

## Governance <G>

### Building and operating transparent management systems for thorough Group-wide compliance.



The entire Toyoda Gosei Group is striving to enhance corporate governance so that we can continue as a company of integrity that is trusted by society. To build and maintain fair and transparent corporate governance systems, we are increasing the effectiveness of the monitoring and auditing of corporate management by outside directors and Audit & Supervisory Board members, while also installing internal control systems company-wide to ensure the propriety and efficiency of work. Through Group-wide compliance activities, we are pursuing thorough legal compliance and business ethics.

We are also globally identifying risks with the potential to have a huge impact on our operations, and implementing risk management activities to prevent future problems.

#### Hiroshi Yasuda

Chief of Corporate Strategy Headquarters  
Chief of Carbon Neutrality and Environment Promotion Division,  
Adviser to Automotive Business Headquarters / Director, Corporate Officer

## Corporate governance

### Basic philosophy

We view the enhancement and strengthening of corporate governance with the aim of ensuring sound and efficient corporate management to be crucial in achieving sustainable growth. Based on this, we are building and maintaining fair and transparent management systems and organizational systems that can respond precisely to environmental changes.

### Corporate governance system

Toyoda Gosei has adopted an audit and supervisory board system and set up the shareholders' meeting, Board of Directors, Audit & Supervisory Board, and accounting auditors as statutory entities. We have also put in place internal auditors and other internal control systems including internal audits.

The Board of Directors consists of nine directors and holds regular monthly meetings (extraordinary meetings held as needed), where matters prescribed by law or in the Articles of Incorporation and important matters related to corporate management are reported, discussed, and resolved.

A system of corporate officers is used to speed up decision making and business execution. For important business matters, division chief meetings and management meetings are held monthly. Functional meetings and committee meetings relevant to key areas such as technology, costs, and personnel are also held as needed for good management decisions.

The Audit & Supervisory Board consists of five

members and holds regular meetings. Members also attend important meetings such as Board of Directors' meetings and audit each department and subsidiary, through which they fulfill their function of auditing corporate management.

Accounting auditors are external auditors who combine auditing functions with a commitment to ensuring an independent and fair auditing system. The company adopts the current system because audit, supervisory, and execution functions are well coordinated with each other under this structure, with legality and efficiency of the company's decision-making and business execution sufficiently ensured.

Also, in order to strengthen the supervisory function of the Board of Directors and to increase the objectivity and transparency of the decision-making process, we have established an Executive Appointment Committee and Executive Compensation Committee under the Board of Directors as non-mandatory advisory committees.

### Internal control systems

In accordance with the provisions of Japan's Companies Act, Toyoda Gosei has formulated a Basic Policy on Establishing Internal Controls. Under this policy, we are striving to ensure appropriate operations by establishing internal control systems, which help us

deliberate important matters, establish related rules and guidelines, and handle internal audits, compliance and risk management. Every year, the Board of Directors checks the status of establishment and operation of internal controls in an ongoing effort to improve and reinforce them.

