



“Toward the next 100 years...”

Message from our President

Toward the 100th anniversary of our foundation

We will pursue management that balances social and economic value and drive through *henkaku* (Change) targeting a “new ISEKI”

Shiro Tomiyasu

ISEKI & CO., LTD.
Representative Director, President & Executive Officer

ISEKI Group's mission

Working to solve social issues as a “solution provider for agriculture and landscape”

Continuously inheriting the passionate thoughts and feelings of its founder, Kunisaburo Iseki, to “free farmers from exhausting labor,” the ISEKI Group will celebrate its 100th anniversary in 2025. During that time, we have contributed to agricultural modernization and laborsaving by providing agricultural products and services. Specifically, comparing Japan's rice farming in 1960 with that of today, the energy required to produce one unit of rice in Japan has decreased to about one-eighth of what it was. The Group has supported this development by mechanizing hard manual work and work done with the help of animal power. In the spirit of “being farmers’ closest supporter,” we have developed many products ahead of the rest of the world as a frontrunner and, with our technological power, have driven the mechanization of agriculture. The Group's continued high ranking in terms of the number of patents acquired per specialty field is a testament to this. We intend to continue to uphold this “frontier spirit” and pride.

The products the Group offers contribute to improving agricultural productivity, particularly in the Japanese and Asian markets. Moreover, the riding lawn mowers, compact tractors, and other equipment for the European and North American markets are used to maintain parks and green spaces, clean roads, and otherwise improve the landscape, thereby contributing to the creation of livable villages and towns and the improvement of people's quality of life. One social issue that the Group must help to resolve is food security, which emerged following the COVID-19 pandemic and the invasion of Ukraine. The world's population reached 8 billion in 2022, and is expected to go beyond 10 billion in the first half of the 2050s. Considering that more than ten percent of the world's population is suffering from hunger, boosting food production is a pressing issue. However, it is difficult to increase the land area under cultivation due to issues such as the associated environmental burden

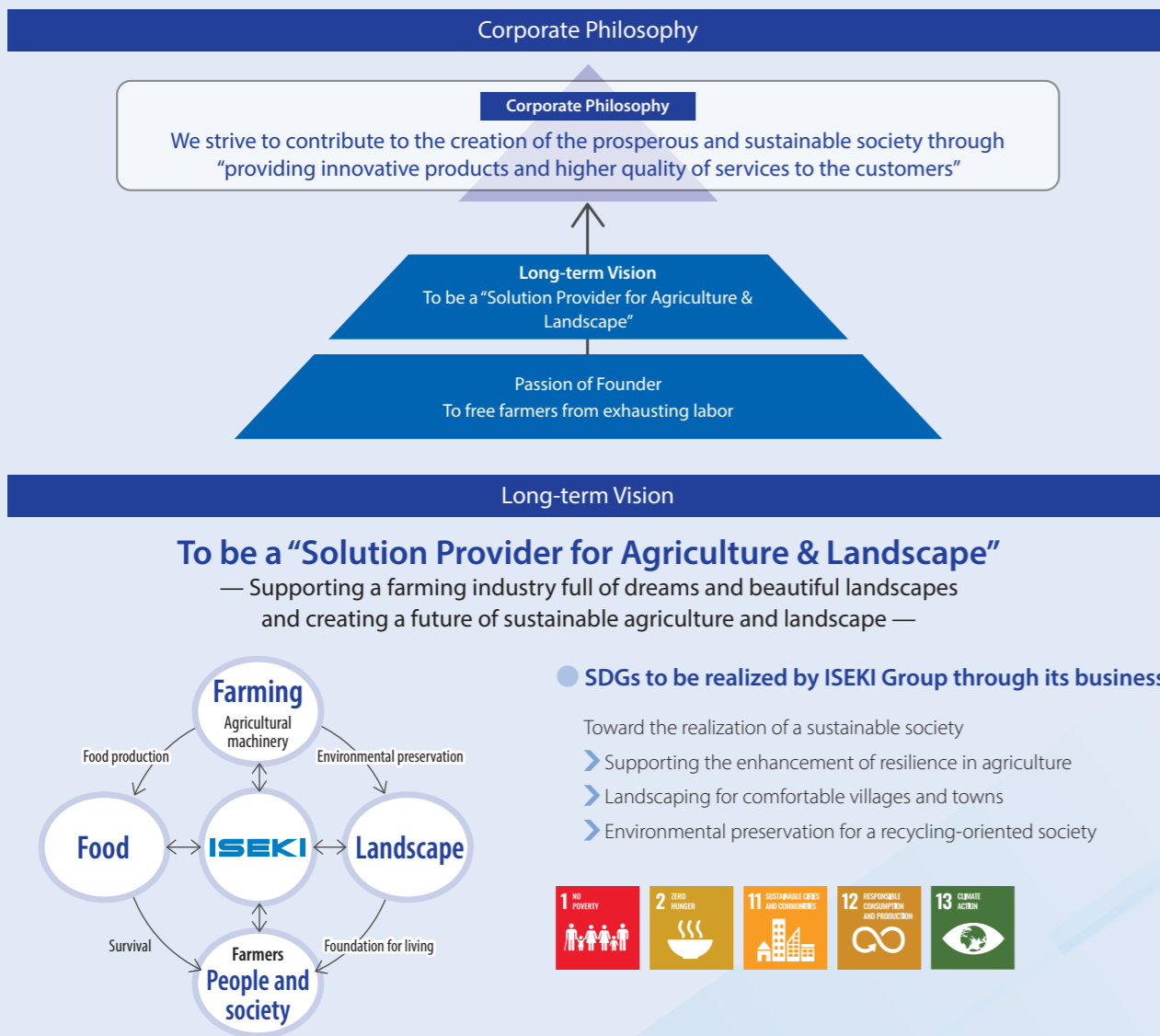
and reduced availability of farmland caused by industrialization and desertification. Thus, it is essential to improve agricultural productivity. Moreover, climate change and increased natural disasters due to global warming, and the loss of biodiversity are serious issues, making initiatives to mitigate the environmental burden essential.

