

Governance <G>

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



Masaki Oka Director, Corporate Officer,
Chief of Finance & Accounting Headquarters, Chief of Corporate Planning Division

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

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, monthly management meetings are held. 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. Additionally, Toyoda Gosei pursues consummate corporate governance by voluntarily implementing a range of policies in accord with the letter and spirit of the ideals and principles in Japan's Corporate Governance Code formulated by the Financial Services Agency and the Tokyo Stock Exchange.

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, both of which are majority-independent and chaired by an outside director. The roles and membership of the two committees are as follows.

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



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,

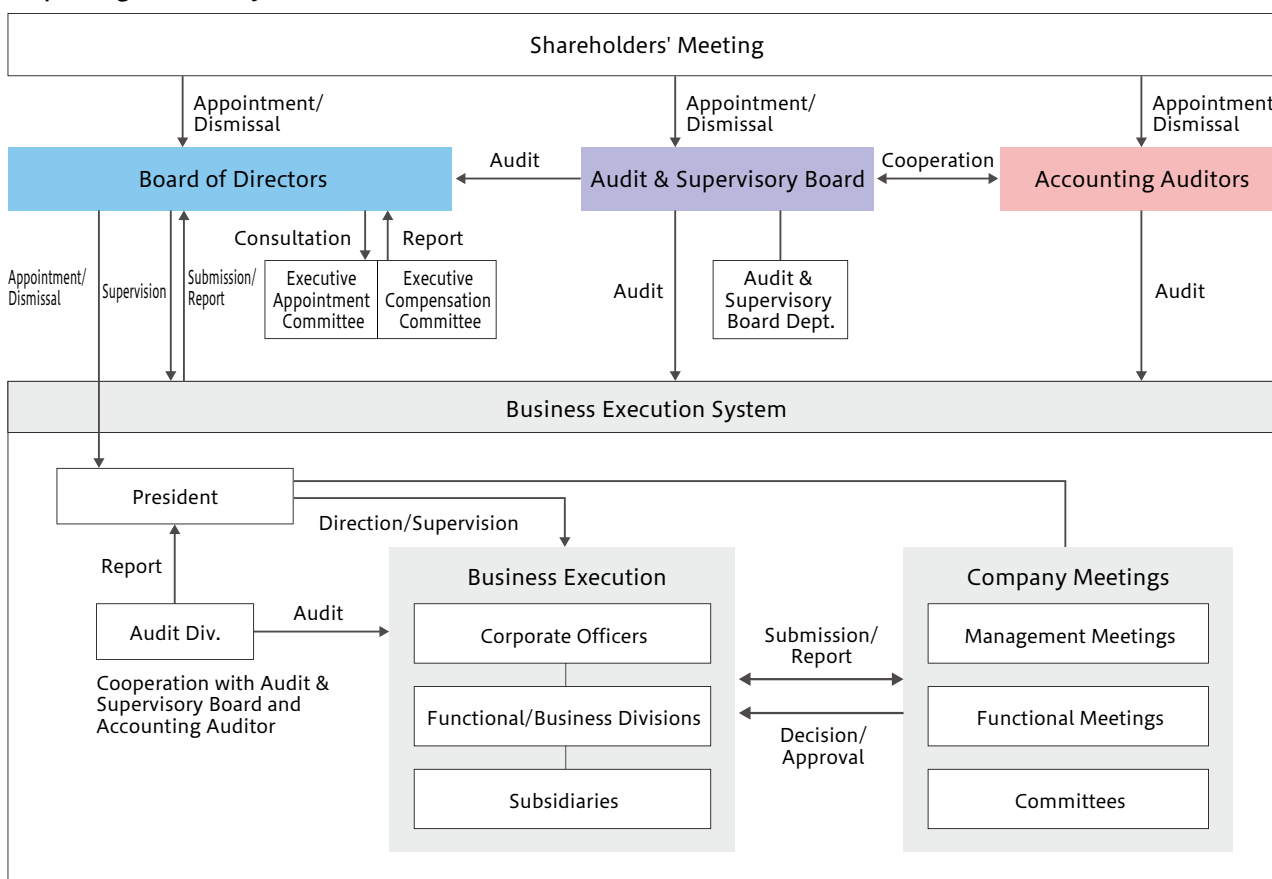
establish related rules and guidelines, and handle internal audits, compliance and risk management. Every year, the Board of Directors checks the status of establishment and operation of internal controls in an ongoing effort to improve and reinforce them.

