



# Message from **Management**

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## 01 Message from Management

### Point

We aim to contribute to society through technology and manufacturing amid a major transformation in the automotive industry.

As we take on the challenge of becoming an engine system supplier, we will continue to support powertrain products for automobiles by leveraging environmental technology, which we have so far cultivated.

Based on this determination, we have outlined the responsibilities the Company must fulfill in the message from our President and the discussion with our outside directors.

The discussion with outside directors is divided into two parts—reappointed directors and newly appointed directors—to clearly distinguish their differing perspectives.

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## Embarking on a new chapter with a two-pronged strategy: Supporting the engine domain through our powertrain business while accelerating growth in our electrification products business

### Achievements and goals since assuming the presidency

#### Moving forward with the conviction that engines will never disappear

Since I was appointed president in 2018, I have consistently aimed to make us a leading company in the development and production of powertrains related to engines. At the time, the automotive industry was facing a rapid wave of electrification, but I was convinced that engines would never disappear. The reason is that in terms of energy efficiency, there is a clear gap when comparing fossil fuels and batteries using current technology. Moreover, globally, we anticipate it will take considerable time for charging infrastructure to be established in India and the ASEAN region, where population growth and economic expansion are expected to drive increased demand for four-wheeled vehicles in particular. Furthermore, over the entire vehicle lifecycle, the CO<sub>2</sub> emissions of hybrid electric vehicles (HEVs) and electric vehicles (EVs) are nearly identical. When comparing environmental performance, HEVs equipped with engines are not inferior to EVs. Looking ahead, I believe it is important for users to be able to make their desired choice from a diverse range of power sources, tailored to each country's energy circumstances and other factors.

Even as varied automotive power sources become available in the future, as long as engines continue to be demanded by society, engine-centered powertrains will remain the cornerstone of our business. As powertrain professionals, we engage in the development process of not only engine components but the entire engine system, aiming to become a corporate group that creates new value centered on power sources and powertrains within the mobility domain. To achieve this, we will accelerate sales expansion of our core products and advance M&A to broaden the scope of our business domain.

#### Relentless pursuit of the electrification domain

While anticipating that demand for engines will not disappear, we have come to recognize the inevitability of electrification and the necessity of sowing new seeds and embracing challenges with an eye toward the future. Therefore, in the new Medium-term Management Plan announced this year, we explicitly set forth a two-pronged strategy: continuing to support the engine domain to its very end while relentlessly pursuing electrification based on the expertise cultivated in our powertrain business.

Since the previous Medium-term Management Plan period, we recognized that software holds the key to both powertrain and electrification technologies, and as a first step, we focused on developing human resources in this area. Furthermore, recognizing the significance of batteries—the core of electrification—we are accumulating know-how, starting with battery cell case manufacturing, to gain a deep understanding of their characteristics and translate this into future business propositions. Although demand for battery cell cases is expected to grow, the small scale and scarcity of manufacturers makes it difficult to respond flexibly to market needs. We are able to meet our customers' diverse needs because our design, production engineering, and manufacturing teams work in close collaboration. We have continued to pursue the challenge of ensuring stable supply and quality while leveraging existing technologies, and are now ready to establish mass production.

We also aim to leverage our manufacturing strengths to enter the battery pack market. To provide greater value to our customers in the future, we aim to move the design process for electric drive systems in-house.

#### Growth strategy rooted in internal mindset transformation

To reach new heights, it was essential for each employee to have confidence in our products, reexamine their roles, and undergo a mindset transformation that enabled them to discover their potential with a future-oriented attitude. First, I consistently conveyed my unwavering belief in the engine in my communications. I also focused on creating an environment where employees could continue working with a sense of purpose. This included



**Tokuhsa Nomura**

President, CEO

implementing the "Aisan Katariba" sessions where employees and executives could exchange opinions directly, and establishing various support systems to help balance family and work life.

At the same time, the promotion of employee health was positioned as one of our core business foundations, and we are actively advancing health management initiatives. As a result, the Company has been selected as one of the Outstanding Organizations of KENKO Investment for Health (White 500) for seven consecutive years since 2018. This year, we were selected for the first time under the KENKO Investment for Health Stock Selection program. I recall that when I became president, I noticed a sense of stagnation in some parts of the company. However, through our efforts to date, I feel we have successfully fostered an expectation for change.

I believe such a transformation in mindset is also crucial for strengthening corporate financial health and, ultimately, for pursuing capital cost management. The P/B ratio improvement request issued by the Tokyo Stock Exchange in March 2023 is understood to be a directive stating, "Unless companies focus on capital efficiency management, the Japanese market will not revitalize. Therefore, make efforts to increase corporate value." On March 25, 2025, our stock price reached a new all-time high since listing. It is apparent that our ongoing management approach, focused on capital costs, is beginning to receive recognition from our investors. We will achieve a minimum P/B ratio of 1x as quickly as possible and aim for an ROE of 12% by fiscal 2027. The TOB for our own shares conducted this year is also part of our efforts to promote capital efficiency management.

To pursue management efficiency that exceeds the cost of capital, we intend to use the ROIC tree to link operational actions with management targets, thereby maximizing profits while efficiently utilizing assets. We will incorporate management KPIs into departmental KPIs through ROIC improvement drivers, ensuring steady execution by driving the PDCA cycle within each department. I believe that spreading this initiative throughout the entire Company is the key to success. I communicate this to the frontline staff using precise language such as "eliminate defective products" and "use equipment efficiently."

Review of FY2024

Record profits driven by future-oriented manufacturing

Through our profit improvement and MMK (*Motto Monozukuri Kyoka*; strengthening of manufacturing) activities launched in 2020, we achieved our fiscal 2025 targets for sales, operating profit, and ROE ahead of schedule in fiscal 2024. Both sales and operating profit reached record highs.

MMK activities have become deeply ingrained both inside and

Aisan Future Factory: Promoting innovative manufacturing



At the Aisan Future Factory, we are advancing carbon neutrality initiatives, including conducting demonstration experiments for the practical application of a compact 10 kWh power generation system as part of our ammonia-hydrogen power generation project. Furthermore, we will utilize IoT, AI, and big data to create production sites where humans and robots coexist. This will lead to innovative manufacturing, including labor-saving through collaborative robots and the establishment of 24-hour unmanned lines through automation.

outside the Company, with approximately 600 proposals submitted in fiscal 2024. Of these, 60% were proposals from business partners, 20% originated from the Group's overseas sites, and 20% came from our domestic sites. I am delighted as well as excited to see that the initiative I spearheaded has now expanded throughout the entire supply chain.

A notable improvement example involved reducing the number of part numbers into which components were finely divided by vehicle model to less than half, achieved with customer cooperation. Sharing improvement examples across the Company enables other departments to gain insights for their own operations from successful initiatives elsewhere. When proposals that benefit customers are embraced, this makes the impact more tangible. By recognizing and spreading such positive efforts, we also boost motivation throughout the Company. We are right in the midst of experiencing change, so we will continue striving to build a robust foundation that enables stable revenue generation through MMK activities.

