



ARISAWA

INTEGRATED REPORT 2024

Arisawa Mfg. Co., Ltd.



Corporate Philosophy

Arisawa as business came into being in 1909 with the production of Battenberg lace, where it cultivated expertise that would later attain a new height with the epochal introduction of glass fiber. What followed was a string of novel materials from Arisawa featuring unheard-of properties, to which the company went on to apply innovative technologies. This process enabled Arisawa to build up coherent production systems and a unique technical edge integrating the "weaving, coating, and molding" elements while consistently fulfilling users' needs. Arisawa's current offerings include, among others, electronic materials for use in PCs, smartphones, etc., industrial application structural materials (e.g. honeycomb sandwich panels for use in aircraft interiors), electrical insulating materials, and display materials, all of which contribute to the development of various industries. We at Arisawa Mfg. Co., Ltd. have our mind set on opening a vista for the future as we remain proactive in our efforts to develop innovative materials.

CIC
"Create, Innovate, and Challenge"

Better today than yesterday
better tomorrow than today

~ Take a step forward to create a better future ~

Editorial policy

Since the first issuance of an environmental report in FY2005, the Arisawa Group has provided information about its social contribution activities through business in its mid-term management plan and initiatives on climate change (disclosure based on the framework of TCFD recommendations).

This integrated report is intended to provide new opportunities for dialogue by presenting stakeholders, including shareholders and investors, with the company's initiatives toward the improvement of its corporate value over the medium to long term.

This year's report describes specific initiatives regarding the mid-term management plan, financial strategy, and human capital management in more detail than the first report issued last year.

Scope of the report

This report covers Arisawa Mfg. Co., Ltd. and its domestic and overseas group companies and affiliates. In this report, "Arisawa", "we", "us", or "our" means Arisawa Mfg. Co., Ltd., and "our group" means the entire Arisawa Group.

Coverage period of the report

The coverage period is from April 1, 2023, to March 31, 2024 (January 1 to December 31, 2023, for overseas offices), but note that some descriptions may include activities before and after this period when necessary.

Other reference information

-For technical terms, such as our group's products mentioned in this report, see our website (Technology/Products > Glossary).
-TOPICS are enclosed in

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About Arisawa

Policies

Management Policy

- On the basis of the motto "Create, Innovate and Challenge", we pledge to:
- (I) create new values and enhance customer satisfaction.
 - (II) discover customer demands and create new businesses with our creative technologies.
 - (III) strengthen corporate structure by improving our quality and productivity.
 - (IV) contribute to solving the social and environmental issues, and realize the sustainable growth.

Our Action Guideline

- (I) We compare what we are today with what we were yesterday, rather than comparing ourselves with others.
- (II) We do a job to be proud of in the future as a professional manufacturer with a strong will and a humble heart.
- (III) We take a step forward to challenge, instead of looking for an excuse of cannot-to-do.
- (IV) We give the highest priority to safety, and fulfill our own roles and responsibilities for zero accidents

ESG Policy

In all aspects of our business activities, we actively address a variety of issues related to environment, society and governance and aim to achieve sustainable growth.

Human Rights Policy

To contribute to a sustainable society and improve the corporate value of the Arisawa Group, we prevent and mitigate negative impacts on human rights that could be brought about by business activities and promote business activities that respect human rights.

CSR Procurement Policy

We procure materials in compliance with laws and internal policies and based on the mutual understanding and trust with our suppliers.

Environmental Policy

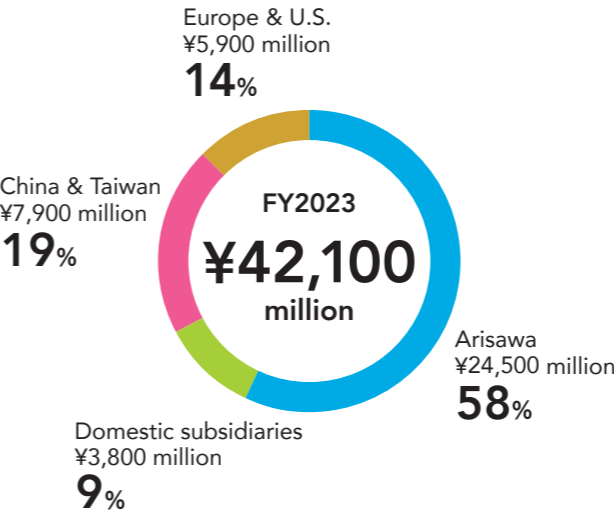
We strive to reduce environmental loads, promote environmental conservation, and help solve social and environmental issues in our whole business activities, from development and design to manufacturing of electronic materials, industrial structural materials, electrical insulating materials, and display materials, to achieve sustainable growth.

