

Masayoshi Shirayanagi
President
Chief Executive Officer

World-lea competiti

Unerringly seize opportunities and create value amid rapid market changes

Reflections on my first year in office

Focusing on strengthening competitive advantage in every sense of the word

It has already been a year since I assumed the position of President last June. Looking back, the environment has undergone dizzying changes, including large fluctuations in production volume, material and logistics costs that have remained high, the slowing economy and the prolonged Russia-Ukraine crisis, and faster-than-expected progress in CASE, especially electrification, in the automotive sector. Given this extremely uncertain outlook, we have been doing everything we can over the past year to clarify our position and strengthen our competitiveness in every sense of the word.

For example, in terms of production, we had to safeguard production not only at our own plants but also throughout the supply chain in response to a shortage of parts and a sharp rise in costs, and we overcame these difficulties by creating a system of

collaboration among our own plants and by communicating with suppliers in a timely manner. In addition, in order to strengthen our response to the drastic changes in the environment, we also promoted the acceleration of decision-making, including reviewing our global production and supply system, and revising our organizational structure and meeting bodies to speed up management. Furthermore, commercial rights and development/production functions for OEMs other than Toyota Motor Corporation were transferred from Aisin Corporation and Aisin Shiroki Corporation, and we advanced efforts to strengthen our competitive advantage even more.

In terms of sales, we continued to aggressively pursue orders from automakers (“strategic OEMs”) that have an alliance relationship with Toyota Motor Corporation, our main customer. We expanded new business, especially in Asia, by strengthening communication and exploring potential needs through the establishment of new sales offices and the holding of technology exhibitions at customers’ sites.

In terms of sustainability, we were named an A List Company by CDP for both the Climate Change and Water Security categories, submitted a letter of

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Message from the President

commitment for SBT certification, and initiated a human rights due diligence process.

Another area I have focused on is dialogue with front-line sites. In fiscal 2023, I visited 17 affiliates in Japan and 27 affiliates outside Japan, and engaged in dialogue with many company members at various sites. My motto is, “Turn your heads toward the external world and take a *Genchi-Genbutsu* (go, see & study) approach when going astray.” Through my site visits and dialogue, it was clear to me how each site is firmly implementing the PDCA cycle on the ground while looking to the future. I was able to experience firsthand the high level of motivation of each and every individual, and I myself was also energized by this. If our group works together as one, I am certain that we will be able to achieve the goals set forth in our mid-term business plan, as well as our 2025 target and our desired status for 2030. The last year was also one that deepened that confidence.

Summary of fiscal 2023 performance and outlook for fiscal 2024

Driving plans forward in a challenging business environment

In fiscal 2023, the second year of the 2025 Mid-Term Business Plan, consolidated revenue increased to 1,604.0 billion yen (up 12.8% from fiscal 2022) due to increased production resulting from a recovery in demand globally as well as foreign exchange effects, despite a challenging environment. In terms of profit, despite company-wide measures to secure earnings, operating profit declined to 47.6 billion yen (down 20.9%) and net profit attributable to owners of the parent declined to 14.6 billion yen (down 62.6%) owing to factors including a change in the model mix caused by parts supply issues in Japan and costs associated with the termination of the Russian operations.

In light of the changes in the environment since the formulation of the 2025 Mid-Term Business Plan, we reconfigured the level of achievement of our goals in order to realize our Vision, our desired status for 2030, and 2025 target, and identified the gap from the current situation. Taking this gap as a management issue, we have established MONOZUKURI competitiveness, R&D capability, sales capability, and management foundation as our Mid-Term Business

Hoshin, which we will strengthen continuously until 2025. (→ p. 29) In addition to these four items, activities that require acceleration due to ongoing issues from the previous year or changes in the environment with respect to annual targets have been designated as “fiscal year priority follow-up items.” In fiscal 2024, we are working on four fiscal year priority follow-up items: Response to the battery electric vehicle (BEV) market, Penetration of environmental management, Utilization of digital technology, and Promotion of TQM.

