

# Realization of Mid-Long Term Business Strategy with Sustainability at the Core

## Financial Strategy

### Reinforcing foundations for financial strategy

The Group is reinforcing the foundations for its financial strategy to realize portfolio management. To progress with an “aggressive approach” and a “challenging” spirit, it is essential to build a framework to support strategic decision-making, including financial evaluation and divestments for each business portfolio.

In January 2021, the Group established a Global Controller function to manage individual investment projects on a global basis, thus putting in place a structure to appropriately evaluate the investment returns of each project. In 2021, the Group scrutinized a total of 23 investments totaling approximately 230 billion JPY. In addition, the establishment of the M&A Steering Committee, led by the Global CEO and with senior executives from each business and region as members, has made it possible to discuss and rigorously evaluate deals on a target-by-target basis and make speedy decisions. As for capital investment, a committee led by the Joint Global COO Masahiro Higashi also has been established to strengthen decision-making. For the allocation of strategic resources, thorough evaluations are conducted using ROIC and other methods, and hurdle rates are set that consider the capital costs and risks by business and region. The Group is also strengthening the use of internal carbon pricing and incorporating sustainability factors into investment decisions, such as evaluations that consider CO<sub>2</sub> emission costs and reduction benefits. As a result of appropriate investments and proper scrutiny and evaluation, ROIC for 2021 improved to 9.0% from 5.1% in the previous year.

#### ● Driving activities to promote the dissemination of ROIC

The Group uses ROIC to evaluate progress in rebuilding earning power by portfolio. It also supports strategic decision-making in line with the Mid Term Business Plan (2021–2023) by allocating optimal management resources and ensuring the appropriateness of strategic growth investments, all while considering the cost of capital.

The financial strategy department at the Global Headquarters serves as the secretariat to oversee global activities, while ROIC ambassadors work to promote understanding of ROIC among all employees since it is a critical management index used to evaluate improvement activities in the Mid Term Business Plan (2021–2023). Currently, there are approximately one or two ambassadors assigned to each division in Japan, for a total of approximately 80 ambassadors. In 2021, the first year of efforts to increase awareness and understanding of ROIC, the Group rolled out educational materials and e-learning for ambassadors and employees. The Group has established ROIC trees at the divisional and departmental level to link ROIC to the daily activities of each individual at the workplace. It also promotes efforts to incorporate ROIC into improvement and key performance indicators (KPIs) on the front lines. Going forward, the Group will develop awareness activities that are more closely tailored to each workplace, such as training by job level and sharing of specific examples of improvements according to the nature of work in each function. It will thus promote self-directed improvement activities at each workplace and aim to achieve the 10% ROIC level in 2023 targeted in the Mid Term Business Plan (2021–2023).

#### ● Linking credit to sustainability

The Group promotes ongoing environmental, social and governance (ESG) initiatives through the introduction of sustainable finance, in which interest rate terms fluctuate based on sustainability performance. BSAM was one of the first companies in the U.S. tire manufacturing industry to establish a commitment line through a sustainability linked loan and to utilize a scheme that reflects the Group's ESG rating in the commitment line fees and borrowing costs. Furthermore, BSEMIA, in cooperation with financial institutions, has introduced a framework to provide financial incentives to suppliers that obtain ratings from [EcoVadis](#), an international sustainability research and rating organization. The initiative was the first in the world of this nature and was awarded the prestigious [Treasury Today's](#) Adam Smith Award for the category Best Supply Chain Finance Solution.