Quality Policy

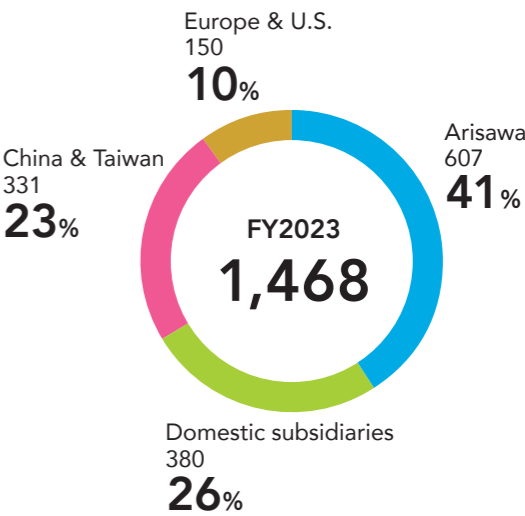
We pledge to supply high-quality products that meets the reliability and expectations of our customers by understanding their perspective.

Global Business Operations (As of March 31, 2024)

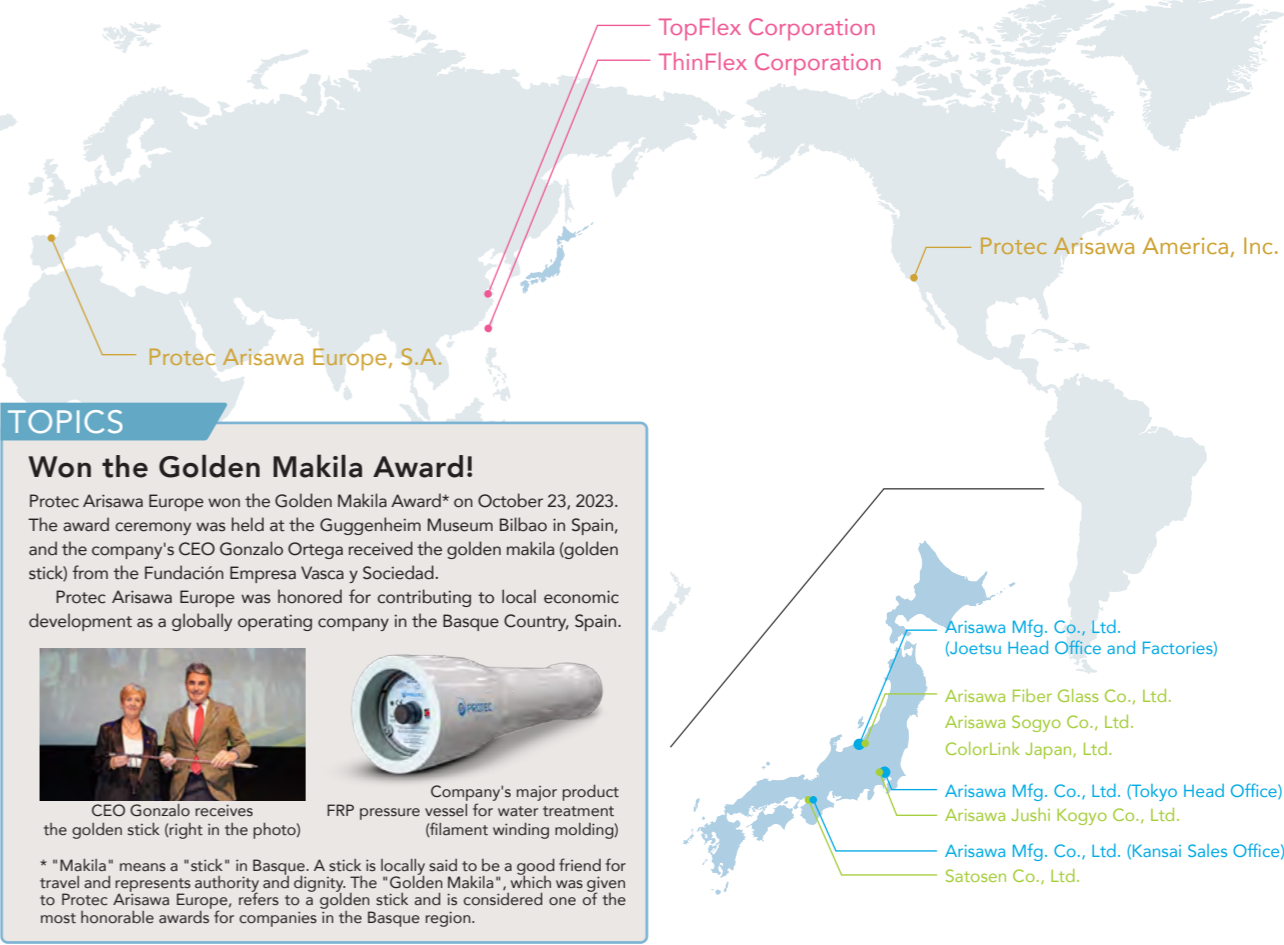
Sales



Number of employees



Global Offices



About Arisawa

Message from Representative Director

Accelerating investments in "people" with both business strategy and financial strategy toward the next mid-term management plan

Representative Director and CEO

Yuta Arisawa

Impetus for the growth of Arisawa

Arisawa as business came into being in 1909 with the production of Battenberg lace, where it cultivated expertise that would later attain a new height with the epochal introduction of glass fiber. Since then, we have produced new products through research and development and technological innovation to materialize our dreams while living up to customers' expectations.

Our core technologies are "weaving, coating, and molding", and we thoroughly pursue the corresponding manufacturing, formulation, and processing technologies. We have manufacturing sites in Taiwan, China, European countries, and the U.S. and use various technologies at them to meet worldwide customers' needs.

Since our foundation, we have developed and offered products and services through trial and error while listening to the opinions of customers to exceed their expectations even a little bit. Our mission is to persistently surprise and delight customers.

We have unique knowledge and technologies passed down since our foundation. Most of these knowledge and technologies are something like tacit knowledge, such as experiences and instincts, which is hard to put into words. However, we itemized and organized all of them and prepared