

CEO message

Regain our earnings capability and bring prosperity to people and the planet

“Jun-Ri-Soku-Yu,” the corporate philosophy at the core of our management

Toyobo group has adopted “Jun-Ri-Soku-Yu” (Adhering to reason leads to prosperity), a guiding principle of our founder Eiichi Shibusawa, as our corporate philosophy for more than 140 years. Since becoming president in 2021, I have made this philosophy the foundation of our management approach. In 2022, our 140th anniversary year, we unveiled Sustainable Vision 2030, which embodies this corporate philosophy and outlines our aspiration to be a group that continues to create the solutions needed by people and the earth with our materials and science.

This vision aims to transform the group into a company that tackles solving social issues with cutting-edge products and technologies, earns unwavering trust and expectations for growth, and foster a workplace where employees can work with pride and a sense of purpose. We have structured our vision into two distinct phases: the first phase, from fiscal 2023 to fiscal 2026, focuses on rebuilding and preparation, while the second phase, from fiscal 2027 to fiscal 2031, will drive growth.

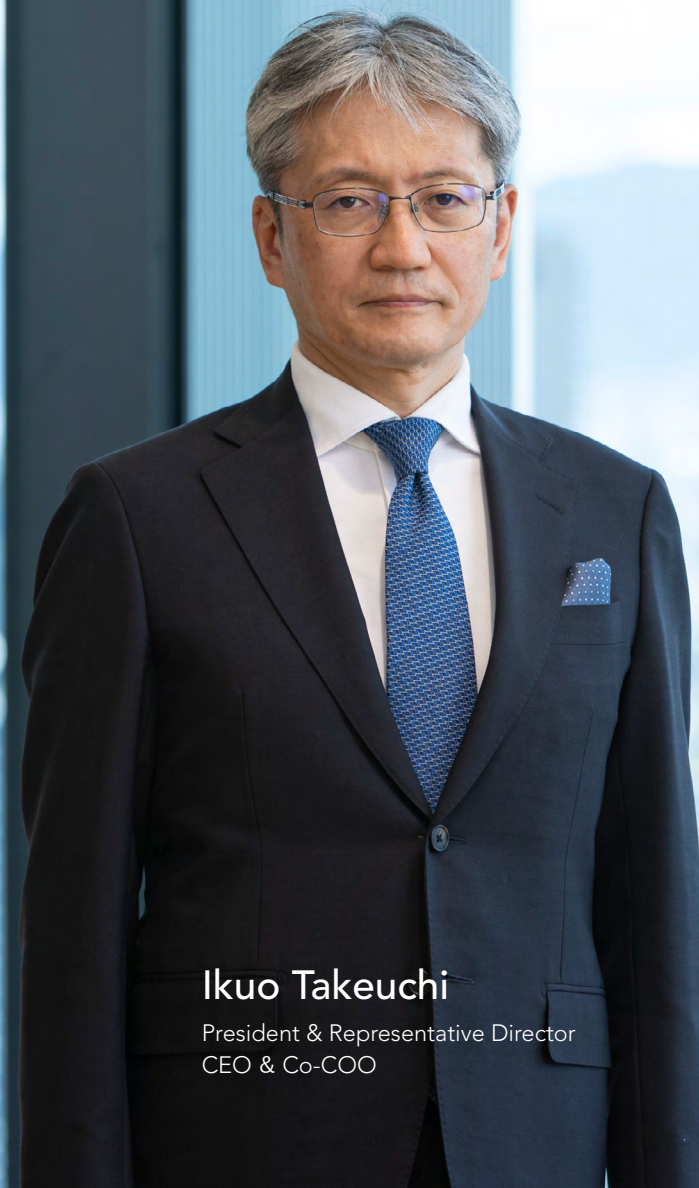
Upon taking on my role, I faced a challenging landscape. The group had faced two major fires over the previous three

years and encountered quality issues in two business areas, damaging our reputation as a manufacturing leader. Although our financial position had improved, growth remained stagnant, with the exception of our industrial film sector. Thus, we designated the first stage as a period for rebuilding trust and making strategic investments to drive growth.