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 and management meetings, listen to reports on business from directors and others, inspect financial

statements and other important documents, and conduct on-site 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 FY2019 accounting audit of Toyoda Gosei are Eiichi Yamanaka and

Tomohiro Nishimura 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
Naoki Miyazaki	Chairman	○	○	○	○	○				○	○	○
Toru Koyama	President	○	○	○	○	○	○	○		○	○	
Tomonobu Yamada	Executive Vice President			○	○	○			○			
Hiroshi Yasuda	Director			○	○	○	○	○				○
Masaki Oka	Director			○	○					○		
Takashi Ishikawa	Director				○		○	○				○
Sojiro Tsuchiya	Director Outside Independent	○	○	○	○	○	○	○			○	○
Kimio Yamaka	Director Outside Independent	◎	◎		○					○	○	○
Mayumi Matsumoto	Director Outside Independent	○	○		○						○	○

Note: "◎" denotes the committee 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 Meetings and ad hoc meetings.

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Interview with outside directors



Sojiro Tsuchiya

Career summary

Toyoda Gosei director since June 2015
Formerly executive vice president of
Denso Corporation

Mayumi Matsumoto

Career summary

Toyoda Gosei director since June 2019
Visiting Associate Professor, Special
Division of Environmental and Energy
Science, Komaba Organization for
Educational Excellence (KOMEX), The
University of Tokyo (current)

Kimio Yamaka

Career summary

Toyoda Gosei director since June 2016
Director, Energy Strategy Institute Co.,
Ltd. (current)

Outside directors' roles

Tsuchiya: To ensure transparent Board decision-making, I place priority on providing objective advice based on my knowledge and experience. Having worked for another manufacturer like Toyoda Gosei, I am communicating with front-line personnel as much as possible and offering context-specific advice from an outsiders' perspective to help them to properly fulfill their roles.

Yamaka: I am committed to unreservedly expressing opinions from stakeholders' standpoint to fulfill my role of monitoring and advising management so they can benefit from my expertise and experience.

Matsumoto: Since first becoming a director, I have focused primarily on the monitoring function in light of the company's circumstances and investors' needs. With outside directors assuming increasingly important responsibilities, I actively question whatever I find questionable and speak out as an advocate for regular shareholders.

Progress in corporate governance

Tsuchiya: Since I joined the Board, Toyoda Gosei has made great strides in terms of corporate governance by virtue of growing societal interest in governance in addition to the company's efforts. I feel Toyoda Gosei stacks up well against other Japanese companies with respect to governance.

Yamaka: We are steadily upgrading our monitoring regime. I believe we are sensitively responding to the demands of the times. To function effectively, however, outside directors need a deeper understanding of the company's business activities. I would like to be briefed in even more detail than we are now.

Matsumoto: While Mr. Yamaka has been a director for four years, I joined the Board just last year. In contrast to four years ago, when outside directors reportedly had few opportunities to learn about the company, I have had numerous opportunities to do so, including through plant tours and studying about business activities before officially being appointed. Given the gravity of outside directors' responsibilities, I appreciate that Toyoda Gosei not only provides opportunities to learn but also promptly answers questions and responds to requests.

Board's effectiveness and shortcomings

Tsuchiya: I think very highly of the Board. Board meetings have a good atmosphere conducive to

candid discussions. I believe discussions among people with diverse experience and backgrounds are extremely important. It would be better to have broader discussions with input from more perspectives, including not only management and governance but also product technologies, production, quality, sales and service.