In the fuel pump module business, we achieved the top global market share (37%) through the acquisition of the business from DENSO. As we proceed with the business transfer, challenges in areas such as standardization of manufacturing methods, inspections, and specifications have also come to light. Since there remains significant room for improvement through our own initiatives, we anticipate that profit margins will continue to improve beyond fiscal 2026.

Our electrification products business and application of clean energy technologies are also delivering results that will carry forward into the next generation. In the electrification products

business, we received orders for multiple products including busbar ends (battery components) and controllers for small mobility vehicles. Going forward, we will define our exit strategy and chart a path toward commercialization. In the application of clean energy technologies, demonstration testing of ammonia fuel cell power generation units commenced in June 2023. In some cases, development involving foundational research takes time. However, at the Aisan Future Factory, completed in May 2025, we plan to conduct demonstration experiments for stable power supply using our proprietary ammonia-hydrogen power generation. This enables us to boldly take on the challenge of development and practical application through trial and error. The next challenge is to formulate and execute a concrete action plan for market launch.

Our vision for the new Medium-term Management Plan

Transformation from an engine parts manufacturer to an engine system supplier

In our 2024 Integrated Report, I pledged: "To maintain the trend of positive growth, we will formulate the next Medium-term Management Plan with even more challenging targets to meet the expectations of all of our stakeholders." To demonstrate this determination, our new Medium-term Management Plan explicitly states our aspiration to improve technology and expand our business, declaring our future vision as an engine system supplier\*. To survive in today's challenging global environment, we will expand beyond the confines of our parts manufacturer business model, which focuses on selling individual components, and broaden our scope to include subsystem and engine system design. I believe that the very attitude of continually venturing into new domains is the driving force behind the sustainable enhancement of corporate value.

Furthermore, as automakers including Toyota Motor Corporation have announced their transition to mobility companies, we too must contribute to the transformation of the entire industry. In developing the powertrains that will be needed going forward, we, with our calibration technologies (vehicle system control technologies) cultivated over many years, can go beyond simply designing and manufacturing according to the requirements of automakers. It enables us to act as their partner, defining the required specifications for the engine itself and making proposals. We will strive to become the leading company in the powertrain sector, both in terms of technological capability and market share.

We also anticipate that over the next few years, there will be a shift from gasoline-based fuels to carbon-neutral fuels such as e-fuels, driving increased demand for zero external emissions of

environmentally harmful substances. As we expand globally, we have pursued performance capable of handling fuels of varying quality. We plan to leverage these technologies to expand our product lineup to include options compatible with carbon-neutral fuels. We set ambitious numerical targets to contribute to the achievement of Zero CO<sub>2</sub> and Zero emissions through our technology, communicating internally that "even if we are not the top runner, we must be in the top group."

\* **Engine system supplier:** A supplier capable of managing next-generation engine systems (compatible with carbon-neutral fuels), including electronic control units (ECUs) and control systems, together with partners (OEMs and other companies).

Global strategy leveraging the strengths of the powertrain business

In the global market, while the battery electric vehicle (BEV) market has undergone a slowdown due to factors such as the state of charging infrastructure development and supply risks for associated raw materials, I anticipate that we can capture the absolute market demand by leveraging our long-standing expertise in the powertrain business.

By region, engine demand is expected to increase significantly in our top priority regions of India and the ASEAN countries. With aggressive investment, I expect that we will be able to meet our potential in these regions going forward.

In the U.S., HEVs are performing well and growing at a relatively stable pace. While tariff policies and other factors have an impact, we will continue to source materials locally and engage in dialogue with customers as we have done previously, rather than relocating manufacturing facilities.

In China, while BEVs are expected to exceed 30% by 2030, challenges such as securing charging spots in suburban areas mean that plug-in hybrid electric vehicles (PHEVs) are likely to be the more practical choice. However, given that the challenging situation for Japanese manufacturers is expected to persist, we will establish an efficient production structure capable of flexibly responding to volume fluctuations to maintain profit margins even if sales decline.

In Europe, environmental regulations requiring automakers to reduce CO<sub>2</sub> emissions have been postponed until 2027. However, demand for decarbonized fuels will increase, so we will also expand production of related components. Japanese manufacturers' HEVs are currently performing well, and I do not expect production volumes to decline significantly by 2030.

## Achieving synergistic effects through proactive growth investments such as M&A

The targets for fiscal 2030, the final year of the new Medium-term Management Plan, are consolidated net sales of 550 billion yen, operating profit of 44 billion yen, ROE of 14%, and ROIC of 11%. The target of a 60% increase in sales compared to fiscal 2024 is quite ambitious, but I believe we can achieve it by working in unison throughout the entire Company to deliver new value.

Regarding cash allocation, we plan to invest a total of 143 billion yen over the next three years through fiscal 2027 as growth investment, including 50 billion yen for strategic investments. For strategic investments, we will utilize funds for M&A in the powertrain business. For fiscal 2030, we project M&A and business expansion targets of approximately 150 billion yen in net sales and an operating profit ratio of approximately 5%.

Regarding our M&A policy, we intend to collaborate with companies that can generate synergies to enhance our competitiveness as we strive to become an engine system supplier. Furthermore, as a responsible corporate group supporting Japan's automotive industry, we are driven not only by the pursuit of our own profits but also by a passionate commitment to restore Japan as an industrial nation. We will actively engage in dialogue with companies that share our passion for manufacturing.

R&D expenses, which are part of growth investments, are planned to total 43 billion yen over three years. Funds will be allocated toward product development for carbon-neutral fuels and enhanced evaporative emissions regulations, as well as the nurturing of software human resources. We also plan to allocate approximately 10% of total R&D expenses to research and development for the society of the future, such as creating new value in the environmental and energy sectors. Moreover, we plan to invest 50 billion yen in capital expenditures over three years. As we expand our operations in India and the ASEAN region, we will focus on strengthening our foundations through production consolidation and logistics streamlining, as well as preparing production for custom orders to expand our electrified product lineup.

### Achieving VISION2030

## Linking in-house mindset transformation to human resources development

Through the aforementioned initiatives to transform the mindset within the company, I feel that employee awareness has steadily improved over the seven years since I became president, and the proportion of human resources who want to positively embrace

change has increased. Following the release of VISION2030, an in-house questionnaire revealed an increase in the proportion of employees who feel the company is contributing to society. Momentum is steadily building and each individual is starting to take ownership of creating new value.

This shift in mindset has boosted employee motivation, leading to tangible results in human resources development. In software human resources development, we successfully trained over 100 employees, primarily young to mid-career hires, over the planned three-year period starting in 2022. Software is a means to achieve system control. However, without knowledge of system control, effective software development is unlikely. We have set our target at a level where we can independently develop in-vehicle systems, and are acquiring both software technology and system control expertise.