Although the market environment is expected to remain uncertain, we forecast an increase in revenue to 1,800.0 billion yen, due to factors including sales expansion to strategic OEMs in Asia and other regions. Despite the fact that we will maintain our policy of making up-front investments such as capital expenditures, environmental investments and investment in digital transformation (DX) after careful consideration on the respective necessity, we are also projecting an increase in profit due to the effects of increased production, boost from new products and the establishment of an efficient production system.

Growth strategy

Responding accurately to market changes

Steadily strengthening R&D capabilities in line with our roadmap

In order to become a company that provides new value to the entire automobile interior space as an Interior Space Creator in 2030, I would like us to have a world-leading competitive advantage in the seat, interior & exterior, and unit components businesses, expand the orders we receive from single items to systems, and be entrusted with even more items, in more regions, and in more development areas.

As one example, we have taken over the seat frame mechanism components business from Aisin Corporation and Aisin Shiroki Corporation, and are also in the process of making Toyota Body Seiko Co., Ltd. a subsidiary of Toyota Boshoku. This will enable the companies to truly share with each other their knowledge and expertise in development, production engineering, manufacturing, procurement, and other areas. We hope to quickly realize synergies to strengthen our competitiveness.

Meanwhile, we have drawn up a technology

roadmap to further bolster our R&D capabilities, which are at the root of manufacturing. First, we clearly define what a comfortable, safe, and secure automobile interior space is, and then we examine each of the specific technologies needed to realize this. We have made a sharp distinction between those technologies that we will produce in-house and those where we will seek the support of business partners. At the same time, we have determined how to acquire each technology, and are steadily making progress in line with our roadmap. It is also important for us to proactively make proposals for items we have developed to our client OEMs, and reflect in the technology roadmap the knowledge we have gained. In particular, we are looking to refine the technology roadmap with our sights on areas such as electrification, autonomous driving, MaaS, as well as our response to environmental issues. (▶pp. 31, 58)

Establishing systems to seize electrification as a major opportunity

The electrification of automobiles is rapidly accelerating around the world. In April 2023, we exhibited at the Shanghai International Automobile Industry Exhibition, and were reminded once again that Chinese manufacturers have a dominant presence in this field. Although the pace of progress varies from country to country, there is no doubt that the share of BEVs will increase worldwide.

We see this trend as a significant opportunity to expand our business, and we are likewise focusing our efforts on responding to automotive electrification. Previously, we had thought that the impact of electrification on our core seats and interior business would not be so significant. However, in the process of thorough benchmarking against our competitors, we have come to understand that with regard to one of the biggest challenges for electric vehicles, namely how to extend driving range, optimizing the components and materials used in the vehicle body and seat frames, as well as heat management in the automobile interior space, are more important factors than we had envisaged, and can contribute to improving electric power efficiency. We continue to make preparations with a sense of urgency, so that we can identify these new EV-specific requirements and propose the optimal products and systems. However, we cannot do everything alone. We need to work together with our customers, the automakers, from the early stages of product planning for seats

and other products, and carry out development taking the vehicle body and frame into consideration.

In unit components, in order to better secure business opportunities in new markets, from fiscal 2024 we have changed the previous Unit Components Center and Unit Production Engineering Center of the Unit Components Business Segment into the FPT Products Business Field and Electric Products Business Field. By establishing a system that allows us to perform all processes from product planning and development to production preparation under single management, we are able to meet our customers' needs at an unprecedented pace. (▶p. 65)

Creating next-generation rideshare spaces, including MX221

The Toyota Boshoku group is also focusing on value creation for MaaS, which is expected to become a new market for mobility. One example of this is the MX221, a rideshare space envisaging autonomous driving level 4. This product was planned through collaboration among six companies in the Toyota Group, including Toyota Boshoku, and was developed as a configurable cabin space solution tailored to a variety of users based on the concept of Diversatility.* This is where we maximize our expertise in safety and seating comfort, cultivated through our automotive seat business. By presenting specific automobile interior spaces such as the MX221, we are conveying to the market what kind of value we can bring to society as an Interior Space Creator, and by listening to market feedback, we can reconfirm the direction we should be taking.

