

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%.

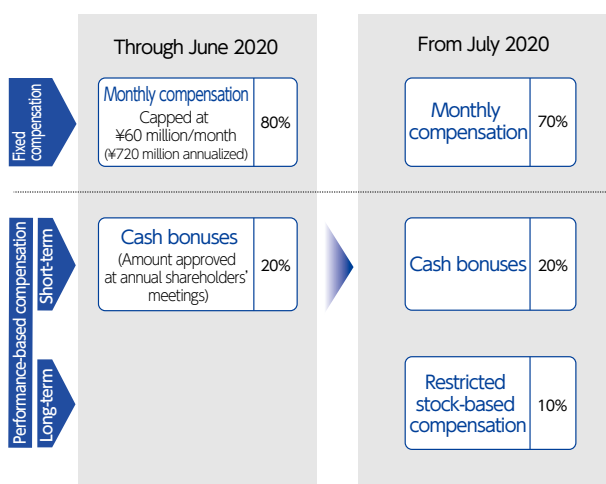
Outside directors and Audit & Supervisory Board members receive only fixed monthly compensation because their role is to oversee and monitor management from an independent vantage point.

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.



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.

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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"> Briefings for individual investors Plant tours after annual shareholders' meeting Issuance of "Report on Business Results"

• 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