We are also inviting proposals for new business ventures, aiming to foster a startup mindset among young employees to the greatest extent possible. Labor shortages have become a social issue, and our company is not alone in facing challenges in securing, recruiting, and retaining human resources. To strengthen recruitment efforts, we are enhancing brand awareness through television commercials and advertising placements within Nagoya Station.

## Overhauling management system to strengthen governance

As part of our efforts to strengthen governance, we have overhauled our management system starting in fiscal 2025 and introduced a chief x officer (CxO) system. The appointment of chief officers in Aisan Group aims to strengthen executive functions. I believe that accelerating cross-group decision-making is an essential element for further strengthening our management foundation, as our overseas sales ratio continues to increase annually.

We will also work to lay the groundwork for maximizing the effectiveness of the CxO system. We will strengthen group-wide collaboration while leveraging each group company's internal reporting systems, compliance training frameworks, and other mechanisms tailored to regional needs and business scale. We will strive to establish a system that enables close communication with headquarters, including overseas locations, through the establishment of a global whistleblowing hotline and other measures, to promptly address issues through shared understanding and resolution.

The Board of Directors has implemented measures to promote productive discussions, such as enhancing preliminary agenda briefings, based on the results of the effectiveness assessment. To transform into an even more appealing company going forward, it is essential that internal directors and executive officers first demonstrate stronger leadership and drive this transformation. We appoint outside directors with diverse backgrounds and high levels of expertise. Even within their limited time availability, they



consistently provide insightful questions and valuable suggestions about management from a multifaceted and overarching perspective. We will continue to focus on enhancing the effectiveness of the Board of Directors under a governance structure that ensures independence and diversity.

Additionally, since 2023, our off-site meetings have shifted away from the Board of Directors' typical format of gathering at headquarters to address numerous agenda items. Instead, we now focus on a narrower set of themes. I feel that our outside directors have gained a deep understanding of the Company's management challenges, enabling us to incorporate their valuable insights into our management strategy.

### To our stakeholders

## Accelerating our evolution toward the vision of a "beaming future is in our hands"

The automotive industry has seen significant changes in its market environment over the past few years. However, our universal principle of "freedom of movement for all passengers" will remain unchanged. Within this context, we pledge to contribute as a company that supports engines to the very end, and have publicly

declared our evolution into an engine system supplier. This is a major challenge for us. In particular, in powertrain development accompanying vehicle development, we must contribute as a partner to automakers and become the leading company in this sector.

In our current VISION2030 initiative, we have expressed the vision for the Aisan Group's future with the phrase, a "beaming future is in our hands." We are determined to create a "+1" value to enrich and improve the liveability of society in the future by contributing to providing clean and safe mobility for all. Please look forward to seeing us forge ahead toward achieving VISION2030.

We will continue to value dialogue with our stakeholders and strive even harder to remain a trusted company, contributing to sustainable growth and solving social issues. We ask for your continued support and guidance.

## The management system overhaul will further advance the establishment of an environment that facilitates sound management decisions

### Critical assessment of discussions that contribute to enhancing corporate value as representatives of minority shareholders

Three independent outside directors who were reappointed reviewed the process of formulating the new Medium-term Management Plan, which had been discussed repeatedly in Board meetings over more than half a year. They exchanged views with Executive Vice President, CSO and CRO Akihiro Yamanaka on priority objectives, current challenges in achieving our goals, and how to strengthen the supervisory function of the Board of Directors' management.



Akihiro Yamanaka  
Executive Vice President, CSO and CRO

Satoe Tsuge  
Outside Director

Yuichi Oi  
Outside Director

Yurie Iribe  
Outside Director

### Could you please review the process leading up to the formulation of the new Medium-term Management Plan?

**Tsuge** In formulating the new Medium-term Management Plan, many opportunities for discussion were provided, including off-site meetings held prior to the Board of Directors meetings. During the process, we received explanations about the trends and outlook for the global mobility market, and we also had opportunity to ask many questions to properly understand the business environment. I believe it was extremely valuable to be involved from the initial stages of the goal-setting discussions when tackling major topics like the new Medium-term Management Plan.

**Iribe** I also found the discussions at the off-site meetings very useful. In particular, I pointed out that the materials for the new Medium-term Management Plan contain specialized terminology related to products and technologies, and requested that they be improved for easier reading. I believe our intentions have become much easier to convey thanks to some thoughtful adjustments that were made promptly, such as providing explanations for technical terms. I particularly commend the fact that addressing social issues within the business strategy has been converted into concrete initiatives as the first step toward the society of the future.

**Yamanaka** At the off-site meeting, I addressed each question raised by the outside directors regarding the draft plan until everyone was satisfied with the answers. I believe that sharing basic information enabled us to hold four substantive discussions at subsequent Board of Directors meetings.

**Oi** There were also thorough preparations made before the meetings to make better use of the limited time available for the Board of Directors. When I requested details about the management meeting, I was provided with both the minutes and an explanation of the content, which proved helpful in understanding the background behind its submission to the Board of Directors.



**Tsuge** Understanding the background of the agenda items is crucial for reaching an appropriate conclusion. In regard to the utilization of cash allocation in particular, given the initial ambiguity surrounding the specifics of future growth investments, I conducted a thorough review of what to invest in, the amount to invest, and whether the scale of M&A could be specified.

**Oi** The final-year targets of the new Medium-term Management Plan are quite ambitious, and achieving them will be a challenging task. The direction of the mobility business has been clearly defined. Going forward, I would like to discuss specific business plans, including M&A, on a case-by-case basis and closely monitor progress.

**Yamanaka** We have set ambitious goals as a declaration of our intent to further advance business expansion. We would like to continue discussing the approach to risk-taking when creating business alliances, capital alliances, and M&A to advance matters in more concrete terms.

### Please list any challenges and areas for improvement to achieve the new Medium-term Management Plan.

**Oi** Since we've been able to define the broad business policy, I believe the remaining challenge boils down entirely to nurturing the human resources to execute it. Relying too heavily on an external workforce prevents Aisan Industries' passionate commitment from being fully conveyed. Therefore, we should aim for growth that balances business expansion with profitability and capital efficiency by mobilizing the full strength of the Aisan Group, including the global departments.

**Yamanaka** In nurturing executive management candidates, our previous approach focused on developing expertise within the department assigned upon joining the company. However, in recent years, we have actively implemented cross-departmental rotations.

We encourage them to broaden their perspective by gaining experience across multiple departments, developing a comprehensive view of the whole Company.

**Iribe** I also believe that human resources development is essential for executing business strategy. As a member of academia, I would like to collaborate with the Company—which provides innovative manufacturing solutions—to explore how we can nurture human resources equipped with the capabilities and skills demanded by industry. With the projected coming decline of the workforce, innovative manufacturing sites should also be places where the younger generation and children who will shape the future want to work. I believe that leveraging collaborative robots and data science to achieve labor reduction and automation also contributes to sustainable manufacturing. These are precisely the concepts of the Aisan Future Factory, and I have high expectations for the challenges that the Company is striving to meet to pioneer the future.

