

# 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



All three compensation caps were approved at the annual shareholders' meeting on June 12, 2020.

Based on the methods mentioned above, the Board of Directors votes to set compensation within the limits set

### Communication with shareholders and investors

For constructive dialogue with shareholders and investors, we have established a system for conducting such dialogue in a coordinated manner, planning opportunities and sharing necessary information.

This dialogue is carried out through financial results briefings or small meetings for institutional investors with explanations by the company's president or relevant officer; plant tours for institutional investors with explanations by the officer in charge; direct visits by the officer and persons in charge of IR and SR to institutional investors; and other means. Based on the opinions and desires of shareholders and investors obtained, further opportunities for dialogue are being enhanced.

In compliance with fair disclosure rules, Toyoda 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)	Individual discussions, financial results briefings, facility tours, telephone conferences
Overseas institutional investors	Individual discussions, participation in IR events
Individual shareholders and investors	<ul style="list-style-type: none"> <li>Briefings for individual investors</li> <li>Plant tours after annual shareholders' meeting</li> <li>Issuance of "Report on Business Results"</li> </ul>

• Issuance of the "Toyoda Gosei Report"  
 • Dissemination of financial information and IR materials on the website

## Risk management

### Basic philosophy

We are working to prevent risks that could have grave consequences for management and to minimize damage in adverse events. For these purposes, we identify risks in each function and make decisions on how to respond in the Compliance and Risk Management Committee and general meetings. A Compliance and Risk Management Committee headed by the company president identifies key risks, determines measures to counter them, and checks on the progress in executing these measures. In this way, we make these measures more effective.

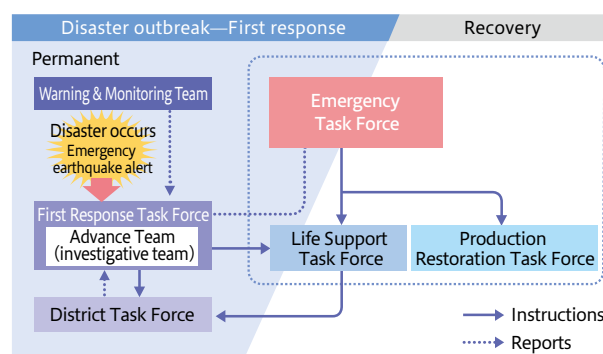
For each type of risk in safety, quality, and the environment, the departments in charge have established regulations and key points and conduct proper business management, such as implementing measures as needed based on assessments of operational status.

### Crisis Management Project in anticipation of large-scale earthquake disasters

We have put into place a crisis management system for the event of a massive disaster, such as the predicted Nankai Trough earthquake or natural disasters due to climate change. This system is based on the principles of human life first, community support, and early recovery. Specifically, in addition to infrastructure and system measures based on the project, we have conducted resilience training more than 120 times for directors and members of anti-disaster departments since FY2013. These efforts are based on our belief that improving the skills of response personnel is essential. We have also established specific procedures for the recovery of affected buildings, facilities, and processes and for alternative production in a production recovery system.

Moreover, Risk Management and Response Guidelines have been established. These guidelines show the behaviors to adopt to prevent potential risks and to respond to problems appropriately and quickly. At the beginning of 2020, an emergency response task force led by the company president was set up to deal with the novel coronavirus. Actions taken to minimize the impact of the novel coronavirus included (1) preventing infections by having people work from home and cancelling company internal events, (2) implementing measures for the event that an infection occurred in an employee, (3) maintaining our production network by monitoring issues, including at our suppliers, and (4) introducing profit improvement measures.

#### Disaster response



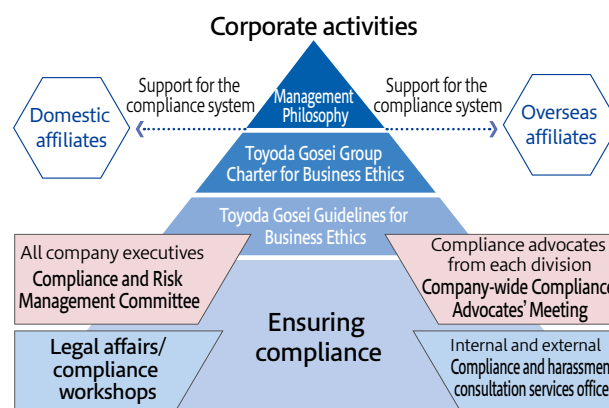


## Compliance system

Toyoda Gosei has established the Compliance and Risk Management Committee with the Company's president serving as chairman and all company officers as members. Together with compliance advocates in each division, the committee works for thorough compliance with a unified approach between management and the workplace.

In Japan, regular compliance liaison conferences are held with Group companies. Group companies in other countries have established compliance committees, appointed compliance advocates, or set up other compliance systems suited to the circumstances in their region and company. Compliance activities are carried out in coordination with Toyoda Gosei.

## Compliance



## Specific efforts

### • Compliance consultation office

To identify and resolve compliance problems at an early stage, Toyoda Gosei has established internal and external compliance consultation services offices and an internal harassment consultation office.

Group companies in Japan have their own consultation

offices, in addition to which they have established a joint external compliance consultation office together with Toyoda Gosei. Group companies in other countries have established external or internal consultation offices.

### • Compliance activity checks and *kaizen*

Toyoda Gosei conducts compliance entrenchment questionnaires of all employees each year to confirm penetration of compliance transparency and whether there are signs of violations. *Kaizen* activities are then conducted based on the results.

For Group companies in Japan and other countries, a

voluntary check sheet is used to check their basic policy and systems for compliance, the status of compliance with important laws including anti-trust laws and bribery and corruption laws, and risks in key areas such as human resources, finance, sales, procurement, safety, and quality. Based on the results, *kaizen* activities are conducted.

### • Efforts to prevent violations of anti-trust laws

Toyoda Gosei has prepared guidelines for Japan and key regions where Group companies are located (United States, EU, China, Thailand, India, Brazil, and others), and is undertaking efforts globally to prevent anti-competitive acts at Toyoda Gosei Group companies.

Specific behavioral guidelines that Toyoda Gosei expects employees to follow in various business activities,

especially sales activities, are embodied in the Codes of Conduct for Antitrust Law Compliance in the Company's internal regulations, and thorough compliance is expected of employees.

Continuing education activities are also conducted through special training in competition laws and regular compliance training for each level within the Company.

### • Anti-bribery efforts

Toyoda Gosei has formulated Global Anti-Bribery Guidelines as a common guide to conducting transparent and sound business activities globally, and is doing its utmost to prevent bribery and corruption at all Toyoda Gosei Group companies. Education activities are continuously conducted for employees through training for each level and risk.



Compliance training (international Group company)