In January 2023, we exhibited the MX221 at the CES 2023 consumer electronics trade show in Las Vegas, where it was well received by many visitors. MX ACCESS (for wheelchair users) was particularly well received. After the trade show, we continued to make individual presentations to customers around the world, and we are now receiving a wide variety of inquiries from various fields, not only about the MX221, but also about the automobile interior space in general. (▶pp. 47, 67) We can feel our customers' high expectations for this product and sense its future business potential. We are aiming for further technological development in this field, while continuing to take market feedback on board, and plan to advance from the planning and demonstration phase to the implementation phase, with the hope of bringing it to fruition as a business by 2025.

* A term coined by combining the words "Diversity" and "Versatility"

Strengthening human capital

Focusing on human resources development

While we are pushing forward with initiatives to strengthen our human capital, including placing HR strategy on the Board of Directors agenda, we recognize the need to make our efforts more visible to those outside the company as well. I believe that human resources are a company's most crucial asset, and that their development and growth are also the source of corporate value.

Since fiscal 2023, we have been working to identify our existing human capital and clarify the quality and quantity of human resources we will need in the future (HR portfolio). During fiscal 2024, we will clarify what abilities and skills are needed for us to become an Interior Space Creator, and to what degree these will be required.

In August 2022, we launched "Re:act," a program for developing innovative human resources that provides opportunities for spontaneous action, and "We:ave," an open application-based practical education program. In fiscal 2023, a space-themed workshop was held as part of "Re:act," with 1,629 participants. With "We:ave," 11 selected members participated in "Basic," a practical training program for innovation. In fiscal 2024, we plan to take our activities one step further with the "Advance" program. (→p. 46)

In parallel with these efforts, we will continue to focus on diversity and inclusion initiatives. The entire

group is promoting the development of an environment in which a diversity of company members of differing gender, nationality, age, and physical abilities/disabilities, can achieve their full potential and flourish. In fiscal 2023, we launched the Employee Network Resource Group (ENRG), a system for hearing the real voices of company members, and a number of ENRGs have been set up, including those for young members, senior members, and people with disabilities. In addition, the women's ENRG took the lead in organizing a convention to promote the success of women, which featured lectures and panel discussions by people from outside the company.

(→p. 45)

The health of each and every company member is essential for a vibrant and active career. We are committed to health management, and in fiscal 2023, we were again certified as an Excellent Enterprise of Health and Productivity Management 2023 (White 500) selected by the Ministry of Economy, Trade and Industry in collaboration with Nippon Kenko Kaigi (Japan Health Council). I myself have been swimming 12 times a month for 30 years. I encourage our company members to practice what is good for their body and mind at every opportunity.



Message to stakeholders

Aiming to continue being a company of choice

In order to ensure MONOZUKURI competitiveness, which is stated as the first pillar of our Mid-term Management Hoshin, I believe it is necessary to enhance our total strength as a company, including planning, development, production engineering, manufacturing, procurement, and sales, as well as the human resources and workplace culture that are the source of all of these. In order to maximize the potential of human resources, it is essential to foster an open workplace culture.

It will become increasingly important for each company member to take his or her own decisions at their work site and act quickly. This requires a workplace culture in which everyone can openly express their opinions without concern for hierarchical relationships.

In order to prevent incidents of corporate misconduct, the Toyota Boshoku group has established consultation services, including for our suppliers. However, separate from the establishment of such a system, I believe it is important to have a workplace culture in which anyone who feels even slightly that something is wrong can openly point it out to others, and I myself am conscious of taking the initiative to listen to the voices of those around me. For example, since becoming President, I have had more opportunities to give speeches within the company, and on each such occasion, I make sure to carry out a survey, read through all the responses, and make use of them in our measures and in my own actions.

I believe the key to creating an open workplace is to trust and entrust. Therefore, since assuming the position of President, I have asked all our managers to ensure that they trust their subordinates and delegate tasks to them. However, I also tell them that the manager has ultimate responsibility, and that I want them to be sure to follow up on progress and also be ready to give advice. As a result of entrusting tasks, there are likely to be many mistakes initially. In the long run, however, the experience of failure, like the experience of success, always leads to personal growth. The important thing is to try it yourself without fear of failure. This will nurture human resources who can think for themselves and lead to the development of a workplace culture with a high degree of autonomy.