The 2025 Medium-Term Management Plan (2025 MTP) is a crucial step toward realizing Sustainable Vision 2030, with fiscal 2024 marking its second year. Last year, we committed to restoring our earnings capability. However, due to a slower-than-expected recovery in demand in key areas, this goal has been delayed by two years, impacting the results we anticipated.

Despite these setbacks, we have laid a solid foundation for rebuilding and are making notable progress in risk management. By fostering trust and addressing social issues, we aim to generate positive cash flow, drive prosperity for both society and the group, and continue to build momentum in our efforts.

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Ikuo Takeuchi

President & Representative Director
CEO & Co-COO

Challenges highlighted by fiscal 2024 performance

The past year has highlighted several key challenges: persistently high raw material prices due to yen depreciation, increasing geopolitical risks, a shift from globalization to an era of division, and the impact of China's economic slowdown on the global economy.

Although revenues increased, operating profit declined. While sales of polarizer protective films for LCD TVs, in which we hold a global market share of about 60%, performed strongly, profits from packaging films dropped significantly. This decline followed the reduction in demand for PCR test reagents after the peak of COVID-19 pandemic. Efforts to improve margins through price adjustments for packaging films—primarily used for food packaging in Japan—were hampered by the lingering effects of inventory accumulated during the pandemic and the slower-than-expected recovery in demand. Meanwhile, recovery in demand for functional polymers and industrial films, especially for electronics-related products, has been sluggish, with China's market recovery lagging.

For the period, operating profit for the period was ¥9 billion, falling short of the initial plan of ¥15 billion, while net profit was ¥2.5 billion, compared with the target of ¥4 billion. This significant deviation from our initial projections is a serious concern. Despite active investments in growth and upgrades leading to increased capital expenditures, the decline in operating profit and cash flow has resulted in higher borrowing and a deterioration in our financial position.

Our immediate challenge is to restore our earnings capability by rehabilitating underperforming businesses, such as the packaging films sector, and ensuring a solid return on growth investments. We also need to reassess the scale of our investments and restore financial stability by reducing capital outlays.

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By cultivating unwavering trust and addressing social issues, we aim to create cash flow and drive prosperity for both society and the group. Our progress continues to advance and gain momentum.

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Steady progress in the 2025 MTP

Although the progress of the 2025 MTP may not be immediately apparent from performance metrics, we are advancing various measures. The first, to ensure thorough safety, disaster prevention, and quality assurance, is being driven through investments as well as structural and non-structural system improvements. Efforts to foster a culture of safety and quality include issuing executive messages, engaging in dialogues, and conducting training. For quality assurance, we are following a roadmap to rebuild the management structure, which includes rigorous product liability and quality assurance assessments, developing core personnel in quality, and translating quality assurance manuals into multiple languages. We also regained our ISO 9001 certification in May 2024, which had been revoked in 2021. We are strongly focused on enhancing awareness to prevent quality issues from recurring, transforming our organizational culture, and strengthening our quality management system.

For the second measure, reorganization of the business portfolio, we have identified the underperforming packaging film and nonwoven materials businesses as needing restructuring.

The increase in low-margin businesses that do not cover their Weighted Average Cost of Capital (WACC) has led to a decline in overall asset efficiency across the group. However, since the formulation of the 2025 MTP, the textiles sector, initially categorized as requiring improvement, has been reorganized. This reorganization has resulted in factory consolidation and a turnaround in profitability. In addition, losses in the contract manufacturing sectors of pharmaceuticals and airbag fabrics

have been reduced, and these sectors are on track to achieve profitability.

We will focus on improving profitability and asset efficiency through asset reduction. At the same time, we are actively investing in key growth areas such as industrial films and life science. This fiscal year, new production lines will commence operations in promising markets, including mold releasing films for ceramic capacitors, hollow fiber membranes for dialysis, and diagnostic reagent enzymes.