The corporate philosophy of the Group is to “strive to contribute to the creation of the prosperous and sustainable society through ‘providing innovative products and higher quality of services to the customers.’” We also establish the long-term vision of becoming a “solution provider for agriculture and landscape.” Farming safeguards food and land and provides the foundation to realize prosperity for people and society. We believe that our mission is to be a corporate group that supports “agriculture” and “people and society” and to resolve issues related to them. We are confident that we can contribute to the achievement of the Sustainable Development Goals (SDGs). In addition to using the knowledge and experience we have cultivated over the years, ISEKI Group will work to resolve social issues by responding to changing business environment and needs, with the aim of becoming a solutions company that creates new value.

Progress of Mid-term Management Plan (achievements and challenges)
Review of the fiscal year ended December 31, 2023

Despite setting record for consolidated net sales, issues remain in responding to changes in the environment

In the domestic market, challenges we face include bolstering food security, the rapidly decreasing agricultural working population, and mitigating environmental burdens such as climate change. In addition to transitioning to large-scale and smart agriculture,



Long-term Vision
To be a “Solution Provider for Agriculture & Landscape”
 — Supporting a farming industry full of dreams and beautiful landscapes and creating a future of sustainable agriculture and landscape —

● **SDGs to be realized by ISEKI Group through its business**

- Toward the realization of a sustainable society
- Supporting the enhancement of resilience in agriculture
- Landscaping for comfortable villages and towns
- Environmental preservation for a recycling-oriented society



we promoted measures for agricultural resilience through environmentally sound agriculture and other initiatives. (P37–40)

Looking at overseas markets, through collaboration with strategic partners in North America, Europe, and Asia, we crafted measures to satisfy the differing needs of each region. In North America, we are strengthening our ties with AGCO. In Europe, we continue to reinforce our sales network through subsidiaries such as ISEKI France and ISEKI Germany. And, in Asia, particularly in ASEAN, we are bolstering our support for field crop farming with subsidiary IST Farm Machinery Co., Ltd. In India, we are also evolving our cooperation with TAFE and have begun procuring production parts from the company. (P41–44)

For the fiscal year ended December 31, 2023, consolidated net sales reached a record high due to increased sales both domestically and abroad. In Japan, despite strong performance by the new BF Series tractors, which went on sale in July 2023, sluggish rice prices and continued high costs for agricultural production materials worked to suppress demand. Additionally, sales of agricultural

machinery products fell due to delays in production caused by disruptions in the supply chain for large-scale models. Meanwhile, maintenance revenue and the completion of certain facilities under construction supported the overall increase in sales. Overseas sales continued to be robust—particularly in Europe—reaching a record high for the third consecutive fiscal year, and the ratio of overseas net sales to total sales increased to 33.5%.