manuals including specified manufacturing conditions. By sharing this stored explicit knowledge among related departments, we have improved our work environment for all employees to appropriately carry out their tasks. Manufacturing and development require patience. To address customers' demands, we have conducted steady experiments.

Developing products that fulfill their expectations also requires us to search for various possibilities, which may result in unexpected by-products. These

can be called induced accidents. The reason why we have grown and developed for more than 100 years must be that we have placed importance on "tacit knowledge" and "induced accidents".

Looking back on FY2023

In FY2023, the global economy was on a moderate recovery track because the restrictions on economic activities due to the spread of COVID-19 were lifted. Meanwhile, there was still an uncertain outlook for the economy due to external factors, such as the weakening yen due to a wider gap between Japanese and U.S. interest rates, continuous price surges, geopolitical risks caused by the Ukraine and Middle East situations, and economic stagnation in China.

Especially, electronic materials, one of our group's main business fields, have been affected by the slump in demand for PCs and smartphones since the latter half of FY2022. Consequently, our consolidated financial results for FY2023 saw sales and profit declines for 3 consecutive years with net sales of ¥42.1 billion and operating profit of ¥1.4 billion, and our ROIC (return on invested capital) dropped to 1.9 %. The demand in the electronic material field including semiconductor materials hit the bottom in the first half of FY2023 and started showing signs of recovery. The life science field such as water treatment also continues strong growth.