Yamaka: I feel we outside directors contribute to lively discussions because we mostly speak candidly. The Board often makes decisions on information-intensive matters under tight time constraints. I sometimes would like to be able to devote more time to discussion. Allocating discussion time among agenda items is a tough balancing act, but I wish the Board would put a bit more thought into doing so.

Matsumoto: As a newcomer, I initially had a hard time understanding what was being discussed at times. Management helped me to become an effective director by, for example, inviting me to Production Meetings and Sales Meetings so that I could learn about the company's medium- to long-term direction. I strive to arrive at optimal solutions by personally taking the initiative to learn what I need to know and clearing up any questions.

Toyoda Gosei's key management issues

Tsuchiya: We are said to be in a once-a-century period of monumental change. With autos also undergoing drastic change, what we produce is becoming increasingly important together with how we produce it. Technological capabilities are now more crucial than ever before. To reliably meet customers' needs and wishes, we must develop various new manufacturing

technologies even for decorative interior and exterior components, for example.

Information and electronic technologies are likewise becoming essential in the safety/security and autonomous driving domains. It is important for Toyota Gosei to create innovative new value by combining the LED technologies it has long been refining with materials technologies, another of its fortes. Identifying products and businesses that will drive Toyota Gosei's growth going forward and allocating management resources to them on a priority basis are currently two key management issues in my opinion.

Yamaka: Though many people in the company think good technology directly leads to sales increase, it is important to be cognizant of how to best embody technologies in products and how to generate profits from technologies. With the auto industry changing drastically, customer stability can no longer be taken for granted. In such an environment, I believe shifting to a mentality of self-reliance vis-à-vis generation of both ideas and profits is a key issue.

For example, Toyota Gosei has been lauded for its environmental initiatives. Environmentally friendly products not only generate stable profits, they also constitute a promising domain in which to create new businesses by leveraging existing technologies. A hydrogen society extending beyond FCVs will definitely be realized at some point and the inverter model of energy transmission/control will become mainstream.



Matsumoto: Technological development is the linchpin of Toyota Gosei's businesses. Given the necessity of developing products that are attuned to the needs of the times and address societal challenges, it is important

to put products out into the world on a pilot basis from an early stage. Short-term risks should definitely be taken in pursuit of growth, but needless risks must be controlled. I believe greater risk-sensitivity is needed. Over the medium to long term, I think Toyota Gosei should engage in dialogue with not only existing partners but also young digital natives that will form the nucleus of the next generation to learn more about what kind of cars they are seeking and what kind of society they want to live in, as well as needs and vehicle features in the autonomous driving era. Such information should be utilized in product development.

Tsuchiya: I am glad we decided to divest German subsidiary TG Meteor. The move largely resolved a big problem. It was a big decision for the company and a lot of hard work but, thankfully, the deal closed successfully. On the whole, the interior and exterior components business and safety systems business, particularly airbag-related products and millimeter wave compatible emblems, are growing steadily and expected to continue to grow. The rubber components business is not doing so well, but it is Toyota Gosei's original business and its products are essential automotive components. It must somehow be turned around into an attractive business again. Morimachi Plant personnel are currently working together to steadily improve operations and develop technologies. I am confident their efforts will produce impressive results in the near future.

Amid the current pandemic, I am a bit concerned about the company's global production network. Labor-intensive production processes like sewing airbags and wrapping steering wheels in leather are concentrated in countries like Vietnam from the standpoint of both labor availability and labor costs. We have to think about not only the current pandemic but also abnormal weather events such as floods, which have been increasing in severity in recent years, and natural disasters such as earthquakes, tsunamis and wildfires in addition to other risks such as labor disputes. While geographic concentration of certain operations undeniably has major efficiency benefits, I see the pandemic as a reminder that we need to think about how to balance such benefits against the risks of overconcentration.

Yamaka: With Toyota Gosei supplying a wide range of products globally, the words "One Team, One TG" resonates with me more deeply with each passing year. Despite the expectations placed on the company, setbacks sporadically occur due to what I consider to be company-wide communication deficiencies. I believe it is crucial to have a mindset of working together and generating profits in unity, irrespective of their business domains, positions or roles.