Another thing I tell all our managers is, "Let's always be in good spirits!" Even when I myself come in contact with bad news, I try to avoid looking displeased as

much as possible, and to always smile and express my gratitude. I believe this will make for a cheerful and positive workplace atmosphere. By creating this kind of positive workplace atmosphere and continuing to consistently communicate an entrust and nurture policy, I would like to foster an open workplace culture that will serve as the foundation of our competitiveness and lead to speedier management.

I am confident that our growth strategy, which aims to create new value while anticipating the development of CASE and MaaS, is becoming something that our customers and many other stakeholders can look forward to. As I have been saying ever since I took office, my greatest desire is to be a company for which our customers, shareholders, company members, partners, suppliers, local communities, and various other internal and external stakeholders feel an affinity and are able to say, "I like Toyota Boshoku," and to continue being a company that is chosen by them.

We, the Toyota Boshoku group, will continue to make steady progress toward the achievement of our 2025 Mid-Term Business Plan, and beyond that to the realization of being an Interior Space Creator. I very much hope to gain the continued understanding and support of all our stakeholders.

Masayoshi Shirayanagi

President
CEO

Financial strategy for realizing world-leading competitiveness



Shunichi Iwamori
Director, Operating Officer
Chief Financial Officer

Review of fiscal 2023

Progress in strengthening the corporate structure despite a challenging environment

In fiscal 2023, my first year as CFO, we operated in a very difficult environment, with large fluctuations in automobile production volume due to a shortage of semiconductors, material and logistics costs that continued to remain high, and the prolonged Russia-Ukraine crisis. While recognizing that the role of the CFO is to support the sustainable growth of the company through the implementation of financial strategy and the accumulation of results, amid a drastically changing external climate it was a year that made me acutely aware once again of the importance of safeguarding production and employment throughout the supply chain, including our suppliers, as well as strengthening the corporate structure and management foundation to enable us to respond flexibly to environmental changes.

For example, our suppliers who provide us with raw materials, have similarly faced soaring prices for materials and energy. If business with our suppliers is not conducted in an orderly fashion, they will face a business crisis due to deteriorating cash flow, etc., and the craftsmanship they have cultivated will also be put in jeopardy. Through repeated communication with our suppliers, working closely with them and occasionally being direct with each other, we continued making concerted efforts to confront the difficult situation, with our main focus on safeguarding the entire supply chain.

In fiscal 2023, performance reflected the challenging conditions. Although revenue grew, due in

part to a recovery in production after the coronavirus pandemic, operating profit decreased owing to the impact of changes in the external environment as well as deterioration in the car model mix. In particular, we decided to withdraw from our Russian operations as we concluded it would be difficult to continue in light of the protracted Russia-Ukraine crisis. It is extremely regrettable that we were unable to maintain the business we had nurtured and continue to employ the company members we had grown together with.

Progress under the 2025 Mid-Term Business Plan is focused on the evaluation of processes, such as whether the transformation of the corporate structure has progressed, and whether sales expansion and the internalization of technology are proceeding as planned. For example, we are steadily strengthening our R&D capabilities, which form the foundation of manufacturing, in line with our roadmap. I believe the year was one in which we made steady progress in strengthening our corporate structure; for example, making progress in expanding sales to strategic OEMs in the Asia region.

Outlook for fiscal 2024

Responding to production fluctuations and making strategic investments for the future

Although uncertainty is expected to continue in the second half of fiscal 2024, vehicle production is on the

road to recovery as the semiconductor shortage is gradually resolved, and high levels of production are forecast going forward. We will continue to respond robustly to market changes, while at the same time remaining disciplined in our strategic investments, which are the seeds we are planting for sustainable growth.

Capital investment in fiscal 2024 is expected to be at a record high level. Our largest investments will be for the construction of new plants outside Japan to improve efficiency through production consolidation, and for the improvement of logistics efficiency within Japan. We anticipate benefits over the medium to long term from these investments, and improved transportation efficiency will also contribute to lower CO₂ emissions and further bolster our competitiveness.

