CFO MESSAGE

Message from the CFO

We will continue growth investments and promote improvement of capital efficiency.

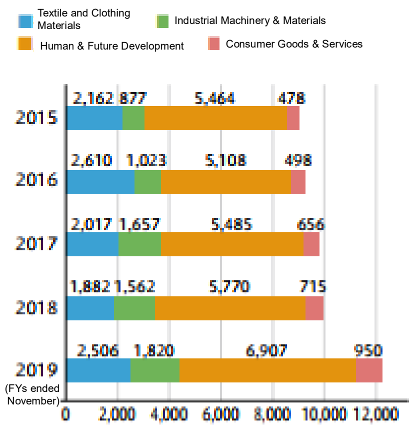
Managing Executive Officer and Director of Management Strategy Center

Takehiro Okamoto

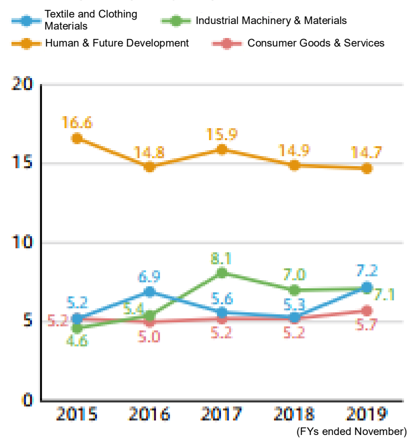
New all-time record-high sales and profits achieved in the final fiscal year of the First Medium-Term Management Plan

The Company formulated its medium- to long-term vision called "RN130 Vision" and has worked on various initiatives in the First Medium-Term Management Plan (2017 to 2019), which is phase 1 of the vision. As a result, we attained the final fiscal year's targets: consolidated net sales of 120.0 billion yen or more and consolidated operating income of 9.0 billion yen or more, and renewed record-high sales and profits levels with operating income increasing for the tenth consecutive year. Considering that we need to further step up our efforts to achieve the RN130 Vision in this fiscal year, we have adopted a single fiscal year plan and positioned the current fiscal year as a preparatory period for formulating the Second Medium-Term Management Plan (2021 to 2023).

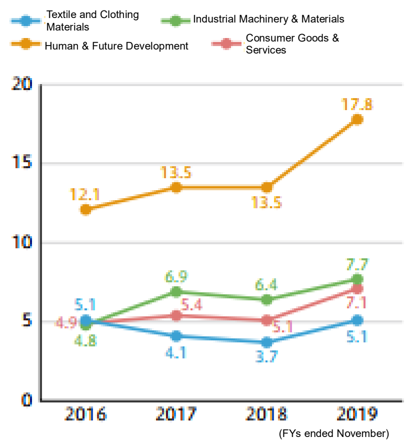
Operating income by segment (millions of yen)



Operating margin by segment (%)



ROIC by segment (%)



Continuing to pursue integrity and capital efficiency in the financial strategy of the Second Medium-Term Management Plan

With regard to the financial strategy, the Company continues to view integrity, capital efficiency, profitability, growth potential and stable returns to shareholders as fundamental factors.

First, let us discuss integrity. The Company focuses on an appropriate balance between capital and liabilities that is commensurate with business risks, and considers that at least 50% of the equity ratio should be used as a guide for integrity. For the past several years, the equity ratio of the Company has been more than 60%, and we will maintain the current level, taking into account group-wide cash management and other factors affected by the spread of COVID-19 infections.

Next, I would like to talk about capital efficiency. In the First Medium-Term Management Plan, we have worked on capital efficiency improvement measures such as sales and further re-development of poorly performing real estate, withdrawal from overseas money-losing businesses, and concentration of inventory assets of the Group, while making the ROIC (target: 8%; minimum: 5%) well known to our personnel as an investment criterion, thereby raising awareness of capital efficiency among them. As a result, we achieved the target ROE of at least 7% in the final fiscal year of the First Medium-Term Management Plan.

In the Second Medium-Term Management Plan, we are planning to re-develop large-scale real estate we possess in Ichikawa (Chiba Prefecture), Chuo Ward (Tokyo), Ichinomiya (Aichi Prefecture), Kobe and other places. To raise funds in a flexible manner, we have acquired the long-term bond issuer rating of A, which is required to issue corporate bonds and are also planning to register issuance. The capital cost (WACC) of the Company is approximately 4%, and therefore we can lower capital cost by raising funds at a lower interest rate on a longer-term fixed basis than the current level.