For environmental and functional materials, considered a stable profit business, we are advancing portfolio reforms at TOYOBO MC Corporation, established in April 2023. By refining the strategic positioning of each business and implementing expansion plans for high-growth potential areas while addressing underperformance in nonwoven materials, we aim to boost profitability and asset efficiency.

For the third measure—preparations for the future—we are focusing on refining our key areas for innovation into three strategic domains. We have established development themes that integrate polymer technology and biomedical technology. We have also initiated open innovation by investing in domestic and international venture companies and collaborating with universities.

For digital transformation (DX), our goal extends beyond digitization to harnessing digital technologies to transform the company and our operations. Specifically, we are making steady progress in developing IT environments that ensure secure and immediate internal and external communication, as well as authentication and authorization. These advancements are also being applied to innovation activities, including resin design through materials informatics and the implementation of smart factories.

In addition, we have launched a company-wide project to review operations and enhance labor productivity. The group has been recognized for meeting the Ministry of Economy, Trade and Industry's standards for DX initiatives and was awarded the DX-Certified Business designation in February 2024.

In terms of environmental initiatives, we have obtained Science-Based Targets (SBT) certification for our goal of reducing greenhouse gas (GHG) emissions by 46%* by 2030 compared with fiscal 2014 levels. This certification confirms that our target is based on scientific evidence. We are already forecasting a reduction of more than 30% through our efforts to promote energy transition.

The fourth measure, rebuilding our foundation, covers a broad range of components critical for our corporate activities. This includes not just the people and teams driving our operations, but also both structural and non-structural infrastructure, our organizational culture, and the governance systems that underpin the company.

For our personnel, we are selecting and training future leaders, implementing a manufacturing site leadership development program, and promoting our corporate philosophy. In addition to revising the TOYOBO Group Human Rights Policy, we have established the new TOYOBO Group Diversity Promotion Policy to create a workplace where diverse talent can thrive with pride and a sense of purpose.

In group governance, we are strengthening risk management worldwide. However, we recognize that further improvements are needed in areas such as safety, disaster prevention, quality, and compliance.

* SBT certification verifies our target of a 27% reduction in Scope 1 and 2 emissions by fiscal 2031 compared with fiscal 2021 levels, which equates to a reduction of 46% or more compared with fiscal 2014 levels.

Regain earnings capability over the next two years

Our primary goal is to enhance profitability and achieve the operating profit target of ¥20 billion. Addressing issues in businesses identified as needing restructuring is crucial. A company-wide effort will be dedicated to the reconstruction of the packaging films sector, with strategies adjusted based on market trends and the group's core strengths. To achieve this, we will prioritize boosting our profitability by increasing the proportion of high-value-added products, such as green films and high-performance films that minimize environmental impact. We will also focus on reducing fixed costs through the reorganization of production lines.

We must also address the recent increase in selling, general, and administrative expenses from both strategic and defensive perspectives. Company-wide initiatives will focus on reinforcing the competitiveness of business sites and factories by reallocating production facilities and reviewing indirect costs, including those for headquarters and other administrative functions. Efforts will include reducing indirect material costs and improving operational efficiency and productivity by raising business quality while cutting costs. Furthermore, we will ensure that our capital investments deliver solid returns and drive increased profitability. In parallel, to strengthen our financial position, we will emphasize asset efficiency and optimize utilized capital. We will work on improving the profitability of underperforming businesses and reduce utilized capital by selling non-core assets. As such, our initial plan, which allocated ¥240 billion for capital investments over four years as part of the 2025 MTP, has been significantly revised.

We will now focus on investments that meet hurdle rates (return on utilized capital) and defer growth investments in the packaging films sector. As a result, our investment plan has been reduced by ¥60 billion, to ¥180 billion.

Recognize risks while viewing them as opportunities

As we advance these measures, it is essential to acknowledge both the business opportunities and risks involved. For example, the transition toward a resource-circulating society, which includes reducing plastic waste, represents both a risk and an opportunity for the group with our focus on films and resins.

To capitalize on this transition as a business opportunity rather than viewing it solely as a risk, we are advancing technologies and initiatives in areas such as biomass and recycled materials, volume reduction, and mono-materials. Regulations in the EU are tightening, with a focus on reducing total plastic volume and increasing the use of mono-materials to facilitate post-consumer recycling.