Profitability is an issue, as operating income was down year on year and the operating margin was 1.3%, due in part to lower gross profit margin resulting from a decline in production attributable primarily to lower sales of agricultural machinery products and increased selling, general and administrative expenses. Although price revisions finally offset the impact of the sharp raw material price increase for the single fiscal year of 2023, the total from fiscal year 2021 is still insufficient.

Our balance sheet faces challenges with regard to asset efficiency, including high non-current assets and growing inventories. Inventories in particular grew significantly on the impact of lower

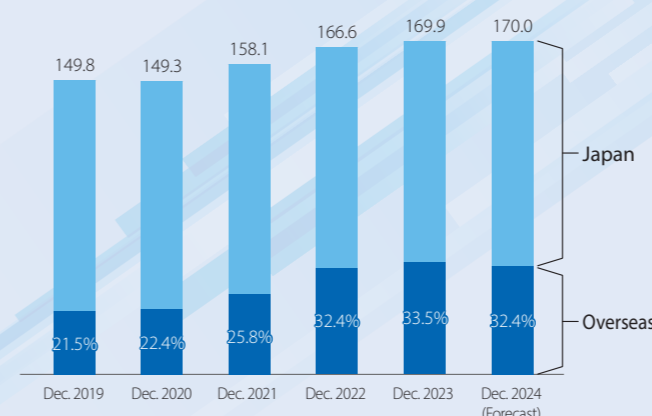
domestic agricultural machinery product sales and the buildup of inventories for the U.S. and Europe, which had previously been low.

Meanwhile, operating cash flow was negative for the second consecutive fiscal year, due to low net income levels and growth in inventories.

The challenge remains “the transformation into a company with a lean and streamlined business structure that can constantly generate profit,” which is the goal of the Mid-term Management Plan.

Consolidated net sales

(Billion yen, %)



Project Z Measures

Implementing structural reform without exceptions and building a strong management foundation
 Indicating a path toward a 5% operating margin

ISEKI Group's results forecasts for the fiscal year ending December 31, 2024 remain challenging. We expect 170.0 billion yen in net sales (unchanged from the previous year), operating income down 0.2 billion yen to 2.0 billion yen (an 11.1% decrease year on year), and profit attributable to owners of parent of 0.4 billion yen. Continued production adjustments for the purpose of reducing inventories bring down profit levels. For us, 2024 will be a year of patience.

While the numerical target of the Mid-term Management Plan is an operating margin of 5% for the year ending December 31, 2025, the result for 2023 was 1.3% and the forecast for 2024 is 1.2%. This makes the transformation to a leaner and more streamlined structure an urgent issue.

Factors behind our failure to achieve the goals of the Mid-term Management Plan include price revisions not keeping pace with soaring raw material and energy prices, and the deterioration of production site profitability due to production adjustments caused by the decline in domestic demand for agricultural machinery products. Moreover, gross profit margin remained flat as insufficient progress was made in initiatives such as the “Optimize development” and production systems. Despite efforts to improve operational efficiency toward reducing selling, general and administrative expenses, they increased owing to factors such as a rise in

distribution costs. The selling, general and administrative expenses to sales ratio has been worsening year by year.

In summary, 1) the measures in response to the drastic changes in the environment were lacking in effectiveness and speed, and 2) the efforts toward overall management reform and its implementation were unsuccessful. We believe these are the two key points.

In response, we have identified the improvement of profitability and asset efficiency as issues the Group must urgently address, and to implement the business structural reform without exceptions and build a robust management foundation, we established Project Z in November 2023. Under Project Z, we will develop and implement fundamental structural reforms and growth strategies.

We will promote the three fundamental structural reform themes of “Optimize production,” “Optimize development,” and “Deepen domestic sales” in a short-term, intensive fashion. In 2024 and 2025, we will develop key measures for each of the themes: “management integration of manufacturing companies,” “improvement of profit margins by product,” and “management integration of domestic wide-area sales companies.” Meanwhile, time will be required before some of the measures bear fruit, so we will continue to act, repeatedly implement reforms, and complete the three aforementioned themes to achieve an operating margin of 5% or more and return on equity (ROE) of 8% or more by 2027. Moreover, with regard to shareholder return, we aim to increase dividend on equity (DOE) to 2% and price book-value ratio (PBR) to more than 1.0x. (P25–28)

Then, we will firmly and concurrently implement fundamental structural reforms and growth strategies.