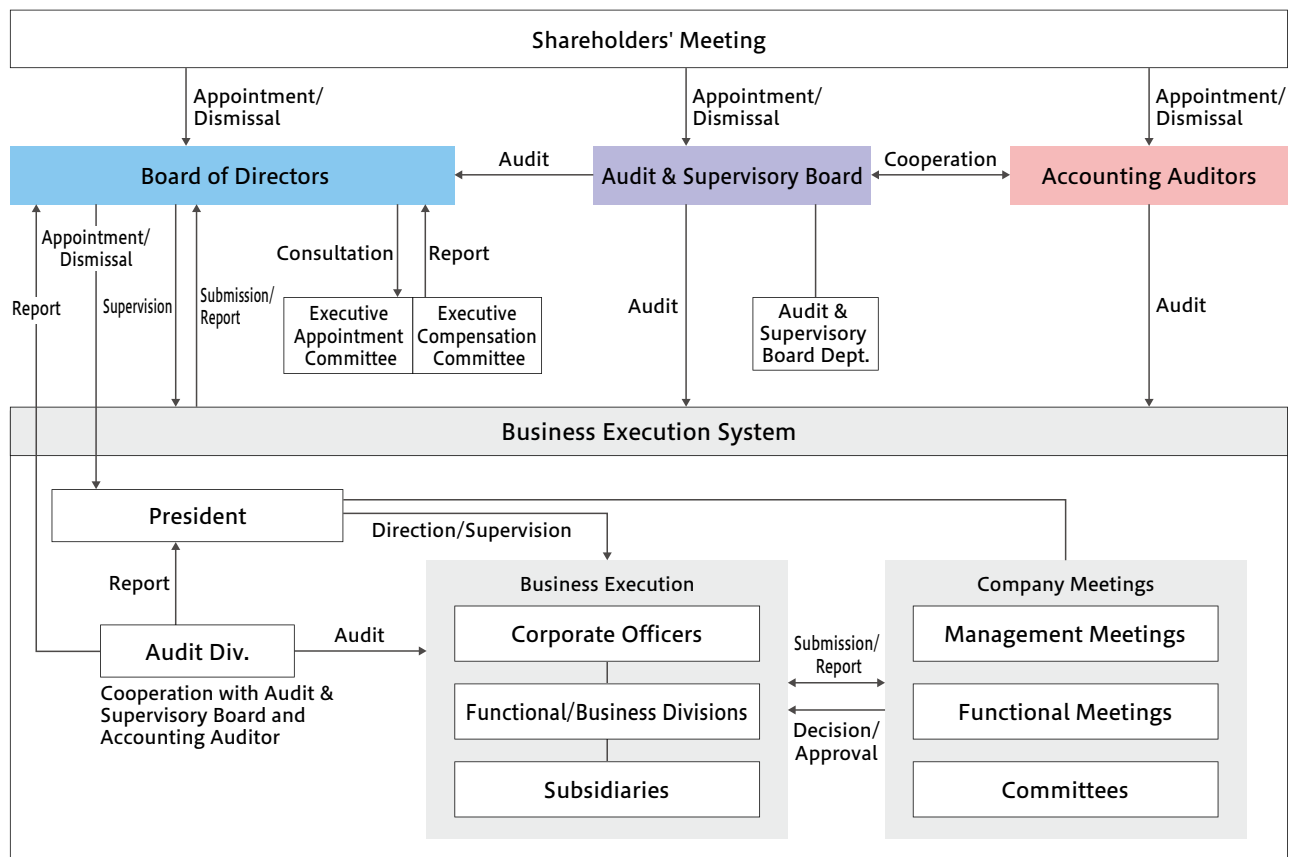


## Internal controls for the Toyoda Gosei Group

To cultivate a healthy internal control environment at Toyoda Gosei and its subsidiaries, all Group companies share its management philosophy. The Toyoda Gosei Group Charter for Business Ethics, a shared guideline for compliance, has also been instituted and expanded to subsidiaries. While respecting the independence of subsidiary management, we receive regular business

reports from subsidiaries and set up systems to confirm the propriety and legality of subsidiaries' businesses through advance approval reports. We also send non-executive directors and Audit & Supervisory Board members to key subsidiaries in a system to monitor and act as a check on their business execution.

### Corporate governance system



## Internal audits, Audit & Supervisory Board members' audits, and accounting audits

We have set up an Audit Division to handle internal audits. With the aims of achieving business objectives and preventing misconduct and mistakes, internal audits are conducted across the overall business (including audits of functional departments) based on an internal auditing plan approved by management at the beginning of each term.

The results of internal audits are reported to management, and audited departments are given recommendations for improvements based on the audit results. The effectiveness of internal audits is increased by checking their improvement plans and results.

Each Audit & Supervisory Board member follows the auditing policy and audit plan established by the Audit & Supervisory Board when investigating the company and subsidiaries. They attend the meetings of important deliberative bodies and committees including the Board of Directors, division chief meetings and management meetings, listen to reports on business from directors

and others, inspect financial statements and other important documents, and conduct onsite audits of offices and subsidiaries to audit the performance of duties by directors from the perspectives of ensuring legality and appropriateness, protecting assets and rights, and preventing loss. Moreover, a special department has been established to assist the auditors' audits.

The certified public accountants who performed the FY2020 accounting audit of Toyoda Gosei are Tomohiro Nishimura and Satoko Nakatani of PricewaterhouseCoopers Aarata LLC.

Audit & Supervisory Board members, internal auditing department personnel, and accounting auditors regularly meet to confirm their respective auditing systems, auditing policy, auditing plans, implementation status, and audit results. They cooperate in performing efficient and effective audits, contacting each other as needed to exchange ideas and share information.

