it took for Toyobo, as a manufacturing industry, to downsiz the textile business and then to get the film business up and running as a period of "survival," but it has also been an extended period when the company was forced to be patient. I'm sure that the fundamental drive to pursue profits was still lingering in management's minds during that time, and they may have thought they could at least try to generate a little profit. That might be why the company was adamant about setting very specific goals when projecting to a long-term perspective.

Harima The view of the company from investors and others is that they want Toyobo to get bigger, and the company is believed to have the resources to do that.

Nakamura We are also strongly of that opinion, and we recommended in the board discussions that the target figures in the long-term vision and 2025 MTP reflect that. The company is planning to establish a joint venture with Mitsubishi Corporation, but overall it has not been very aggressive with M&A. We suggested that more dynamic strategies could be used to create future vision. The Board of Managing Executive Officers and Controlling Supervisors held many meetings about and ultimately announced target figures that are both ambitious but still realistically possible to achieve.

Isogai The company has finally moved beyond survival thinking and begun to focus on the pursuit of sustainable growth. I believe that the businesses that have been nurtured over time are now able to maintain their profitability.

Nakamura The targets are indeed the result of many discussions, and I know the company is absolutely committed to achieving them. The structure for achieving the targets is in place. Following the true spirit of the *Jun-Ri-Soku-Yu* principle, we hope that employees will have an open mind and imagine how fulfilling the vision will benefit our customers and generate profit for the company. I think the company could benefit from discussing how to bring that principle even more into play. We all will do everything we can to help the company succeed.