Branching into new domains, including not only the CASE space but also non-automotive businesses, will also be important. In automotive businesses, we basically aim to recoup investments over five-year intervals. In other sectors, however, our approach differs by sector. I feel that Toyoda Gosei has plenty of human resources capable of adapting to new environments. For example, the environment and energy staff have grown tremendously over the past four years to the point where I now sometimes learn from them.

Advancement of production engineering

Tsuchiya: Production engineering is on a good trajectory but it does not exist in a vacuum. It is one component of manufacturing. Its full power is unleashed only when it is integrated into the process from development and design through production and sales. If a production plant is thrown out of kilter by the introduction of an incompatible product or process, the incompatibility will lead to quality and profitability problems. Manufacturing entails not only production engineering and a production site but also coordination and cooperation among the manufacturer's entire workforce. Production engineering's role includes coordinating all activities central to manufacturing.

I believe Toyoda Gosei's production engineering program has been getting stronger and making steady progress in various improvement activities and new development projects. It is important to have a strategy for extending the program globally and on a Group-wide basis to allow it to directly contribute even more to improving competitiveness and profitability.

Comments as chairperson of executive appointment and executive compensation committees

Yamaka: I feel the magnitude of my responsibility as committee chairperson, a critical role related to the company's management. I aim to make sure committee members can engage in candid discussions from an outsider's vantage point at meetings. To ensure impartial, independent and appropriate decisions, I plan to provide opportunities to communicate with a wide range of individuals and promote understanding of policies.

SDGs and ESG activities

Matsumoto: Because Toyoda Gosei's SDGs are grouped together, I was initially unsure how they translate into

action. This year, I did a materiality reassessment, which was a big step forward in the space of one year. I value the opportunity to personally educate employees at workshops and other places on SDGs that enable them to individually contribute to society while doing their jobs.

Tsuchiya: As members of society, companies are naturally obliged to take ESG seriously. Both commitment and technology are essential to realizing ESG objectives. I believe Toyoda Gosei can greatly contribute technologically given its wide-ranging technological capabilities.

Yamaka: In terms of the environment, one of the pillars of ESG, Toyoda Gosei has been discussing methodologies and progressing toward long-term targets with deadlines of 2030 and 2050. Rapid advancements in energy efficiency and renewable energy are heavily influencing its new product and new technology strategies also. I expect such a comprehensive strategy to help drive growth for "environmentally friendly TG."

Diversity

Matsumoto: Given the nature of Toyoda Gosei's business as an auto parts manufacturer, most of its workplaces are staffed with more men than women, but it is consciously hiring more women. In terms of diversification of work styles, telecommuting, which was previously limited, has expanded throughout the company in response to the COVID-19 pandemic. Even after the pandemic ends, I hope the company continues to allow telecommuting as a means of increasing employee retention.



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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.

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total directors	23	8	7	7	8	9	10	9	9
Outside directors (% of total)	0 (—)	0 (—)	0 (—)	0 (—)	1 (12%)	2 (22%)	2 (20%)	2 (22%)	3 (33%)
Female (% of total)	0 (—)	0 (—)	0 (—)	0 (—)	0 (—)	0 (—)	0 (—)	0 (—)	1 (11%)
Audit & Supervisory Board members	5	5	5	5	5	5	5	5	5
Outside Audit & Supervisory Board members	2	3	3	3	3	3	3	3	3

Outside directors and outside Audit & Supervisory Board members

Toyoda Gosei appointed three outside directors, Sojiro Tsuchiya, Kimio Yamaka, and Mayumi Matsumoto, at its annual shareholders' meeting on June 12, 2020. Chika Kako was also appointed as an outside Audit & Supervisory Board

member. Together with current outside Audit & Supervisory Board members Hideomi Miyake and Masami Hadama, a total of three outside Audit & Supervisory Board members have now been appointed.