### Director (skills matrix)

Name	Position at Toyoda Gosei	Executive Appointment Committee	Executive Compensation Committee	Corporate management	Governance	Overseas operations	Manufacturing (production/quality management)	Technology	Sales	Finance	Personnel	Environment and energy	Board meeting attendance rate (Apr. 2020-Mar. 2021)
Toru Koyama	President	○	○	○	○	○	○	○		○	○		100% (13/13)
Tomonobu Yamada	Executive Vice President			○	○	○			○				100% (13/13)
Hiroshi Yasuda	Director			○	○	○	○	○				○	100% (13/13)
Masaki Oka	Director			○	○					○			100% (13/13)
Takashi Ishikawa	Director			○	○		○	○				○	100% (11/11)
Naoki Miyazaki	Director	○	○	○	○	○				○	○	○	100% (13/13)
Sojiro Tsuchiya	Director Outside Independent	○	○	○	○	○	○	○			○	○	100% (13/13)
Kimio Yamaka	Director Outside Independent	◎	◎		○					○	○	○	100% (13/13)
Mayumi Matsumoto	Director Outside Independent	○	○		○						○	○	100% (13/13)

Note: “◎” denotes the chairperson.

### Expected roles of and support for outside directors

All three outside directors possess a wealth of experience and keen insight.

Mr. Tsuchiya’s experience and expertise lie in global strategy and production engineering; Mr. Yamaka’s, in finance and the environment; Ms. Matsumoto’s, in the environment and SDGs. Ms. Matsumoto is Toyoda Gosei’s first woman director.

The three adeptly fulfill monitoring and advisory roles in addition to actively participating in Board discussions.

In their monitoring role, they receive support in the form of departmental briefings on business operations and challenges and direct access to front-line operations through on-site-visits to domestic and

overseas subsidiaries to better understand the actual state of operations. Additionally, they are briefed in advance on the content and background of resolutions to be voted on at Board meetings to facilitate sound decision-making.

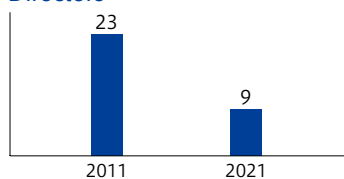
At the same time, the outside directors advise management on company direction and business challenges. Advisory opportunities include regularly scheduled liaison meetings attended by all outside directors and outside Audit & Supervisory Board members, each of whom attends various other meetings also, including sales and technology strategy meetings, Decarbonization and Environmental Committee meetings and ad hoc meetings.

### Changes in numbers of directors and Audit & Supervisory Board members

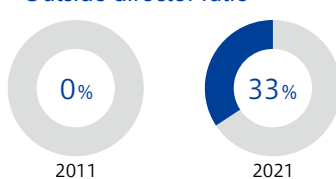
In 2012, Toyoda Gosei adopted a system of corporate officers and downsized its Board of Directors to eight directors from 23 as of 2011. It appointed its first outside director in 2015.

The Board currently comprises nine directors, three or one-third of whom are outside directors. One of the outside directors is a woman. The outside director appointments have increased the Board’s objectivity and diversity.

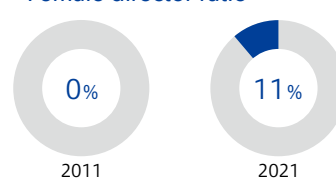
Directors



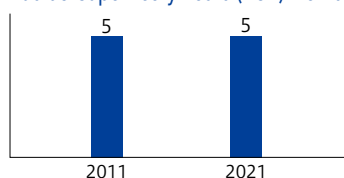
Outside director ratio



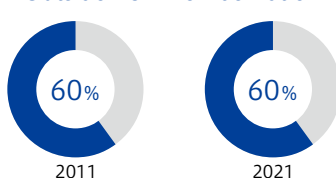
Female director ratio



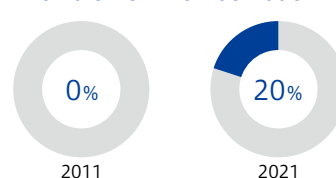
Audit & Supervisory Board (ASB) members



Outside ASB member ratio



Female ASB member ratio





## Changes in numbers of directors and Audit & Supervisory Board members

Toyoda Gosei appointed three outside directors, Sojiro Tsuchiya, Kimio Yamaka, and Mayumi Matsumoto, at its annual shareholders' meeting on June 17, 2021. The

Audit & Supervisory Board has three incumbent outside members: Chika Kako, Hideomi Miyake and Masami Hadama.