The current mid-term management plan stipulates that we aim to maximize our corporate value with both business strategy and financial strategy to help achieve a sustainable society. FY2023 was the year of patience for us in terms of profit. However, we steadily implemented the initiatives outlined in the business strategy and continued the reduction of non-business assets, such as cross-shareholdings and foreign bonds, as a financial strategy to strengthen the corporate structure.



About Arisawa

Message from Representative Director



We are also constructing a new development base called the Innovation Center and taking all possible measures to prepare for its operations. Through workshops, we received many ideas on the Innovation Center from employees, such as concept creation, office layout, selection of various analytical equipment and prototypes, and new working culture. As a result, the completed development base is likely to go beyond my expectations. I can't wait to see it finished.

Reaching out for new demands and formulating the next mid-term management plan

In the electronic material field, smartphones are getting wider and thinner and gaining improvements such as a longer battery life. Products featuring various new technologies will be available in the future, such as faster communication, IoT devices, and touch-free operation devices. To respond to such demand, we are working hard to be the first in the industry to develop high-grade products. We assume that the global demand is highly likely to rise in the medium to long term. Going forward, we will increase our presence not only in the information device field but also in the next-generation mobility field, including electric vehicles, for long-term and stable growth. Products in the next-generation mobility field require more endurance and reliability than those in the information device field, where we have leveraged our strengths, so we will

consider the entry into the field after strengthening collaboration with business partners.

For aircraft materials, we are developing ones that will be certified as next-generation aircraft materials. As well as developing and offering lighter and stronger products in compliance with strict safety standards, we will urge not only large but also small and medium-sized aircraft manufacturers to adopt the products.

Even in the life science field, which continues strong growth, such as FRP pressure vessels for water treatment and medical displays, we will tap into new markets where our technologies can be leveraged for further expansion. Based on the above, an increase in sales and profit is finally expected to occur in FY2024, which is the final year of the current mid-term management plan. However, ROIC is likely to be 5.2 % (as of the end of FY2024), which is below the target of 6 %.

In the next mid-term management plan from FY2025 to FY2029, we aim to achieve the ROIC goal of 6 % through profitability improvement by implementing strategic initiatives with a focus more on capital efficiency than ever. Specifically, we build an ROIC tree to make an effective analysis and formulate strategies based on cash flow and capital allocation. We also plan to make active investments for growth by using loans if necessary. In addition, we will actively disclose information, including non-financial one, and continue the close dialogue with our stakeholders. Through these initiatives, we strive to continuously improve our corporate value.

Return to shareholders in conjunction with capital policy

When I became the Representative Director in June 2014, the company's stock price was ¥650 apiece. Now that a decade has passed since then, the stock price has more than doubled, and the PBR is finally over 1.0.

As mentioned previously, the current mid-term management plan stipulates that we aim to maximize our corporate value with both business strategy and financial strategy. We have strived to improve profitability through the implementation of strategic initiatives while promoting financial soundness by controlling the invested capital required for growth, as well as converting non-business assets into business assets. In the course of these actions, we have raised the total return ratio on dividends gradually from 25 % a decade ago to 80 % or more. Regarding dividends from FY2024 and beyond, we will add a DOE (dividend on equity) of 6 %, which provides a more stable return, to the policy, so that the the greater of DOE or a total return ratio of 80 % or more is paid for proactive and continuous return to shareholders.

By promoting these initiatives, we will diminish the weighted average cost of capital (4.8 % as of March 31, 2024) and increase capital efficiency.

Sources of competitiveness are "people" after all

Creating a workplace where employees can positively realize their dreams is one of the key points of strengthening the management base. No matter how the environment surrounding us changes, the sources of competitiveness in our group are "people", and it is still true that "people" are our most important management capital. Since I became the Representative Director, we have been committed to fostering a corporate culture where people continue to evolve without being bound by fixed ideas under the value concept of "Better today than yesterday better tomorrow than today". I think it is critical as a corporate manager that we support employees' positive challenges and offer the best opportunities for them to maximize their capabilities.