The axis of our growth strategy is, first and foremost, overseas business. The ratio of overseas net sales to total sales has grown to 33.5%. We will develop region-specific strategies and set our sights high for the next stage. Meanwhile, domestically, we will concentrate on the growth areas symbolized by the keywords: large, cutting-edge, environment, and dry fields. Now, let me explain our growth strategy from a different angle and by product. The key to this strategy is large-scale agricultural machinery in Japan and Non-Agri products for landscape maintenance, which we are rolling out in Europe and North America. We will focus our resources on growth areas and begin laying the foundation in 2024.

We are currently considering specific measures and will announce them as they are determined during 2024. (P25–28, P37–48)

Toward improving PBR

Steadily implement a variety of measures under Project Z to achieve a PBR of 1.0x or more
Bolster IR activities and ESG initiatives

Our PBR has remained below 1.0x, standing at 0.34x as of December 31, 2023. In analyzing PBR, we asked investors and securities analysts with whom we regularly communicate for their opinions. We also broke PBR down into ROE and price-to-earnings ratio (PER) and looked at changes over time in analyzing the current situation.

ROE has been stagnant for some time, remaining below 8%, the target figure of the Mid-term Management Plan. A further breakdown of ROE reveals that the primary reasons for this are low net income margin and low total asset turnover ratio. Our view is that the net income margin is affected by the profit margin and selling, general and administrative expenses to sales ratio for each product, while the total asset turnover ratio is impacted by factors such as inventory volume and facility utilization rate. The understanding of our institutional investors with whom we have daily contact is that our cost of equity is generally around 8%.

PER has been less than 10x since 2020. We were reminded that the reasons for this are the significant discrepancy between plans and actual results, along with insufficient disclosure of information on issues such as growth, strengths, and profitability, and dividend level.

Our efforts to improve PBR based on our analysis of the current situation center on Project Z. In addition to the three fundamental structural reform themes, we will put into action growth strategies to heighten profitability and asset efficiency, and allocate cash for growth.

Furthermore, by enhancing and upgrading dialogue and information disclosure, reinforcing the governance structure, and otherwise strengthening IR activities and ESG initiatives, we aim to achieve a PBR of more than 1.0x by 2027. (P29–30)

The introduction and setting up of an administrative accounting system has made visible the profitability of each market and business, finally enabling decisions to be made based on these factors. We believe that a key theme is to upgrade disclosure information—both quantitative and qualitative—for dialogue, and to be able to show everyone how the plan is progressing.

We also feel that in achieving sustainable growth and realizing mid- to long-term corporate value enhancement, building relationships of trust with our shareholders and investors is essential. We intend to outline our management policies in detail and strive to engage in constructive dialogue. (P77–78)

Aiming for sustainable growth

We set up the ESG Committee, establishing a framework that enables the management team to strengthen their involvement

For the purpose of centrally managing ESG-related issues in the Group, we established the ESG Committee in August 2022. The Committee is composed of Directors and Corporate Officers and chaired by an Independent Outside Director. In principle, Committee meetings are held each month, and the Committee seeks to find solutions for the Group's materiality (priority issues) by examining and deliberating sustainability-related initiatives for the Group as a whole from the perspective of risks and opportunities. Such initiatives include responses to climate change, respect for human rights, and employee health. The results of deliberations at Committee meetings are reported to the Board of Directors, which

in turn deliberates and determines them, thereby strengthening management's involvement. Moreover, a working group led by working-level personnel has been established to further promote ESG-related activities.

Environmental initiatives

The Group has positioned the realization of a decarbonized and recycling-oriented society as one of our priority issues, and practices environmental management by setting the Environmental Vision and the Basic Environmental Policy. We also announced our endorsement of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and have begun disclosing information in line with the recommendations. (P49–51)

Additionally, agriculture and landscape maintenance, which receive benefits from nature, are closely related to issues such as climate change and biodiversity. We are endeavoring to reduce the impact our business activities have on the environment. In concrete terms, we are upgrading and expanding our lineup of environmentally friendly products and services, such as proposals for environmentally sound smart agriculture and electric products. In Japan, initiatives are proceeding to expand organic farming, utilize carbon credits, and suppress agricultural methane gas emissions through farm business solutions. In environmentally conscious Europe, we launched limited sales of electric riding lawn mowers in 2022. Based on local evaluations, this may lead to full-scale sales in the future. (P33–36) Through these initiatives, we will continue to contribute to resolving climate change issues and mitigating the environmental burden.