### Election of outside directors and outside Audit & Supervisory Board members

Appointment	Name	Independent director	Reason for appointment
Outside directors	Sojiro Tsuchiya	○	To benefit from his management oversight and advice based on his extensive experience, including as a director of Denso Corporation, and his expertise, including full-spectrum manufacturing expertise cultivated over decades at Denso and other companies/groups. Mr. Tsuchiya has been designated as an independent director because he meets the requisite criteria and is deemed free of potential conflicts of interest with regular shareholders.
	Kimio Yamaka	○	To benefit from his management oversight and advice based on his extensive experience and expertise in finance, particularly policy finance, project due diligence and the environmental and energy sectors. Mr. Yamaka has been designated as an independent director because he meets the requisite criteria and is deemed free of potential conflicts of interest with regular shareholders.
	Mayumi Matsumoto	○	To benefit from her management oversight and advice based on her extensive experience and high-level insight as a news anchor and researcher in the broad fields of social issues, environment and energy in the management of Toyoda Gosei. Ms. Matsumoto has been designated as an independent director because she meets the requisite criteria and is deemed free of potential conflicts of interest with regular shareholders.
Outside Audit & Supervisory Board members	Chika Kako		To reflect in Toyoda Gosei's audits her wealth of experience and keen insight gained from her career at Toyota Motor Corporation, where she served mainly in vehicle development and materials development roles and was involved in management as a managing officer.
	Masami Hadama	○	To reflect his extensive experience and deep insight in law in the auditing of Toyoda Gosei. Mr. Hadama has been designated as an independent director because he meets the requisite criteria and is deemed free of potential conflicts of interest with regular shareholders.
	Hideomi Miyake	○	To reflect his extensive experience and deep insight as a corporate manager in the auditing of Toyoda Gosei. Mr. Miyake has been designated as an independent director because he meets the requisite criteria and is deemed free of potential conflicts of interest with regular shareholders.

## Ensuring the effectiveness of the Board of Directors

To improve the Board of Directors' effectiveness, Toyoda Gosei annually debriefs Board members. In FY2020, Toyoda Gosei again assessed the Board's effectiveness, debriefing all nine directors and all five Audit & Supervisory Board members. Finding no material deficiencies across any of its assessment rubrics, it concluded that the Board continues to function effectively. During the debriefing process, the following suggestions to further improve Board effectiveness were made, mainly by outside directors.

Regarding the Board's roles and responsibilities, the directors and Audit & Supervisory Board members agreed that the Board is appropriately sized and possesses an appropriate mix of expertise, but some recommended endeavoring to add more diversity to the Board to fulfill growth strategies going forward.

Regarding Board deliberations, outside directors in particular lauded the candor and liveliness of Board discussions but some recommended more discussion of future strategies and risk mitigation with respect to, e.g., decarbonization.

Outside directors and Audit & Supervisory Board members reported that they find the liaison meetings scheduled monthly to give them a better understanding of management issues and individual businesses' respective operating environments and challenges to be helpful. We will accordingly offer them additional learning opportunities, including tours of business sites.

We will endeavor to further upgrade Board effectiveness by making improvements in response to the issues raised and suggestions made during the FY2020 assessment of Board effectiveness.

## Executive compensation

Directors' compensation consists of monthly fixed compensation and performance-based compensation in the form of cash bonuses (short-term incentive) and stock-based compensation (long-term incentive) based on the idea that directors should be appropriately incentivized to pursue sustained growth in Toyoda Gosei's value. Directors' compensation is split roughly 70:20:10

among monthly compensation, cash bonuses and stock-based compensation, respectively.

Monthly compensation is set at a fixed amount that reflects the recipient's job responsibilities and experience as well as compensation levels at other companies. Cash bonuses are based primarily on fiscal yearly consolidated operating profit. Secondary variables that factor into

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their determination include the degree to which fiscal yearly plans are attained, employees' bonus levels, bonus levels at other companies, medium/long-term earnings, previously paid bonus amounts and contributions to ESG management. Stock-based compensation is intended to be an incentive to pursue sustained growth in Toyota Gosei's value. It is paid in the form of restricted stock to promote greater sharing of value with shareholders.

Directors' aggregate annual cash compensation (monthly compensation plus bonuses) is capped at ¥650 million (outside directors' share of which is capped at ¥65 million). Directors' aggregate annual restricted stock-based compensation is capped at ¥100 million (outside directors are not eligible for restricted stock-based compensation). All three compensation caps were approved at the annual shareholders' meeting on June 12, 2020.

