

## Risk Management

Message from the CRO

### Contributing to Sustainable Corporate Value Enhancement through Transforming Risks into Opportunities and Risk Control

Katsufumi Otani

Corporate Officer, CRO



#### Risks Surrounding the Company

Amid significant changes in the external environment—including shifts in international affairs, geopolitical risks, and the increasing prevalence of cyberattacks—as well as growing demands for human rights protection and environmental regulations, the environment surrounding the Company is undergoing substantial transformation. And within the automotive industry, the progress of electrification has been slowing. In such a challenging business environment, characterized by a broad range of risks and unpredictable changes, achieving sustainable corporate value enhancement requires proactive adaptation to changes and the implementation of risk management on a global scale. Furthermore, in recent years, the automotive industry has faced a series of certification fraud incidents, undermining trust in product quality. In addition, compliance issues arising from improper transactions within supply chains have also emerged. I strongly feel that the importance of risk management is greater than ever to remain a trusted and indispensable company in the eyes of stakeholders and society.

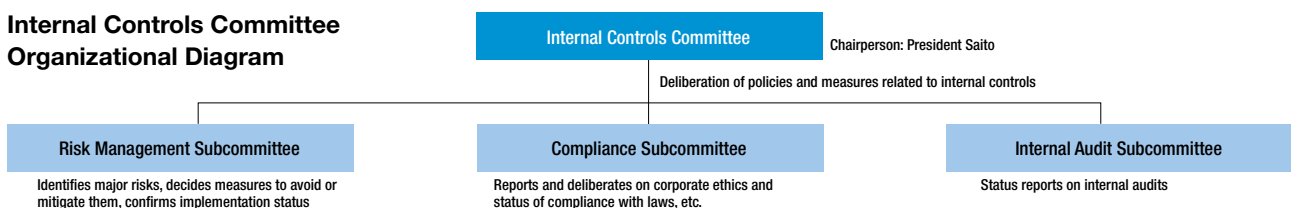
#### Risk Management Activities for Achieving the 2030 Business Plan

##### 《 Fundamental Initiatives 》

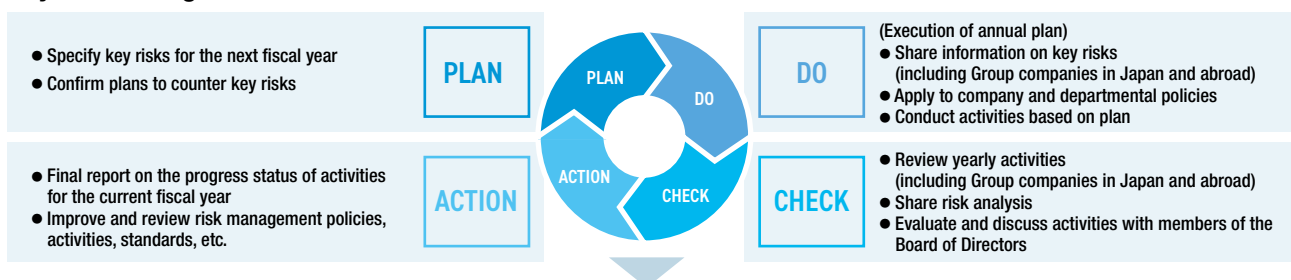
The Company leverages methods such as PEST\*<sup>1</sup> and 3C\*<sup>2</sup> to enhance information gathering and analysis. Through this analysis, we classify risks into two categories: Business Strategy Risks, which are viewed as opportunities for business growth, and Management Foundation Risks, which aim to minimize losses in the event of occurrence. Under the leadership of the CRO, we actively work to reduce each type of risk across the Group.

Specifically, the Internal Controls Committee, chaired by the president, meets twice annually. Within this committee, the Risk Management Subcommittee discusses key risks and follows up on risk mitigation measures. Key risks are selected annually through an analysis of external and internal environments, with risks evaluated based on their potential impact on management and the likelihood of occurrence.

#### Internal Controls Committee Organizational Diagram



#### Key Risk Management Activities



External disclosure of activities (securities report, corporate governance report, integrated report, company website, etc.)

For Business Strategy Risks, we formulate and execute plans for risk countermeasures, focusing on key initiatives aligned with our 2030 Business Plan. These plans are organized from both backcasting and forecasting perspectives. As part of this process, we revise strategies and apply them to our annual policies to drive further business growth. On the other hand, for Management Foundation Risks, we identify elements affecting sustainable management for each function and implement risk mitigation measures accordingly.