What I put into "Better today than yesterday better tomorrow than today" is to keep positively challenging attitudes without being afraid of failure at work. Everyone should not compare themselves with others but try to do better today even if they failed yesterday. Then,

let's do it more efficiently tomorrow. I want all of the employees to move forward like this even half a step at a time. In order to do so, it is important to repeat trial and error and learn from failure. Maintaining this corporate culture that allows for failure can lead us to achieve CIC ("Create, Innovate, and Challenge") the basic motto of our management policy.

As a river stagnates when it stops flowing, a company stagnates and begins to lose ground once it is satisfied with the current situation and stops taking steps forward. Each employee's step is small but when put together will be a huge driving force for the entire company.

If we move forward with all employees working hard and encouraging each other based on the spirit of "Better today than yesterday better tomorrow than today", we will keep evolving towards further prosperity over the next 100 years.

To fully learn lessons from the past and put our business back on track toward growth, we are strongly determined to formulate the next mid-term management plan. Through dialogue with all of our stakeholders, we will improve our corporate value. Your continued understanding and support going forward are greatly appreciated.



Messages from Outside Directors and
Outside Corporate Auditors

VOICE
OF OUTSIDE DIRECTORS
AND OUTSIDE AUDITORS

To live up to the expectations of various stakeholders and realize sustainable growth, our Outside Directors and Outside Corporate Auditors provide us with multilateral perspectives and expertise. Perspectives from various backgrounds will be key to opening up new possibilities. The following are interviews with 7 Outside Directors and Outside Corporate Auditors, speaking about the future of Arisawa and their roles.



Paying attention to a chemical reaction between the Innovation Center and "CIC"

One of my favorite sayings in Japanese is "Yatte Minahare". It comes from Shinjiro Torii, the founder of Suntory, and means "Don't be afraid to fail. Take on a challenge". This is an attractive phrase that encourages people to always try new things without being satisfied with their current situation. I think that this phrase has many similarities with Arisawa's slogan "CIC". Arisawa has invested substantially in this Innovation Center. What results can be achieved through a chemical reaction between this Innovation Center and CIC? This is what I am paying particular attention to. Fruitful results require the company to present a solid vision. I'd like to make statements based on my knowledge and experience to help Arisawa prepare a vision.

Outside Director Koji Nakamura
Former Senior Executive Managing Officer; Chief Operating Officer of EMEA (Europe, the Middle East and Africa) Business Unit, Mitsui & Co., Ltd.

Helping Arisawa's growth from an objective perspective

It is said that having "compound eyes of insects and birds" is important in journalism. This means that we not only need to check the details at a site where an event occurred but also need a perspective to get the whole picture of the event, or what implications the event has for the society. Since I became an Outside Director, I have tried not to look at the outside world from inside Arisawa but to express my opinion from a stance where Arisawa belongs to the world, or a third-party perspective. By leveraging my long career in international press coverage, I also would like to help the company strengthen its promotional activities. Promotional activities are a means of communication with the outside world. To make Arisawa's activities widely understood and gain sympathy and support, it seems that we need to discuss again what kind of information should be disseminated.

Outside Director Kazuo Abiko
Former General Manager for Northeast Asia, Associated Press / Former President, Foreign Correspondents' Club of Japan



About Arisawa

Messages from Outside Directors and Outside Corporate Auditors



Balancing cohesive forces and centrifugal forces is crucial during the course of growth

I see signs of further growth in Arisawa's roadmap and technological development themes. As a company grows, its structure cannot remain the same. Currently, Arisawa is taking the lead on its group management with a cohesive force, but in the not-too-distant future, overseas group companies will outperform Arisawa in sales and growth rate. When these relationship tables are turned, Arisawa will have no choice but to change its structure. This is because there are huge differences in culture, environment, and laws depending on the countries and regions of the world. What steps should Arisawa take to adapt to this change? It will be crucial to strike a balance between the cohesive forces and the centrifugal forces within Arisawa and its group companies. I believe this balancing act will require the experience and knowledge I've gained as a corporate manager.

Outside Director Hirotohi Takada
Former President and Representative Director, Executive Officer, NIPPON SEIKI CO., LTD.