Election of outside directors and outside Audit & Supervisory Board members

Appointment	Name	Independent director	Reason for appointment
Outside directors	Sojiro Tsuchiya	○	To reflect in Toyoda Gosei's management his wealth of experience and keen insight gained from his career at Denso Corporation, where he served mainly in production engineering roles and was involved in management as a director. 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 reflect in Toyoda Gosei's management his wealth of experience and keen insight gained from a career spent in public-sector finance and project review and the environmental/energy field. 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 reflect 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

At Toyoda Gosei, the Board of Directors Office conducts annual interviews of all directors and Audit & Supervisory Board members, including outside ones, on the effectiveness of the Board of Directors. The roles and responsibilities of the Board of Directors, the level of discussions, opportunities to improve effectiveness and other matters are assessed from multiple perspectives and the results are reported to the Board of Directors. In FY2019, the Board was rated highly on a number of points, including appropriateness of matters

submitted/reported on at Board meetings and sharing of information with outside directors in addition to its composition and welcoming attitude toward candid discussion, both of which were ranked highly in FY2018 also. The assessment accordingly concluded that the Board's effectiveness increased in FY2019. At the same time, the Board still has room for improvement in certain areas. It will explore ways to further increase its effectiveness and improve on an ongoing basis.

Highly rated board attributes

- Board's size, composition and balance between executive and outside directors
- Atmosphere conducive to lively discussions
- Limited meeting agendas that allow for ample discussion of important matters to be submitted
- Support for outside directors, including access to information needed for Board deliberations

Needed improvements

- Clearer identification of medium- to long-term issues that should be addressed and more discussion of strategies for addressing them
- Faster response to urgent issues
- Easier-to-understand materials for Board meetings (reason for inclusion on agenda, big-picture view, relationship with business strategy, etc.)
- More opportunities outside of Board meetings for discussion, information sharing, etc. between outside and executive directors

Executive compensation

Executive compensation consists of fixed monthly compensation and performance-based compensation in accord with the idea that executives should be appropriately incentivized to pursue sustained growth in shareholder value. The performance-based compensation consists of cash bonuses (short-term incentive) and stock-based compensation (long-term incentive). The fixed monthly compensation is set at a level that reflects the individual's job responsibilities and experience as well as compensation norms at other companies. Its base amount accounts for some 70% of total compensation, with cash bonuses (short-term incentive) and stock-based compensation (long-term incentive) respectively accounting for roughly 20% and 10%.

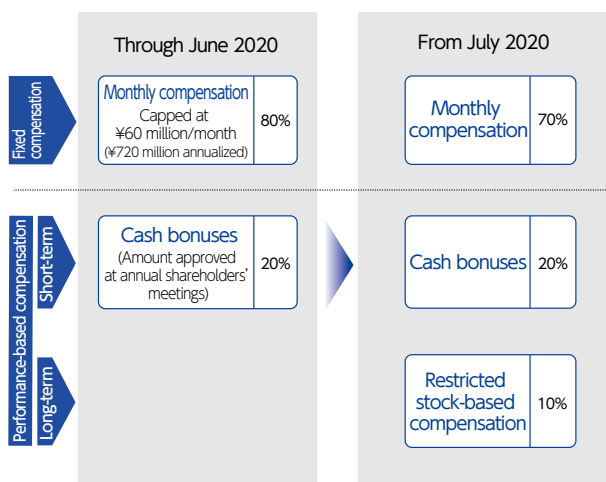
Outside directors and Audit & Supervisory Board members receive only fixed monthly compensation because their role is to oversee and monitor management from an independent vantage point.

Executives' cash bonuses are based on consolidated earnings for the period in question in addition to a number of other factors, including dividends, employees' bonus level, other companies' executive bonuses, medium- to long-term operating performance and previous bonus payment amounts.

Stock-based compensation is intended to as an incentive to pursue sustained growth in Toyoda 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).

Director compensation scheme



Officer compensation

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 (People)
		Monthly compensation	Bonuses	
Directors (excluding outside directors)	355	282	73	7
Audit & Supervisory Board members (excluding outside members)	76	76	—	2
Outside officers	67	67	—	6

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