\*1 An analytical method that categorizes the external environment into four factors—political, economic, social, and technological—to assess their impact on the Company

\*2 An analytical method that interprets the market environment from the perspectives of customers, competitors, and the Company itself

## 《 Review of FY2023 》

For Business Strategy Risks, we incorporated changes in the business environment, such as international political instability, economic stagnation, the slowdown in BEV adoption, and the rise of Chinese automobile manufacturers, into each strategy to increase the certainty of achieving our 2030 Business Plan. For Management Foundation Risks, we addressed quality certification issues in the automotive industry by enhancing organizational structures and reforming workplace culture. Specific initiatives included the establishment of an independent organization for regulatory certification management and the identification of workplace challenges. In addition, we enhanced communication with suppliers to ensure compliance with antitrust laws and subcontracting laws. Among the key risks, those with significant global impact were shared with Group companies both domestically and internationally. Throughout the year, we implemented a PDCA cycle for risk mitigation measures. Particular attention was paid to compliance efforts in areas under public scrutiny, such as quality certification and transaction optimization. Regarding economic security, we established a new working group to implement measures that incorporate domestic and international trends. Furthermore, we created the Risk Management and Response Guidelines that outline the fundamental actions to be taken in the event of a risk materializing. This Guidelines specify the necessary steps to ensure appropriate and swift action if such a situation arises.

## 《 Future Initiatives 》

For Business Strategy Risks in FY2024, we identified 11 key risks. In addition to risks related to the changing strategies of automobile manufacturers and responses

to omnidirectional strategies due to the slowdown in BEV adoption, we added risks associated with the India business strategy, a key growth initiative, and risks related to addressing the global expansion of Chinese automobile manufacturers, particularly in ASEAN, which has been a longstanding focus. Based on this situation, we have incorporated these risks into specific business activities, such as strategic investments and product development, to drive progress.

For Management Foundation Risks, in addition to concerns over protectionist trade policies in various countries and geopolitical risks such as the prolonged regional conflicts involving the Middle East and Russia, we added labor shortages due to declining birthrates and aging populations, recruitment challenges, and management issues among emerging Chinese BEV manufacturers. We selected a total of 14 key risks, including these additions, and are working on specific measures to mitigate these risks. The selected key risks are shared with both domestic and international Group companies. Each company conducts risk assessments and independent inspection activities in collaboration with head office, implementing a group-wide PDCA cycle. In terms of economic security, the working group established in FY2023 continues to implement measures addressing legal trends in various countries. Also, in response to the changing environment and evolving requirements, we are enhancing the supply chain to ensure stable procurement of raw materials and components.

Furthermore, discussions on key risks, including those related to economic security and sudden risks arising from political instability, are held at the Board meetings. Through these discussions, we continuously implement improvements that align with changing circumstances.

## 《 Towards Sustainable Growth 》

Amid rapidly changing external environments driven by geopolitical risks and economic policies in various countries, as well as the increasing complexity of regulations and rules, it is essential to carefully analyze and evaluate each Group company. Based on these risk analyses, it is crucial to promptly implement effective risk mitigation measures with a sense of urgency, as well as to respond effectively to crises when risks materialize. To continue being a trusted company among our stakeholders, we will further enhance our risk management framework and strive for proactive risk responses to ensure responsible and sincere business operations.

## Examples of Key Risks

Classification		Main Key Risks
Size of risk Impact on operations (financial impact, etc.) × Possibility of occurrence (frequency)	Large	<ul style="list-style-type: none"> <li>Addressing carbon neutrality (including carbon pricing and rubber/plastic material adjustments)</li> <li>Addressing the circular economy (including green technology initiatives)</li> <li>Large-scale disasters (e.g., abnormal weather and others)</li> <li>Responding to growth sectors and markets</li> <li>Cyberattacks and scam emails</li> <li>Injuries and operation shutdowns due to serious work accidents</li> <li>Raw material procurement, energy price hikes, etc.</li> <li>Recalls due to serious quality issues</li> <li>Global expansion of Chinese automobile manufacturers</li> </ul>
	Medium	<ul style="list-style-type: none"> <li>Responding to BEV transition (including the launch of new products for the BEV market and addressing declines in fuel-related components)</li> <li>Supply chain disruptions (due to geopolitical, market, infectious disease, or disaster-related factors)</li> <li>Leakage of confidential information</li> <li>Harassment incidents</li> <li>Fires or explosions leading to an interruption of business operations</li> <li>Labor shortages (including rising labor costs)</li> <li>Trade friction (including issues related to economic security)</li> <li>Traffic accidents (fatal or severe negligence)</li> </ul>
	Small	<ul style="list-style-type: none"> <li>Insufficient development of patent networks</li> </ul>