A company is its people—initiatives related to people, human capital, and diversity

In my message to employees when I assumed the position of president, I said, "Our Group is based on the cumulative efforts of our predecessors who, since our founding, have carefully preserved our desire to be close to our customers. A company is supported by its people, and as such we will focus more than ever on cultivating human resources." We have established a policy for human resources development and a policy for workplace environment creation, and under the themes of "enhancement of employee engagement" and "transformation of human resources," we are working to maximize the Group's human resource capabilities.

In enhancing engagement, we will accelerate our promotion of diversity, equity, and inclusion, and reinforce the bond with our employees. We will also promote the cultivation of human resources who will lead the way in the century to come.

Concerning the transformation of human resources, we are actively promoting human resources management that transcends the boundaries between Group companies. Our aim in this pursuit

is to optimize the allocation and full utilization of group personnel based on our business strategy. In 2023, we introduced the Group personnel open recruitment system. The program, which respects employees' autonomy, encourages them to cultivate their own careers. Firstly, we transferred personnel from a sales company in Japan to a sales subsidiary in Thailand to capitalize on the know-how these employees accumulated in Japan. We will continue to concentrate the human capital within the Group on focused areas. To secure and cultivate human resources to bring our business strategy to fruition, we are also working to diversify our recruitment and further upgrade employee education programs related to DX and other topics.

Initiatives to reinforce corporate governance

We have established the Nomination and Compensation Committee, which comprises two Representative Directors and three Outside Directors, to enhance and reinforce governance by heightening transparency and objectivity in the appointment and compensation of Directors and Corporate Officers. In concrete terms, we revised the Directors' compensation system in 2022. The purpose of this revision was to make compensation's link to business results and shareholder value more explicit. The revision is intended to increase Directors' focus on helping to improve business results and enhance corporate value over the medium- to long-term by ensuring that they have the same interests in the risks and benefits of share price fluctuations as shareholders. Moreover, in the interest of diversity on the Board of Directors, two new female Directors—including one with corporate management experience—were appointed to the Board following approval at the Ordinary General Meeting of Shareholders in March 2024. We will continue to aggressively push forward the invigoration and functional improvement of the Board of Directors.

Toward the next 100 years... Pursuing an economic role alongside a social role

The Group, an integrated manufacturer specializing in agricultural machinery, has developed its business on an aspiration to be farmers' closest supporter and has worked to resolve social issues. This aspiration is rooted in an abiding commitment to acting first and foremost for the benefit of customers. This is our greatest strength, and I believe it is precisely because we are fulfilling this social role that we have been able to continue operating our business for almost 100 years.

Nowadays, food security and food are of growing concern due to the COVID-19 pandemic and the invasion of Ukraine. Agriculture, which supports food supply, and landscaping business, which supports people's daily lives, are being reaffirmed as essential



businesses. I believe that ISEKI Group, through activities that support customers, can grow while continuing to fulfill its social role.

Moreover, for the Group to sustain its development over the next 100 years and continue providing innovative products and higher quality of services to customers, we must operate our business in such a way that a diverse range of stakeholders, including shareholders, suppliers, and employees, can feel confident about joining forces with us. In other words, it is essential to generate adequate profits and fulfill an economic role as well.

These two roles do not need to be prioritized one above the other; I believe they can balance and complement each other as they progress. However, ISEKI has become accustomed to lagging behind somewhat in terms of pursuing its economic role. ISEKI operates in such a way that it fulfills its economic role in addition to the social role it has contributed to over the years.

Since I took office, I have advocated *henkaku* (Change). While there has been gradual change with regard to certain aspects, I believe that it is still insufficient. We have always said that the meaning of change is to review design, production, sales, and service methods in particular from the ground up. Regarding these changes, the structural reform through Project Z represents the tightening of these screws. The "Z" in Project Z stands for "0." It represents the unknown and is the first letter in the word "zero."

Project Z will be the key in creating a new century, looking ahead to the 100th anniversary in 2025 and the century to follow. In laying the foundation for sustainable growth, I consider it my own personal responsibility to involve the entire Group in a concerted effort to drive forward the transformation into a company with a lean and streamlined business structure. As we determinedly move forward with our transformation, I hope we can continue to rely on your support as we endeavor to forge a "new ISEKI."