**Yamanaka** The future we envision assumes something that will last for a long time to come. We will respond with strong determination to the diversification of energy sources such as



ammonia and hydrogen, and to innovative manufacturing. Going forward, we will need a production structure that can enhance efficiency through systematization and enable the creation of diverse product lines. We will optimally combine hardware and software to meet our customers' needs.

**Oi** For a long time now, I've been concerned about the lack of discussion on overseas business initiatives. Given that overseas sales account for as much as 70% of net sales, it is reasonable to expect more reporting on local conditions and sharing of challenges. I believe overseas operations are managed by headquarters, but how about giving local offices more autonomy? Only the local personnel truly understand the local situation, and gathering relevant news and other companies' information and sharing them with Japan should lead to development opportunities for each location.

**Tsuge** I've also been concerned about how little visibility there is on overseas information. I would like to receive more reports on the current status of overseas locations at the Board of Directors meetings. I also think it would be beneficial to arrange visits to overseas locations by outside directors and outside Audit & Supervisory Board members. This will help boost the morale of local personnel and strengthen supervisory functions, so I hope it will be given serious consideration.

**Yamanaka** Regarding overseas operations, our current overseas locations primarily handle production functions. The Board of Directors has not engaged in substantive discussions on this matter, so we will work to improve this situation. We should also conduct on-site inspections promptly. In the future, the ideal structure would be one where each location can utilize the profits generated locally and, when specification changes or development are required, can handle them independently on-site. We will advance human resources development and capital investment primarily in India and the ASEAN, where demand is expected to grow significantly, and in the United States, which boasts a large market size. Regarding our human resources strategy, we will nurture human resources locally who can understand the "Aisan Way," which represents the mindset of each employee. We will establish an environment capable of handling design and evaluation to enable development operations.

**Tsuge** In executing the business strategy, I place particular importance on the strategic investment portion of the future growth investments. This is a rather substantial investment of 50 billion yen over five years, so I would like to discuss specific projects at the Board of Directors from the conceptual stage.



**Yamanaka** Strategic investments also carry risks, so I will make sure to share information early on and ensure sufficient time is allocated for Board of Directors discussions.

**Iribe** While the Board of Directors fosters an environment conducive to open dialogue, there are instances when careful consideration is required, particularly when addressing high-impact subjects such as strategic investments. Would it be possible to schedule separate sessions for the outside directors to exchange opinions? For example, I would like to see consideration given to setting up an optional forum for exchanging opinions prior to the start of the Board of Directors meeting.

**Yamanaka** I believe it is important to create opportunities for outside directors to discuss matters. Since it is possible to create opportunities for discussion prior to Board meetings, I would like to consider this.

### Regarding the effectiveness of the Board of Directors, what kind of evolution have you seen compared to the past?

**Tsuge** The effectiveness of the Board of Directors is rigorously evaluated not only by outside directors but also by internal directors. Over the past decade since I was appointed, the mindset within the Company has undergone significant change.

An environment where employees can speak freely has been established, and a support system has been built that responds promptly to improvement proposals. Furthermore, there is a well-established process of thoroughly discussing important matters before deliberation, which I believe is the result of sincere efforts to enhance effectiveness.

**Oi** The effectiveness evaluations have been improving year by year, and we've been receiving thoughtful feedback on our requests.

As for challenges, with the management system being overhauled starting in fiscal 2025 through the addition of two independent outside directors, I believe we should further strengthen our supervisory function by providing opinions from various perspectives. This could be achieved through interviews conducted by outside directors with senior executive officers, and other efforts that help us gain a deeper understanding of the executive performance. In particular, for investment projects, I would like to see opportunities created to understand the big picture.

**Tsuge** This year, the management system was overhauled with the roles of executive officers and directors being separated. Amidst these changes, I believe the support of outside directors becomes even more crucial, and to fulfill our responsibilities, we must make judgments with a thorough understanding of company policies. I would like to actively utilize opportunities such as briefing sessions to further deepen my understanding of the Company.

**Iribe** We've had many opportunities to interact with employees through events such as technical department reports, environmental exhibitions, and networking gatherings with female engineers. During these interactions, I heard comments such as, "The Medium-term Management Plan clarified the Company's direction, which was refreshing." I find that internal perspectives reveal viewpoints not apparent to the Board of Directors, which underscores the importance of engaging with people from various domains and generations. Moreover, starting this fiscal year, some documents can now be viewed on the Company's internal network. I was amazed at how quickly this was implemented after the proposal was made.

**Yamanaka** I regret that in past Board of Directors operations, there were instances where proposals presented for discussion were essentially predetermined decisions. I would like to create opportunities to communicate not only with management but also with executive officers and frontline employees to ensure the new management system is closely supervised.

As Ms. Iribe also mentioned earlier, since the Board of Directors' materials include specialized content, I believe it will continue to be necessary to maintain an environment where relevant materials can be accessed for reference. We will continue to strive to respond promptly.

**Oi** As outside directors representing minority shareholders, we offer opinions to top management. While working hand in hand with internal directors, we also provide critical feedback from an external perspective. I will be particularly mindful of profit distribution and investment conditions, and I intend to make decisions critically, based on whether they contribute to enhancing the corporate value, which is the Company's goal.

**Yamanaka** The outside directors each possess specialized knowledge and diverse backgrounds. I intend to incorporate the innovative proposals derived from your experience into our management. I look forward to continued active discussion.



### Interview with the newly appointed outside directors

## Key challenges to address in the new Medium-term Management Plan during the period of transformation

We welcomed Mr. Naoshi Takayama and Ms. Eiko Funabiki as new outside directors and sought their candid opinions regarding the Company's standing from an external perspective.

Executive Vice President, CSO and CRO Yamanaka, acting as facilitator, asked both directors about the challenges and received their advice for enhancing the Company's corporate value.



**Akihiro Yamanaka**  
Executive Vice President, CSO and CRO

**Eiko Funabiki**  
Outside Director

**Naoshi Takayama**  
Outside Director

Joined Toyota Motor Corporation in 1988. He has worked in development roles primarily focused on powertrain systems, having served as the General Manager of the Hybrid Vehicle Advanced Technology Engineering Division, Executive General Manager and Supervisor of the Powertrain Company, Field General Manager of the Advanced Engineering Development Field at the Powertrain Company, and Director of the Higashi-Fuji Technical Center. Appointed Executive Vice President of the Company in 2024.

Joined Fujitsu Tokai System Engineering Co., Ltd. (currently Fujitsu Limited) in 1986. Joined Tokai Research & Consulting Inc. (currently Mitsubishi UFJ Research and Consulting Co., Ltd.) in 1988. Engaged in the planning and execution support of management and human resources strategies, as well as personnel management initiatives. Executive Officer of the company since 2018.

Joined Makino Milling Machine Co., Ltd. in 1981. Joined Mori Seiki Co., Ltd. (currently DMG MORI CO., LTD.) in 2002. Involved in the development of 5-axis machining centers and possesses extensive management experience. Technology and quality consultant for TAIYO KOKI CO., LTD. since 2024. Received a Doctor of Engineering degree from the University of Osaka in 2011.