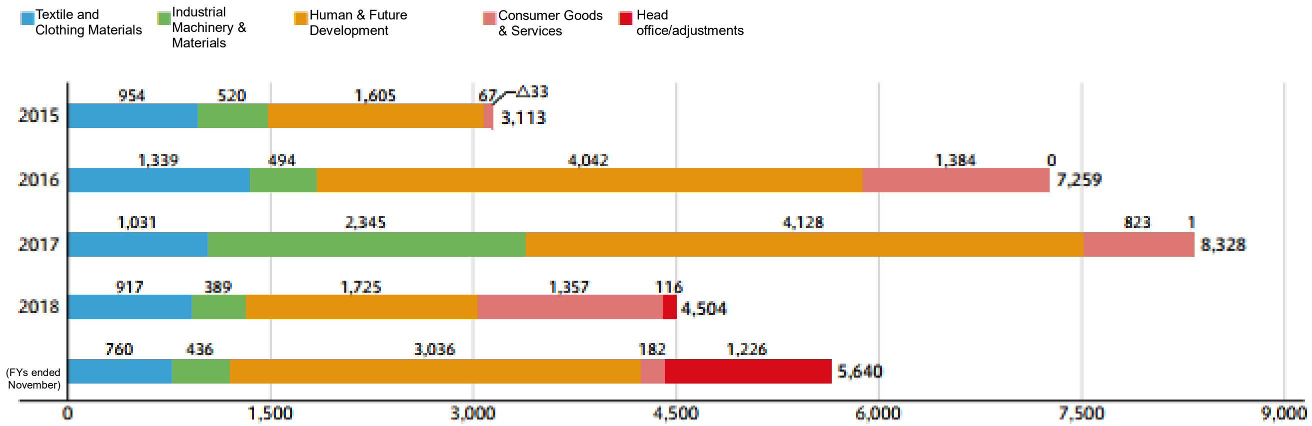
Furthermore, we will move forward with improving capital efficiency by conducting an equity repurchase and reducing cross-holdings. We are planning to repurchase one million shares (maximum amount of 1.25 billion yen) in this fiscal year and will conduct the repurchase at the right timing. Regarding reduction of cross-holdings, we sold nearly 2.2 billion yen of shares (such as shares for which the necessity of holding is reduced and shares for which returns fall below capital cost) in the three-year period of the First Medium-Term Management Plan and are planning to sell more than 400 million yen of such shares in this fiscal year.

Accelerating growth through active capital investment, M&A and R&D

Let me move on to the issue of profitability. We work to improve it along with capital efficiency, and succeeded in improving the operating margin by 0.7 points to 8.3% in the previous fiscal year.

Regarding growth potential, investment is important, so the Company made 13.1 billion yen of capital investment and used 7.9 billion yen for M&A and R&D activities under the First Medium-Term Management Plan. The annual operating cash flow of the Company is approximately 10.0 billion yen and if 20.0 billion yen of new interest-bearing loans that we can obtain while maintaining at least 50% of the equity ratio is added to the 10.0 billion yen, we can raise approximately 50.0 billion yen in three years. In the Second Medium-Term Management Plan, we aim to make investments by striking a balance of 50:50 in terms of growth through internal initiatives (capital investment) and growth through external initiatives (M&A). With regard to investment areas, our M&A activities will focus on areas where synergy with our existing businesses can be created. For example, we consider the non-woven fabric and felt business in the broad-ranging Industrial Machinery & Materials segment, e-commerce-related businesses in the Consumer Goods & Services segment, and medical care-related businesses to become our future revenue base. By assigning specialist staff

Capital investment/M&A (millions of yen)



members to the Business Development Office of the Management Strategy Center, we examine 3 to 5 M&A projects at any time and strengthen our efforts to collect information. As for capital investment, we are looking at functional materials-related businesses and energy conservation projects in the Textile and Clothing Materials segment, the filters business in the Industrial Machinery & Materials segment, and real estate re-development, nursing care, childcare and franchise businesses in the Human & Future Development segment, and other businesses.

In closing, I would like to explain our approach to distribution of dividends. Currently, we use a dividend payout ratio as a guide for shareholder returns. The Company has not reduced dividends since 1975 when we reduced them due to a decline in our earnings after the oil shocks, and we adhere to the policy of distributing dividends stably without reducing them. Also, we will consider using the DOE as an indicator from the next Medium-Term Management Plan.