In addition, with the transfer of the seat frame mechanism components business from Aisin Corporation and Aisin Shiroki Corporation, we have begun to do business with new partners. Toyota Boshoku Hirose Corporation, which became a new member of the Toyota Boshoku group in April 2023, aims to further strengthen the competitiveness of the Toyota Boshoku group by leveraging its expertise in manufacturing competitive seat devices and experience of doing business with a wide range of customers. Going forward, local subsidiaries of Aisin Shiroki Corporation in Indonesia and India will become subsidiaries of the Toyota Boshoku group, followed by Toyota Body Seiko Co., Ltd. (a subsidiary of Toyota Auto Body Co., Ltd.). We will further strengthen our competitive advantage by applying our manufacturing and technological capabilities, which enable us to provide high value-added products and services, to our existing businesses.

	2025 Mid-term Business Plan target	FY2023 results	FY2024 full-fiscal year forecasts
Revenue (billion yen)	1,600+ α	1,604.0	1,800
Operating profit (billion yen)	100+ α	47.6	69
Operating profit ratio	6–7%	3.0%	3.8%
ROE	10% or higher	3.7%	8.1%
Ratio of equity attributable to owners of the parent	Around 40%	39.8%	40%
Net asset (billion yen)	400	436.8	470
Dividend payout ratio	Around 30%	89.1%	38.5%
Capital expenditures (billion yen)	250+ α (FY2022–2026 total)	50.7	82
R&D expenses (billion yen)	200+ α (FY2022–2026 total)	47.3	49

* Announced on July 28, 2023

Message from the CFO

As a result of the aforementioned business transfer and other factors, the share of sales to customers other than Toyota Motor Corporation is expected to increase further in fiscal 2024 from the 8% share achieved in fiscal 2023, and so our target of 13% in fiscal 2026 is now in sight. We will strengthen financial support in order to win more orders from strategic OEMs, especially in emerging countries such as Indonesia and India.

Medium- to long-term financial strategy

Maximization of cash flow and optimal allocation

I think the basic policy in our financial strategy is to maximize cash flow and implement optimal allocation. We will continue aiming to achieve sustainable growth by continuously and systematically executing investments in various areas in line with our medium- to long-term strategy, while maintaining a sound financial base.

The scale of investment is planned to be approximately 250 billion yen in capital expenditure and 200 billion yen in R&D expenses over the five-year period from fiscal 2022 to 2026. Major projects include global investment in production facilities and promotion of automation on production lines using robots, AI, and sensing technologies for the new generation TNGA* being promoted by Toyota Motor Corporation, our largest customer. In addition, we aim to further strengthen our earnings base by bolstering our manufacturing structure, including establishing a new logistics site in Japan and constructing a new plant in the United States.

We will continue to aggressively pursue environment-related investments and accelerate activities toward our goal of reducing CO₂ emissions by 50% by 2030 (compared to fiscal 2014) and achieving carbon neutrality by 2050. In May 2023, we updated the results of our scenario analysis and disclosed future applicable costs in order to enhance information disclosure under the Task Force on Climate-related Financial Disclosures (TCFD). We will use the timing of model changes to promote upgrading to production facilities with lower CO₂ emissions, the introduction of renewable energy to production sites, and more efficient transportation using a new logistics site. In addition, with regard also to biodiversity, which will be a focal point in the future, we are developing highly sustainable products that address resource depletion.

In terms of investment in R&D, we are actively budgeting for R&D expenses to make our products easier to recycle, and we will create technologies that lead to the realization of a circular economy throughout the value chain.

In terms of investment in human capital, we are working to promote the success of our diverse human resources by introducing a common global HR system and promoting the exchange of human resources between regions outside of Japan, as well as promoting innovative human resource development programs to foster leaders who can create new businesses.