Hoping for Arisawa's global expansion

As an Outside Corporate Auditor, I am in charge of verifying and overseeing the compliance and validity of execution of duties by Directors from an independent perspective. I think that the mission of an Outside Company Auditor is not just to criticize but to advise and suggest so that the company can change for the better. I am, by profession, a certified public accountant. When I belonged to an organization (Deloitte Touche Tohmatsu), I was assigned to China, which was going through a turbulent period at the time, and found communication difficult due to the differences in cultures and rules between the countries. By leveraging my knowledge gained from that experience to support risk management in overseas businesses, including in China, I aim to help Arisawa grow and become a renowned and exceptional company on the global stage.

Outside Corporate Auditor Koichiro Tanaka
Representative Director, Tanaka Sogo Accountant Office (current) /
Former Partner, Deloitte Touche Tohmatsu LLC



Creating a worker-friendly environment for everyone by promoting diversity

As a lawyer, I help Arisawa prevent scandals from occurring and also focus on increasing awareness of diversity. Some people may think that diversity is to encourage women's active participation and addressing gender-based discrimination issues. However, truly embracing diversity means creating a work environment that is inclusive of all people, including not only women but also foreigners and LGBTQ individuals. I hear that many diversity trainings are held exclusively for female employees, encouraging them to take on active roles like men. However, this approach doesn't work. A work environment that is friendly to women should also be a one that is friendly to everyone, including men. By promoting diversity with this mindset, I would like to help the company create an environment where everyone can work comfortably.

Outside Director Miho Numata
Representative, NUMATA LAW OFFICE (current) /
Civil Conciliation Commissioner, Tokyo Summary Court (current)



Investments for the future should not be cut due to a decrease in internal reserves

I have worked as a tax accountant in Joetsu for a quarter of a century. As an Outside Company Auditor of Arisawa, I conduct operating and financial audits independently from business execution. I check the numbers provided by the Administration Planning Division and the Accounting Division and always ask for an explanation as soon as I find any discrepancies, even minor ones. I believe this helps the person in charge gain a better understanding of accounting. The improvement in PBR, which had recently been required by shareholders, was achieved ahead of schedule. It was nothing but a pleasure, but the capital adequacy ratio dropped, and the internal reserves decreased. I would like to foster discussions to ensure that Arisawa does not hesitate to invest in human capital and intellectual property protection, which are essential for future growth, even though these investments may not be represented in financial figures.

Outside Corporate Auditor Koichi Yokota
Head, Yokota Accountant Office (current) / Vice President, Niigata Prefecture Branch Federation of Kanto-Shinetsu Certified Public Tax Accountant's Association (current)



Aiming for Arisawa's growth through dialogue with its shareholders

By leveraging my long years of experience in the stock market, I make proposals for Arisawa to take positive risks from a sustainable growth perspective. There is always a gap between investors' expectations and the company's policy. To fill the gap, it is important to talk with investors to come up with actions and earn their trust. I would like to increase cash flow stably and share the results of the company's growth with shareholders. In order to do so, we need to discuss, make strategies, solve issues, and report these initiatives to the shareholders. This is a basic thing, but I will make sure that this flow works properly. The new mid-term management plan starts in the next fiscal year. We need to pave the way for Arisawa's future growth.

Outside Director Makiko Horie
Partner, SDG Impact Japan Inc. (current)



Column

Systems for providing information to support Outside Directors

In recent years, companies increasingly found themselves in situations where they need to clarify the roles and qualifications of their Outside Directors to accelerate governance reforms. In respond to such requests, Arisawa provides opportunities for its Outside Directors to gain a deeper understanding of its business and challenges. For example, they are provided with materials related to the Board of Directors in advance and have the option to attend internal business report meetings and the Board of Operating Officers, both of which are held monthly. On such occasions, the Outside Directors can deepen the understanding of Arisawa's businesses by receiving direct explanations from the Operating Officers and other managing members, and asking them questions. The company also offers periodic gatherings where the Outside Directors engage in discussions with next-generation leaders, such as executive candidates and female manager candidates, to foster mutual understanding. Establishing such various systems enables active discussions among the Outside Directors at the Board of Directors meetings, contributing to the long-term improvement of the company's corporate value.