Outside directors and Audit & Supervisory Board members receive only fixed monthly compensation because their role is to oversee and monitor management from an independent vantage point.

Individual directors' compensation is set in accord with the above policies following a fair and transparent review/reporting process by the majority-independent Executive Compensation Committee, established in 2019.

At Executive Compensation Committee meetings,

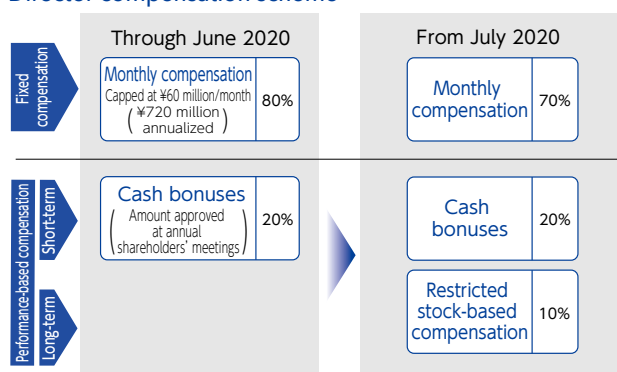
outside directors have made suggestions about further enlarging the incentive element of director compensation by, e.g., adjusting compensation to reflect the extent of directors' respective environmental contributions.

In March 2020, outside directors replaced the Executive Compensation Committee and Executive Appointment Committee's previous chairs in the aim of making the committees even more objective and transparent.

### Committees' roles and composition

Name	Role	Members
Executive Compensation Committee	Deliberates and reports on the compensation system for directors and their individual compensation (Restricted stock-based compensation, etc.)	Toru Koyama President, Naoki Miyazaki Director, Sojiro Tsuchiya Outside Director (Chairperson), Mayumi Matsumoto Outside Director
Executive Appointment Committee	Deliberates and reports on proposals regarding the appointment and dismissal of directors and Audit & Supervisory Board members (Appointment of president, etc.)	Toru Koyama President, Naoki Miyazaki Director, Sojiro Tsuchiya Outside Director, Kimio Yamaka Outside Director (Chairperson), Mayumi Matsumoto Outside Director

### Director compensation scheme



### The total compensation for each officer class, the total by each type of compensation, and the number of officers receiving the compensation

Officer class	Total executive compensation (Millions of yen)	Total amount by type of compensation (Millions of yen)			Number of subject officers Monthly (People)
		Fixed compensation	Performance-based compensation	Non-cash compensation	
		Monthly compensation	Cash bonuses	Stock-based compensation	
Directors (excluding outside directors)	376	250	98	26	7
Audit & Supervisory Board members (excluding outside members)	76	76	-	-	3
<b>Outside officers</b>	<b>70</b>	<b>70</b>	<b>-</b>	<b>-</b>	<b>7</b>

Note: Bonuses are the provision of allowance in the given fiscal year.

## Communication with shareholders and investors

Toyota Gosei makes arrangements to engage constructively with shareholders and investors through organic coordination among concerned organizational units. Such arrangements include scheduling opportunities for shareholders/investors to engage with management and disclosing requisite information.

Means of engagement with institutional investors include financial results briefings conducted by the president and/or other senior executives, small meetings, ESG briefings, facility tours and one-on-one meetings between investors and IR staff, including the officer in charge. Means of engagement with individual investors include company briefings.

While in-person engagement has been largely precluded by the pandemic, Toyota Gosei continues to remotely engage with shareholders/investors online.

Input obtained from shareholders/investors through such engagement is transmitted to the senior management team and Board of Directors and acted upon if deemed conducive to the Company's sustained

growth or otherwise value-additive.

In compliance with fair disclosure rules, Toyota Gosei restricts dialogue with shareholders and investors and thoroughly controls information in the company during a silent period before earnings reports are released. If insider information emerges in the company, it is tightly controlled as part of thorough information management.

### Main IR activities

Targeted persons	IR activities	
Domestic institutional investors (including securities analysts)	Financial results briefings, Small meetings, ESG briefings, Facility tours, Business briefings, Individual discussions	• Issuance of the "Toyota Gosei Report"
Overseas institutional investors	Individual discussions, Participation in IR events	• Dissemination of financial information and IR materials on the website
Individual shareholders and investors	• Company briefings • Plant tours after annual shareholders' Meeting • Issuance of "Interim Report on Business Results"	