* Toyota New Global Architecture: An initiative of Toyota Motor Corporation directed toward structural reform of automobile manufacturing with the aim of greatly improving basic performance of vehicles and product appeal

Main strategic investments for the future

Field	Details
Production / Logistics	Establishment of a new seat device company in the US
	Establishment of a new logistics site in Japan
	MONOZUKURI innovation using robots and AI / sensing technologies
Alliances	Reorganization of the seat frame mechanism components business globally
	Investment in startup companies through Corporate Venture Capital (CVC)
Environment	Investment in energy conservation and renewable energy at production plants
	Response to the circular economy (material recycling, biomass conversion, etc.)
R&D	Support for CASE/MaaS (development of next-generation mobility services, rideshare spaces, etc.)
	Support for BEVs (thin seats, electric products [motor cores, FCs], etc.)
Human capital	Innovative human resource development, promotion of diversity and inclusion

Capital efficiency

Improving capital efficiency by optimizing country-specific characteristics

In order to implement disciplined investment, we are now considering verifying the efficiency of return on invested capital in addition to internal rate of return (IRR), which we have been using for business feasibility assessment hitherto. In business expansion outside of Japan, previously we have built similar production lines in each country in line with global standards. While this has its advantages, such as ease of horizontal deployment, in recent years it has become apparent that it is difficult to reflect regional characteristics, such as supply chains and labor costs in each country. Therefore, we have begun to consider the possibility of verifying capital efficiency by focusing on return on invested capital (ROIC) by country, taking into account regional characteristics. However, if different production methods and lines are introduced

in different countries in the future based on capital efficiency, this could have the adverse effect of making it difficult to provide support and technical training to neighboring countries as we did in the past. We are promoting discussions about verifying the efficiency of ROIC as a tool for in-depth debate with the local site and management as we seek to further improve capital efficiency while leveraging the expertise and experience we have accumulated to date.

Message to stakeholders

Enhancing corporate value by executing financial strategy

The Toyota Boshoku group aims to enhance corporate value by actively investing profits generated through its business activities in growth areas and maximizing net earnings per share, thereby increasing our earning power. We pay dividends to shareholders based on the principle of maintaining long-term stable dividends, taking into consideration factors including consolidated earnings and the dividend payout ratio.

For fiscal 2023, we increased the annual dividend by 6 yen from the previous year to 70 yen per share. We will continue to meet your expectations by maintaining stable dividends over the long term as well as considering the possibility of share buybacks, aiming to improve our price-to-book (P/B) ratio by maximizing market capitalization.

I recognize that an important role of the CFO is also to strengthen communication with all our stakeholders. In fiscal 2023, we newly held an ESG briefing in response to requests for non-financial information disclosure. Through in-depth dialogue, we will listen sincerely to the voices of our stakeholders, and at the same time we will communicate our thoughts and specific activities for sustainable growth in a more appropriate manner. My hope is that by doing so, you will feel an affinity with us and ultimately become a “fan” of Toyota Boshoku. I very much hope to gain your continued support and understanding of the Toyota Boshoku group.