### Inaugural messages from the outside directors

**Yamanaka** As the Company is now entering a phase of expanding its business scope, I would greatly appreciate guidance with fresh perspectives from both of you. First, could you talk about why you accepted this position?

**Takayama** When I first met with President Nomura following this proposal, he passionately stated, "The automotive industry is undergoing a once-in-a-century transformation, and the production of automotive parts has its limits if we continue with conventional methods or incremental improvements. Going forward, we will further strengthen our Machinery Division to establish a system that enables us to independently propose optimal manufacturing methods and equipment." Believing that I could contribute by combining Aisan Industry's production technology cultivated over many years with my own knowledge of machine tool design, I saw the potential for developing new production methods and fostering innovation. This was my primary motivation for accepting the position. The factory tour after the interview, where all the employees responded so energetically, was

what ultimately pushed me to make my decision. Working in the automotive industry is a new and significant challenge for me, but I am eager to learn about the industry and automotive components while contributing to this transformation.

**Funabiki** While women appointed as outside directors or Audit & Supervisory Board members tend to be attorneys, certified public accountants, or tax accountants, I heard that the Company was seeking individuals with management experience. I have spent about seven years in management as an executive officer, following approximately 30 years in human resources consulting. I accepted this opportunity because I believe my experience in human capital management, which is my area of expertise, could be of value.

All of Toyota's Tier 1 manufacturers are striving to expand their business scope, and we, too, have significantly grown our business scale by leveraging the acquisition of the fuel pump module business from DENSO as a stepping stone. I also sensed a strong determination to drive dynamic transformation from the management targets of the new Medium-term Management Plan. I would be honored to play a part in pioneering a new era for the automotive industry.



### Evaluation of the mobility business strategy

**Yamanaka** The Company has consistently maintained its stance of protecting the engine domain. The new Medium-term Management Plan also outlines a business strategy to continue supporting this domain to the very end while simultaneously venturing into electrified products. What do you think of this strategy?

**Takayama** As vehicle drive systems and fuels diversify, engines will likely continue to be needed for the foreseeable future. I am also at the point of replacing my car, but I'm still undecided between an internal combustion engine, HEV, PHEV, or EV, considering various factors such as EV infrastructure. The important thing is to keep developing engine-related technologies. Furthermore, I believe we should continue refining our technologies for engine components to improve fuel efficiency and meet emissions regulations, thereby clarifying our competitive advantages and strengths, and aiming for the top market share in the industry. I also support expanding into engine system design and embracing the challenge of electrification. In particular, I believe that developing and providing engine control systems is an excellent initiative for enhancing the added value of our hardware products.

**Funabiki** From a consulting perspective, I also predict that engines won't disappear globally anytime soon. The level of progress toward electrification also varies from country to country.

I sincerely commend the resolve demonstrated in outlining a strategy for survival in the engine domain.

However, predicting the future is difficult, so we will need to become more sensitive to market and competitor movements. It would be wise to accelerate our electrification products business while we still hold the world's top market share business.

**Yamanaka** While internal combustion engines emit CO<sub>2</sub>, using carbon-neutral fuels enables them to achieve environmental performance equivalent to EVs, expanding future options. In the engine domain, we have advantages in quality, cost, and supply capacity. We plan to leverage these strengths to expand profits and channel them into funding our electrification products business. As a latecomer in the field of electrification, the Company will collaborate with companies possessing the necessary expertise during the development phase to create competitive products.

### About our sustainability management initiatives

**Yamanaka** We have been advancing initiatives across all ESG areas. If there are any perspectives we may be lacking, we would greatly appreciate your feedback.

**Takayama** While setting our own CO<sub>2</sub> reduction targets is important, could we also provide another perspective by estimating how much our powertrain products could contribute to CO<sub>2</sub> reduction?

As the world's population continues to grow, global automobile production and ownership will likely continue to increase over the coming decades. If our fuel pumps and other products were installed in approximately 40% of all vehicles worldwide at the current market share, even a 1% improvement in fuel efficiency could contribute to reducing CO<sub>2</sub> emissions by thousands of tons, or perhaps even 100 million tons. I am confident that these figures will become a source of pride for employees and those involved in development, and will serve as a motivator.

**Funabiki** From the perspective of promoting human capital management, presenting concrete stories is essential. For example, actively recruiting women in the software and digital fields would be one of the symbolic steps that will open up future growth for the Company. Empowering women is not just a gender initiative; it is about fostering a culture that harnesses the wisdom of all people. Increasing the number of women actively thriving in the workplace enhances organizational vitality and decision-making diversity. Setting numerical targets such as gender ratios at the time of hiring is also worth considering.

It is also meaningful to aim to become a leading company in well-being. We have a proven track record of being selected under the KENKO Investment for Health Stock Selection program. If we can also steadily advance the transformation toward a workplace culture that embraces challenges, as outlined in our new Medium-term Management Plan, we can further enhance our appeal as a company where those with a desire to grow can realize their full potential.

Furthermore, the active role of women in the automotive industry in this region holds the potential to break through Japan's structural challenge of monopolization in Tokyo. It would also contribute to society as a whole.

**Yamanaka** Thank you for your valuable input. We will also consider actions such as verifying the effects of switching to low-carbon materials and creating a roadmap for CO<sub>2</sub> reduction.



Empowerment of women is essential in human capital management, and I would like to ensure that the concept of well-being you proposed is widely communicated throughout the company. To secure human resources, we are carefully considering recruitment from outside the prefecture, creating training plans, and developing allocation plans for each department. We will also utilize internal communication platforms like "Aisan Katariba" to encourage employees to proactively engage in career development.

### Evaluation of the financial capital strategy

**Yamanaka** The sales target for fiscal 2030 is set at 550 billion yen, and we are actively pursuing initiatives to boost the stock price, including improving the P/B ratio and enhancing ROE.

**Takayama** Frankly, I thought 550 billion yen by 2030 was a challenging target. To achieve this target, I believe expanding the powertrain business and having a successful M&A will be key. I really admired the approach of visualizing what to aim for and what actions to take, sharing this not only with management but with all employees, and then breaking it down into departmental KPIs to ensure everyone is working toward the same goals.

**Funabiki** I can feel the management team's resolve in declaring such ambitious management targets. In particular, the decision to invest 143 billion yen in growth investments, including 50 billion yen in strategic investments, demonstrates a serious commitment. I want all employees to gain a deep understanding of the intent behind these figures and the KPIs for each department. I understand that a new M&A team has been established. I hope that your preparations will move along steadily.

**Yamanaka** As a declaration of intent to achieve significant growth, we have set ambitious targets. While timing may vary depending on external circumstances, we will first focus on achieving the numerical targets. To achieve this, we will plan the acquisition and deployment of human resources in a balanced manner, communicate KPIs to the frontlines using precise language, and unite the efforts of all employees.

### Expectations for corporate value enhancement

**Yamanaka** Lastly, could you please offer advice based on your experience and expertise regarding areas that need strengthening as the Company moves forward with future transformation?