In the food packaging films sector, we have leveraged our unique technological expertise to develop thin films that boost recyclability through mono-material solutions. Since the start of sample shipments, these films have garnered significant interest and adoption, particularly among European brand owners.

Given the global food shortage, we expect sustained demand for packaging films due to their role in reducing food waste. In the Chinese market, despite a cautious economic outlook, we identify opportunities for the group. Demand remains robust for EV-related components, such as lithium-ion batteries, as well as environmental solutions, including wastewater and exhaust treatment. In addition, the aging population and rising health consciousness are driving steady demand in the medical sector.

For further growth: Achieving results with TOYOBO MC Corporation

To reach the next growth stage, we will execute growth strategies for our film, life science, and environmental and

functional materials businesses while improving management practices to foster innovation. A key component of this strategy is TOYOBO MC Corporation, established in 2023. This new entity aims for significant growth in the environmental and functional materials sector by combining the group's technological expertise with Mitsubishi Corporation's global network and business management capabilities. TOYOBO MC is leveraging the strengths and growth potential of each business by reorganizing them into distinct business layers and reallocating resources accordingly. Moving away from the traditional integrated business unit model, which combines sales, production, and development, TOYOBO MC is shifting to a function-based approach. This involves reassessing market-driven marketing functions, factory operations, and resource allocation for development themes. Emerging opportunities in the environmental sector are particularly promising. We are exploring developments in several key areas: developing membranes for efficiently recovering and recycling valuable materials such as lithium from used batteries, including those from automobiles; high-performance fibers for floating offshore wind power; and volatile organic compound (VOC) recovery equipment for lithium-ion battery separator factories. In April 2024, we established the Mobility Business Strategy

Unit that spans both sales and development. The goal is to strengthen our marketing capabilities, enhancing our value proposition by transitioning from a product-based sales model to a solution-oriented business model that offers comprehensive solutions from materials to end-products. This initiative is also seen as an opportunity to foster a new corporate culture that links out-of-the-box thinking with the development of new solutions.

Continuing the long-term challenge for innovation

Looking beyond Sustainable Vision 2030 toward 2050, we will continue to pursue challenges and drive innovation. Guided by our corporate philosophy, we aim to create new breakthroughs by combining our core strengths in polymer technology and biomedical technology. Our focus is on three key areas: New Circular Plastics, which involves developing 100% renewable polymers; Environmental Active Clean, which aims to advance technologies for the separation and recovery of natural resources such as water and

air to enhance their preservation; and Well-Being, which seeks to improve health and quality of life, including for those with pre-disease conditions. We will prioritize research, technology development, and the creation of comprehensive solutions in these areas.

Our drive for innovation is fueled by our people. Since becoming president, I have championed a "people first" approach, emphasizing open dialogue from young employees to executives. Monthly discussions on serious issues, fostering individual autonomy, and promoting collaboration are key to generating new business opportunities. In an era with no clear answers, we must create an organization where free thinking and innovation flourish, often through collaboration with external parties. My role is to boost motivation within individuals and teams, foster a spirit of taking on challenges, ensure psychological safety, and encourage each person to take ownership and act accordingly.

To our stakeholders

Toyobo group is currently undergoing a transitional phase focused on regaining our earnings capability and rebuilding to become a thriving company by 2030. My mission as a leader is to sustainably enhance corporate value through our business activities, based on our corporate philosophy. I will concentrate on improving stock price and managing the cost of capital by driving business portfolio reforms, enhancing overall profitability, and boosting asset efficiency to increase return on equity (ROE) and shareholder value. Our goal is to elevate growth expectations for the group, aiming to raise our stock price and achieve a price-to-book (P/B) ratio above 1 as soon as possible. We appreciate your continued support as we implement reforms to transform our group into a high-value business entity over the long term.



Our vision is to create innovation by integrating our strengths in polymer technology and biomedical technology, while keeping our corporate philosophy as the foundation.