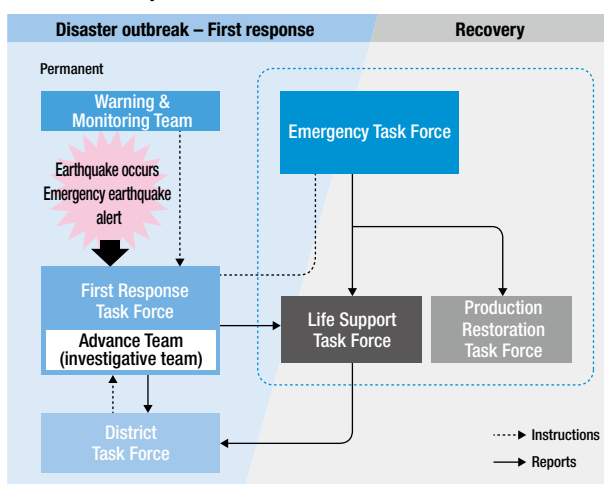
## Risk Management

### Crisis Management Project in Anticipation of Large-Scale Earthquake Disasters

A crisis management system has been put in place in 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 Crisis Management Project, resilience training has been conducted more than 210 times for directors and members of disaster response departments since FY2013. These efforts are based on the Company's belief that improving the skills of response personnel is essential. Specific procedures for the recovery of affected buildings, facilities, and

processes have also been established, and for alternative production in a production recovery system. Recovery training for design drawings and other data is also carried out so that product development can be continued even after disasters. In addition, workshops to enhance crisis management not only in Toyota Gosei but also at Group companies and suppliers are conducted regularly. Assessments using earthquake preparedness measure checklists, clarification of weak points with graphs, presentation of responses taken at Toyota Gosei and other companies, and collaborative preparation of business continuation plans (BCP) are carried out.

#### Disaster Response



#### Initiatives to Date

Classification	Initiatives
Facility and equipment measures	<ul style="list-style-type: none"> <li>Earthquake resistance measures for buildings and facilities</li> <li>Establishment of a disaster preparedness center to serve as an operations base for the entire company in the event of a disaster</li> <li>Equipping all locations with a multi-channel access (MCA) radio system*<sup>1</sup> and satellite phones</li> <li>Installation of crisis management servers (earthquake-resistant structure) and emergency power generators</li> <li>Operation of a DR*<sup>2</sup> system and DCs*<sup>3</sup></li> </ul>
System measures	<ul style="list-style-type: none"> <li>Implementation of site and building safety assessments</li> <li>Training in operation of earthquake early warning systems and employee safety information systems</li> <li>Preparation of supply chain information</li> <li>Preparation of a business continuity plan (BCP)</li> </ul>
Skills	<ul style="list-style-type: none"> <li>Ongoing resilience training (disaster simulation exercises)</li> </ul>

\*1 Radio system used in Japan for various purposes, from daily operations to emergencies and disasters

\*2 System for restoring and repairing damaged systems (Disaster Recovery)

\*3 General term for special facilities equipped with operating computers, data communications, and other equipment (Data Center)

### Cybersecurity Measures and Activities

To enhance the control of confidential information, annual checks of the compliance status of each division based on company confidentiality management regulations are conducted together with onsite audits. Self-inspections are also done at Group companies in Japan and overseas, as well as at major suppliers. Confidentiality officers are assigned in all departments, and confidentiality training sessions are conducted based on information system security operating

standards and a confidential information management manual. At domestic and international Group companies and major suppliers, specific measures are stratified and executed based on the size of the impact on Toyota Gosei and inspection results for cybersecurity risk measures at each company. Regular reports and discussions are conducted in all company-wide councils, and cybersecurity measures are implemented together globally.

#### Main Cybersecurity Measures

Classification	Measures (domestic and international Group companies and suppliers respond in accordance with the size of the impact)	
Prevent leakage due to negligence	Facility and equipment measures	<ul style="list-style-type: none"> <li>Data encryption on personal computers</li> <li>USB device connection controls</li> </ul>
	System measures	<ul style="list-style-type: none"> <li>Security measures when sending emails out of the Company (mandatory cc to superior's email address, encryption of attached files)</li> </ul>
Prevent leakage and damage due to malicious intent	Facility and equipment measures	<ul style="list-style-type: none"> <li>Installation of computer anti-virus software</li> <li>Firewalls to control communication with outside parties</li> <li>Constant monitoring of unauthorized communication</li> <li>Detecting and preventing tampering with systems open to the public outside the Company</li> <li>Prevention of unauthorized connections to the network</li> </ul>
	System measures	<ul style="list-style-type: none"> <li>Confidentiality pledge</li> <li>Restricted access to file servers</li> <li>Stricter standards for allowing items to be taken from premises</li> </ul>
Training sessions (morale measures)	<ul style="list-style-type: none"> <li>Security training for employees</li> <li>Training in responding to targeted email attacks</li> <li>Company-wide confidentiality controls inspections and on-site audits using check sheets</li> </ul>	