**Takayama** As the era of high economic growth came to an end, voices calling for diversification began to be heard in Japan's manufacturing industry from around 1990. The demand shifted from mass production of a few varieties to small-lot production of many varieties. Therefore, machine tool manufacturers have focused their efforts on developing machine tools that enable process integration and accommodate a wide variety of workpieces, such as 5-axis machining centers and multi-tasking machines. Despite this

trend, automotive parts alone remained the exception, where a few specialized machines suited for mass production were lined up to divide the process. This line production method, where every second of processing time per unit was crucial, remained the mainstream approach. However, in recent years, I believe the automotive industry has also seen a growing diversity in vehicle types including internal combustion engines and EVs, as well as variety in the parts used. The Company also handles a wide variety of parts through its omnidirectional strategy, but I believe now is the time to advance process integration and the concepts of high-mix low-volume production and variable production.



**Yamanaka** The new Medium-term Management Plan period will mark a turning point where we break away from the culture of mass production, fundamentally transforming both what we make and how we make it. We have already begun process integration, so I would like Mr. Takayama to lead this effort alongside us, and I hope we can communicate these initiatives externally as well.

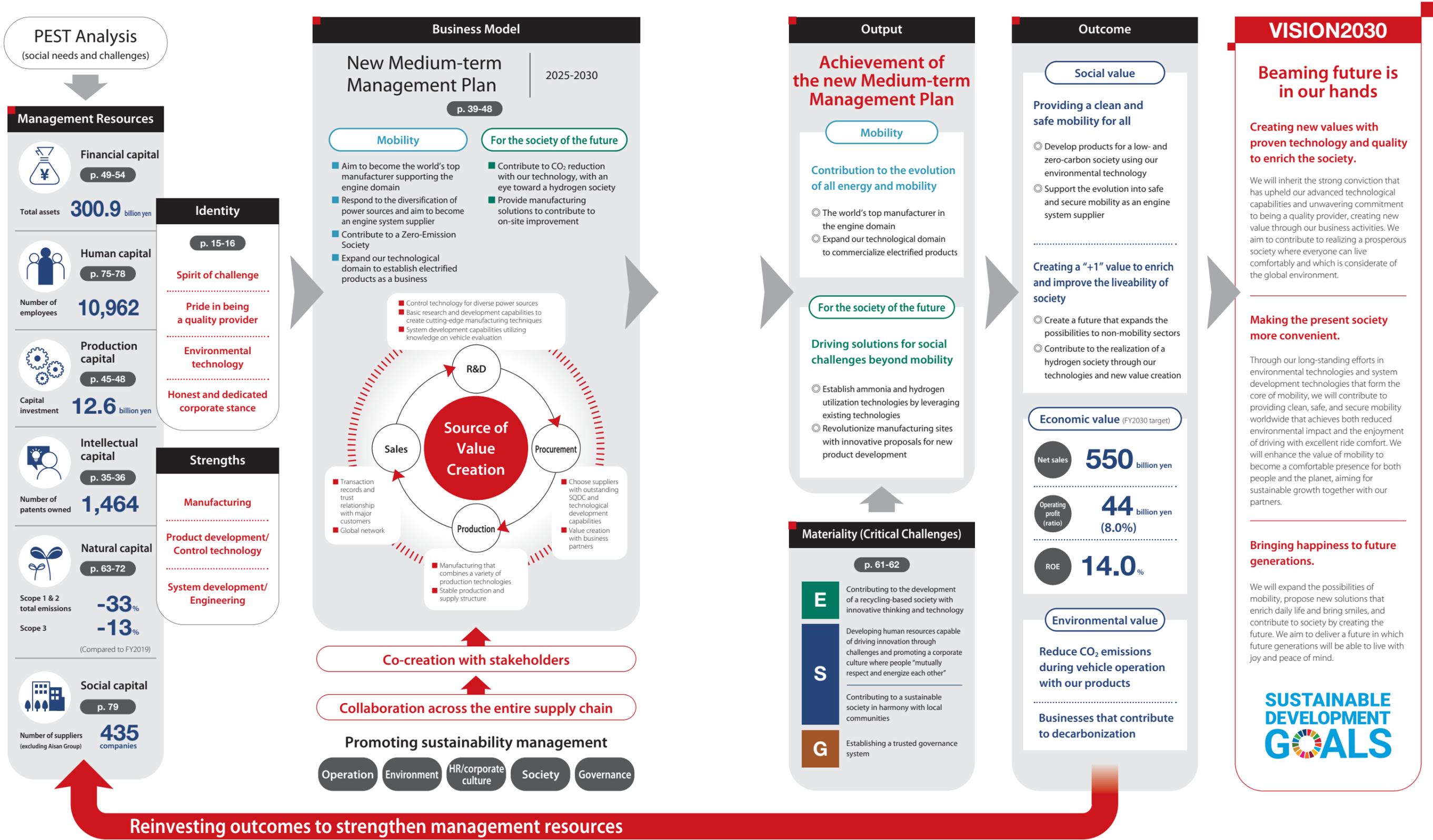
**Funabiki** I believe that enhancing corporate value means strengthening the company's overall capabilities. As such, it is important to pursue with unwavering dedication the strategies necessary to achieve the future that was defined in the human resources strategy.

**Takayama** It is people who are the foundation of continued organizational growth, after all. Unless we nurture more individuals who can think independently, take risks, and put ideas into action, we may not be able to navigate this period of major transformation. I will also think of ways to create mechanisms that encourage employees to take on challenges themselves.

**Funabiki** If we expect the employees to take charge of their own career development, it's essential for the Company to demonstrate a willingness to change first. IR activities also require more proactive efforts than ever before.

**Yamanaka** Hearing both of your perspectives made me recognize once again that for new product development to succeed, it is crucial for management to demonstrate a proactive stance. We will use flexible thinking to swiftly incorporate new perspectives that were previously lacking in the Company. We kindly ask for your continued feedback from a broad range of viewpoints.

Since the postwar shift to civilian demand, the Aisan Group has consistently strived to become a leading company in the development and production of powertrains, centering on the engine domain. We continue to address social challenges such as emissions regulations, and will keep creating value toward realizing a sustainable society.



Centered on people and technology, we will pursue environmental technologies as engine professionals and strengthen our management resources to become an engine system supplier. We will continue our efforts to strengthen our management resources, pursue sustainable growth going forward, and keep creating value to realize our vision of “Beaming future is in our hands.”