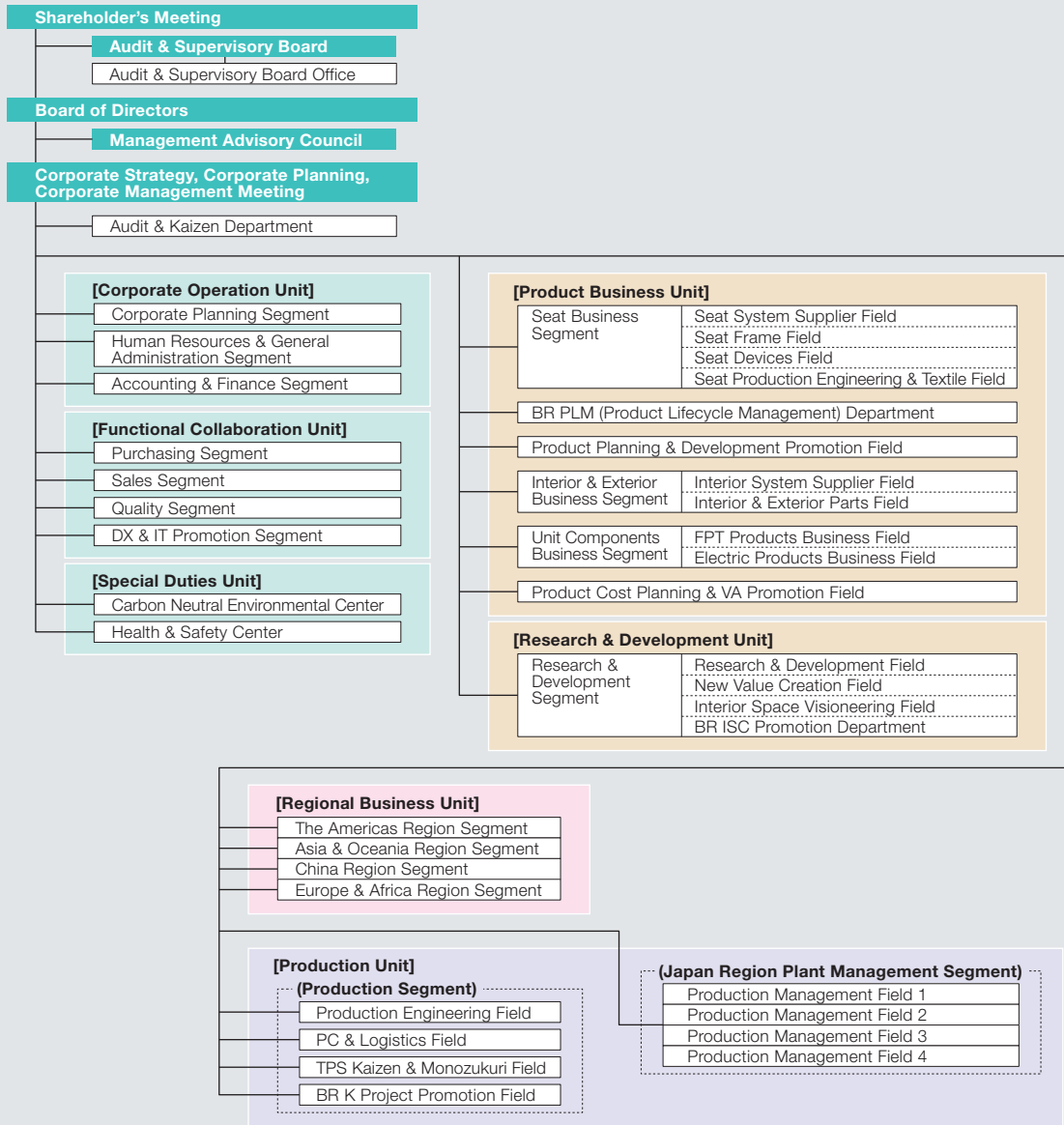
Shunichi Iwamori

Director, Operating Officer
CFO



Organization & Chief Officer structure

Organization Chart As of September 1, 2023



CxO		Organization management
CRO	(Chief Risk Officer)	Audit & Kaizen Department
CEO	(Chief Executive Officer)	
CMO	(Chief Manufacturing Officer)	Production Engineering Field, PC & Logistics Field, TPS Kaizen & Monozukuri Field, Japan Region Plant Management Segment, BR K Project Promotion Field
CTO	(Chief Technology Officer)	Seat Business Segment, Interior & Exterior Business Segment, Unit Components Business Segment, BR PLM Department, Product Planning & Development Promotion Field, Product Cost Planning & VA Promotion Field, Research & Development Segment
CFO	(Chief Financial Officer)	Accounting & Finance Segment
CPO	(Chief Purchasing Officer)	Purchasing Segment
CHRO	(Chief Human Resource Officer)	Human Resources & General Administration Segment
CCNO	(Chief Carbon Neutral Officer)	Carbon Neutral Environmental Center
CCO	(Chief Customer Officer)	Sales Segment
CDO	(Chief Digital Officer)	DX & IT Promotion Segment
CSO	(Chief Strategy Officer)	Corporate Planning Segment
CBO	(Chief Branding Officer)	Interior Space Visioneering Field
CQO	(Chief Quality Officer)	Quality Segment
RCEO	(Regional Chief Executive Officer)	The Americas Region Segment
		Asia & Oceania Region Segment
		China Region Segment
		Europe & Africa Region Segment