Capital	Inputs	Initiatives to strengthen capital	Specific measures	Output targets	Outcome	
<b>Financial capital</b> p. 49-54	Total assets ..... 300.9 billion yen Net sales ..... 337.2 billion yen Operating profit ..... 18.3 billion yen Equity ratio ..... 45.1% Operating cash flow ..... 28.2 billion yen ROE ..... 9.8% ROIC ..... 8.1%	<ul style="list-style-type: none"> <li>Pursue management efficiency exceeding the cost of capital</li> <li>Achieve a P/B ratio of 1x or higher at an early stage</li> <li>Utilize the ROIC tree</li> <li>Shareholder return of 35%</li> <li>Proactively invest in the future</li> </ul>	<ul style="list-style-type: none"> <li>Utilize the ROIC tree to bridge frontline actions with management targets, maximizing profits while efficiently deploying assets</li> <li>PER: Enhance through growth strategies, shareholder returns, and strengthened ESG and IR activities</li> <li>Maximize operating cash flow through the reliable execution of business strategies, and proactively allocate the resulting cash to future growth investments</li> </ul>	<b>FY2030</b> Net sales ..... 550.0 billion yen Operating profit ..... 44.0 billion yen Operating profit ratio ..... 8.0% Net profit ..... 28 billion yen ROE ..... 14.0% ROIC ..... 11.0% P/B ratio ..... 1x or higher		
<b>Human capital</b> p. 75-78	Number of employees Japan ..... 4,054 Overseas ..... 6,908 Software human resources ..... 105	<ul style="list-style-type: none"> <li>Acquire and nurture specialized human resources essential for business expansion</li> <li>Create innovation through the active participation of diverse human resources</li> <li>Transform the workplace culture to take on challenging tasks</li> </ul>	<ul style="list-style-type: none"> <li>Human resources development for electrification products software</li> <li>Promote the appointment of female managers and national staff to leadership positions globally to foster innovation</li> <li>Aim to become a company where every employee thrives and excels through continuous engagement surveys and feedback</li> </ul>	<b>FY2030</b> Software/Electronic human resources ..... 270 Digital human resources ..... 220 Number of female managers ..... 110 (13%) Fulfillment ratio of overseas based national staff executive positions ..... 90.0% Employee engagement score ..... 60 points Male childcare leave acquisition rate ..... 90.0%	<b>VISION2030</b> <b>Beaming future is in our hands</b> Creating new values with proven technology and quality to enrich the society. Making the present society more convenient, bringing happiness to future generations.	
<b>Production capital</b> p. 45-48	Capital investment ..... 12.6 billion yen Property, plant, and equipment ..... 86.1 billion yen Number of manufacturing bases Japan ..... Headquarters + 3 bases Overseas ..... 16 bases	<ul style="list-style-type: none"> <li>Expand India and the ASEAN business and sales promotion</li> <li>Production consolidation</li> <li>Prepare for electrification product manufacturing</li> <li>Promote innovative manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>Capital expenditure: Allocated to production consolidation and logistics streamlining in the powertrain business and electrification products business, as well as production preparation for orders received for electrification products.</li> <li>Using the Aisan Future Factory as a model, we will achieve innovative manufacturing, including labor-saving through collaborative robots and the establishment of 24-hour unmanned lines via automation, and plan to deploy this know-how globally.</li> </ul>	<b>FY2025-FY2027</b> Capital investment ..... 50.0 billion yen		<b>Providing a clean and safe mobility for all</b>
<b>Intellectual capital</b> p. 35-36	R&D expenses ..... 13.4 billion yen Number of patents owned Japan ..... 645 Overseas ..... 819	<ul style="list-style-type: none"> <li>Develop products for carbon-neutral fuels and strengthened regulations</li> <li>Invest in human capital for battery system products</li> </ul>	<ul style="list-style-type: none"> <li>R&amp;D expenses: Promote carbon-neutral fuel utilization in the powertrain business and electrification products business, and product development geared toward stricter evaporative emissions regulations</li> </ul>	<b>FY2025-FY2027</b> R&D expenses ..... 43.0 billion yen <b>FY2030</b> Number of accumulated carbon-neutral intellectual property ..... 500		<b>Creating a “+1” value to enrich and improve the liveability of society</b>
<b>Natural capital</b> p. 63-72	Reduction of CO <sub>2</sub> emissions Scope 1 & 2 emissions ..... 33% reduction (compared to 2019) Scope 3 emissions ..... 13% reduction (compared to 2019) Waste ..... 41% reduction (compared to 2019) Renewable energy ratio ..... 23% Energy creation ratio ..... 0%	<ul style="list-style-type: none"> <li>Build a sustainable circular society</li> <li>Offensive and defensive measures</li> </ul>	<ul style="list-style-type: none"> <li>Reduction of greenhouse gas emissions: Continue daily improvements for Scope 2 and improvements in energy efficiency; promote the use of low-carbon materials for Scope 3, material substitution with recycled materials, and product weight reduction</li> <li>Electrification and clean energy domain: New product development</li> </ul>	<b>FY2030</b> Reduction of CO <sub>2</sub> emissions Scope 1 & 2 emissions ..... 60% reduction (compared to 2019) Scope 3 emissions ..... 28% reduction (compared to 2019) Waste ..... 5% reduction (compared to 2019) Renewable energy ratio ..... 55% Energy creation ratio ..... 5%		
<b>Social capital</b> p. 79	Number of suppliers ..... 435 companies (excluding Aisan Group) Dialogue with institutional investors ..... 88	<ul style="list-style-type: none"> <li>Enhance dialogue with suppliers</li> <li>Promote collaborative manufacturing activities</li> <li>Build a sustainable value chain</li> </ul>	<ul style="list-style-type: none"> <li>Aim for sustainable manufacturing with the stakeholders by leveraging big data, AI, and robotics to realize Industry 5.0</li> </ul>	<b>FY2030</b> Building and utilizing an integrated data platform Carbon neutrality industry-academia-government collaboration in new sector technologies ..... 25 projects		

**VISION2030**  
Beaming future is in our hands

Creating new values with proven technology and quality to enrich the society.  
 Making the present society more convenient, bringing happiness to future generations.

**Providing a clean and safe mobility for all**

**Creating a “+1” value to enrich and improve the liveability of society**

## Intellectual Property Activities Supporting Existing and New Businesses

### The history of intellectual property activities

Until now, the intellectual property organization has been located within the Technical Management Division. Operating under the Management Philosophy of “We contribute to society through global growth and environmental preservation,” it has played a role in providing customers with safe and environmentally friendly products. This has been achieved by handling patent applications and securing rights for inventions related to our existing engine component business, as well as avoiding third-party patent rights.

As the automotive industry enters a period of major transformation, we have transferred our intellectual property (IP) organization from the Technical Management Division to the Corporate Strategy Division effective January 2025. This move aims to leverage IP Landscape® information for management and business strategy, thereby promoting IP activities that contribute to business management. In line with the new Medium-term Management Plan announced in February 2025, we are implementing IP activities that contribute to management, protecting existing businesses and leading new ventures.

### Intellectual property activity policy

We will promote the four pillars of IP activities outlined in 1 - 4 below under management, thereby securing competitive advantages for existing businesses and increasing the probability of success for new ventures, contributing to the Company’s sustainability management.

#### 1 Business planning support

Patent and non-patent information are used to provide insights for expanding existing businesses and creating new ventures.

#### 2 Research and development support

Provide the Research and Development Department with information on research and development policies and selection of joint development partners based on patent and non-patent information, thereby contributing to accelerated development.

#### 3 Avoidance of third-party patent infringement

Avoid competing patents and acquire rights with high economic value to support global business expansion and maximize business profits.

#### 4 Enhancing brand value

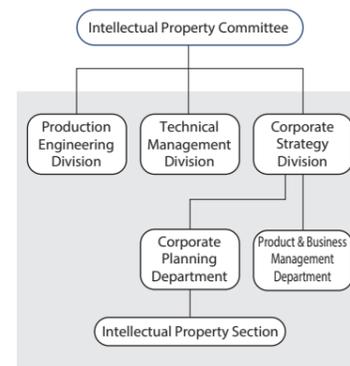
Acquire IP rights appropriately through various intellectual properties (patents, designs, trademarks) to enhance corporate brand strength and protect customer experiences.

### Intellectual property management system

As of January 2025, the IP organization was transferred from the Technical Management Division to the Corporate Strategy Division’s Corporate Planning Department, establishing a system to advance IP activities under the management. The Intellectual Property Committee, convened quarterly by management to oversee IP matters, reports on its activities, and cases significantly impacting management—such as disputes—are deliberated and decided upon by the Board of Directors or the Senior Executive Board.

#### Intellectual Property Committee

The Intellectual Property Committee, jointly convened by the Management, Research and Development, and Production Engineering Departments on a quarterly basis, deliberates and decides on development policies, IP activities, and IP-related business risks, thereby promoting activities that contribute to management.

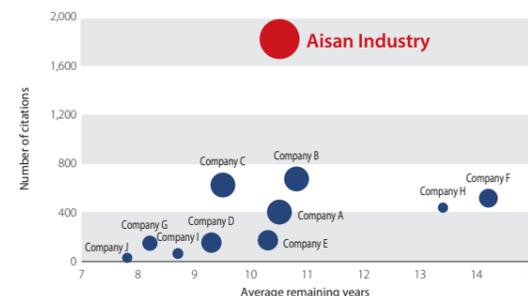


### Strengthening the patent portfolio for business products

We are increasing patent applications to strengthen our existing product line’s patent portfolio. The figure on the right illustrates the patent positioning of the Company and its competitors (Companies A through J) for fuel pump modules (FPM). In patents, the number of citations is a key indicator of a technology’s originality and influence, serving as evidence of a company’s competitiveness and technological superiority.

Furthermore, the size of the bubbles in the diagram indicates the scale of patent deployment both domestically and internationally, demonstrating that the Company has secured a strong competitive advantage for the relevant product. We will continue to leverage our patents to enhance product competitiveness and aim to expand our market share.

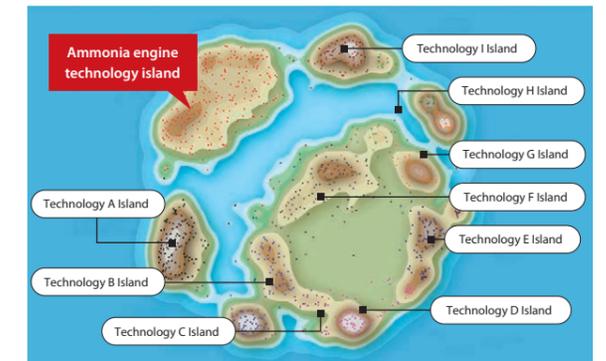
### Patent positioning of major FPM suppliers



### Utilization of IP Landscape®

Leveraging insights from IP Landscape®, we will strengthen collaboration with the Research and Development Department to advance new product concept development. We visualize and analyze competitors’ patent information to identify areas where the Company can demonstrate competitive advantage and to identify technology domains requiring future focus, and determine priorities based on this analysis.

The figure on the right visualizes the technological classifications of patent publications related to ammonia technology, showing that numerous intellectual properties related to ammonia engines exist that are compatible with our technology. Based on this information, we will identify ways to leverage our cultivated fluid control technology and advanced ammonia utilization technology to support new product development.

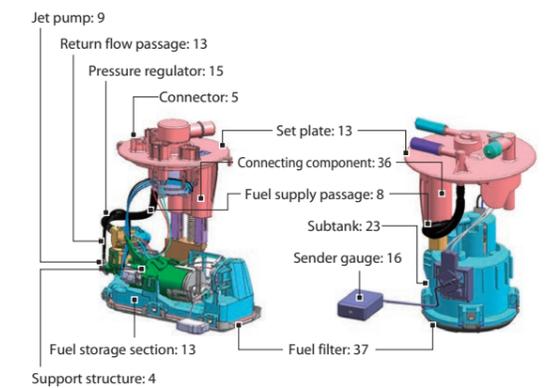


### Protecting our own patents, respecting others’ patents, and brand protection

For existing business products, we manage the patent application status, implementation status, and term of protection for each component part, thereby building and maintaining a robust IP portfolio to protect our business. At the same time, we respect the IP rights of other companies. We conduct patent searches on competitors’ patents from the early stages of research and development, hold review opportunities at each stage of development progress, and strive to minimize business risks by proceeding with development without infringing on the rights of other companies.

Moreover, to enhance brand value, we are working to secure global rights for our corporate logo and to protect technical names in the domain of the application of clean energy technologies. Since fiscal 2022, we have filed 36 trademark applications in Japan. Going forward, we will actively pursue trademark applications for technical names as part of our corporate brand protection activities. We will implement measures such as trial for cancellation of registered trademark not in use against imitation trademarks to strengthen the branding of our products, striving to maintain and enhance the value of the Company’s brand.

#### Patent application count by product



### Human capital (Development, Incentives)



The Company actively encourages the creation and acquisition of IP rights, such as patent applications, and strives to protect its proprietary technologies by implementing an incentive program for inventions as part of its efforts to foster development motivation and enhance technological capabilities. Moreover, to enhance young engineers’ IP awareness and boost their motivation, we introduced the Young Engineer Patent Application MVP Award starting in fiscal 2023. Furthermore, we established a Patent Expert Certification System to evaluate the capabilities of engineers possessing certain patent application skills in fiscal 2024. This system encourages mid-level to experienced engineers with outstanding patent skills to take on greater roles.

### Consecutive awards for invention

The Company has received the Aichi Invention Award for eight consecutive years since fiscal 2017. The air control valve for fuel cell systems, which won an award in fiscal 2024, resulted from a team-based approach to prioritizing patent applications for technologies under development during the invention creation phase. This approach yielded a highly regarded invention, bringing to fruition ideas from a wide range of employees, from young to experienced.

FY	Award-winning technology
2024	Air control valve for fuel cell systems
2023	Hybrid vehicle-specific fuel tank shut-off valve
2022	Electric pumps compatible with carbon-neutral fuels
2021	ADC12 alloy semi-solid casting
2020	Double eccentric valve of EGR
2019	Fuel pump module for flat fuel tanks
2018	Canister compliant with North American LEV-III regulations
2017	High-efficiency electric pump impeller