

Dialogue with Outside Directors

We want to see a proactive management approach, embracing change and moving swiftly to create sustainable value

› Governance systems have evolved over the past year. Speed and diversity remain issues.

Wada: Looking back over the two years since I became an outside director in 2023, I feel that both internal controls and internal audit systems have become very well established. However, there are still instances where I feel things could be done a little more quickly, and amid significant annual capital expenditures, cases have arisen where verifying the appropriateness of asset management has become rather complicated. If I were to rate the governance system out of 100, I would give it an 80.

Going forward, I believe it will be crucial to harness the power of DX to streamline the management process and further strengthen governance. In today's world, a company's greatest weapons are speed and adaptability. Since last year, we have been transferring authority to the executive side to accelerate the pace of execution, and we intend to continue supporting swift decision-making moving forward. To that end, a relationship of trust between us outside directors and the executive side is crucial.

Furukawa: I would probably give it an 85 out of 100. Having observed the company for a year since becoming an outside director last year, I feel its governance structure is of a high standard for a trillion-yen enterprise employing almost 40,000 people worldwide. I don't believe any organization can achieve a perfect score of 100/100, but if pressed to identify the remaining 15 points, that is the areas where we fall short, one would be speed, as Director Wada also pointed out. Another factor is diversity, I suppose.

What is needed to strengthen governance is not just systems



Masanori Furukawa

Appointed 2024
Previously served as a member of the Gifu Prefectural Assembly and Mayor of Tajimi City

Makoto Aou

Appointed 2024
Founder and CEO of LEO Co., Ltd.

Takashi Wada

Appointed 2023
President and Representative Director (previously Chairman) of Sanken Electric Co., Ltd.

Shigeki Maeda

Appointed 2024
Previous positions include Executive Director of JETRO and Ambassador Extraordinary and Plenipotentiary to the Kyrgyz Republic

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as such, but also flexible thinking and diverse perspectives. Toyoda Gosei had a culture reminiscent of an all-boys school,



but with female corporate officers being appointed, I'm optimistic that the greater diversity will translate into even better governance.

Aou: I would have to give it an 85, too. Our assessment is that governance functions adequately in the context of protection. Internal controls, internal audits, and compliance are extremely robust. And it's quite open as a corporation, isn't it? It's easy to think of the manufacturing industry as conservative, but Toyoda Gosei is different. As an outside director, there is emotional safety in being able to frankly admit, "If I don't understand something, I don't understand it." This has helped me express my opinions based on a correct understanding.

For instance, after board meetings, I often find myself in discussions with corporate officers, and they'll ask me quite directly "What exactly do you think we should do?" about a particular situation. I believe these kinds of candid, forthright conversations show a willingness to embrace change and try to improve.

When it comes to the aggressive part of building new businesses, speed is certainly important, but DE&I is also vital. We should be more proactive in hiring diverse talent such as foreign nationals, LGBTQ individuals, and people with disabilities, not to mention women, and thus creating new businesses for a new era.

Maeda: For me, I would rate the overall management as an 80, not just the governance. Toyoda Gosei is a subsidiary of the world's largest automobile manufacturer group, offering absolute stability backed up by its history, proven track record, product strength, and technological development capabilities. They form the very core of corporate value.

On the other hand, I sometimes feel that there is a tendency to be somewhat insensitive to changes happening around us and to opt for maintaining the status quo instead.

We outside directors believe our mission is to identify issues within what is considered commonplace at Toyoda Gosei from an external perspective and provide suggestions on where we should go next, such as, "Shouldn't we approach this along these lines?"

For example, in the year since being appointed, I have pointed out issues such as: "There's room for a bit more flexibility in personnel policies. We shouldn't be held back by norms." and "Our products are world class in terms of function and performance. Why aren't we more active in promoting them to the general public?" Such proposals have recently been put into action in a proper manner. I feel the pace within the Company has clearly changed.

As outside directors, we should act as catalysts rather than mere overseers. This means fostering chemical reactions within the company from various perspectives and encouraging employees to develop an awareness of change. To achieve this, it is essential to carefully communicate any observations

or feelings of concern that arise in daily conversations and adopt an attitude of thinking about them as a team.

Aou: Actually, I often hear the same thing from various people. That is to say, Toyoda Gosei's outside directors truly possess diverse backgrounds.

Furukawa: I agree. The outside directors at Toyoda Gosei, myself included, do not simply recite what's written in books or quote the words of economists. Instead, we each offer individual, specific opinions based on our experiences from entirely different backgrounds. Toyoda Gosei has a mindset of actively listening to external opinions and striving to effect change. I feel that awareness has grown stronger over the past year.

Maeda: Reinforcing governance systems is essential to prevent misconduct. It is imperative that every employee adheres to compliance standards and that management conducts business with the interests of all stakeholders in mind. To achieve this, everyone must work collectively as a united team and build a strong community. Toyoda Gosei's Company Creed and Management Philosophy permeate the entire company. Under the slogan "ONE TEAM, ONE TG," it is crucial that employees understand this philosophy and apply it to their daily work and I personally feel that Toyoda Gosei is succeeding in this regard.

» What changes are now required of Toyoda Gosei?

Wada: I'd like to talk about how I feel about the compensation system. I believe it is necessary to increase the proportion of variable compensation in the current executive compensation structure. Numerical targets for variable compensation should include multiple specific goals disclosed externally, such as profit and loss results (PL), ESG, and ROIC. Meet these targets

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and you will be rewarded. Fail to do so and you can expect your compensation to be affected. I believe that this sort of balance and transparency are an essential part of governance.

Aou: Toyota Gosei is a formidable manufacturer, with a proven track record of “monozukuri” and technological breakthroughs. Going forward, we need to increase external exchanges in order to create new value. Currently, members of the New



Value Business Division are focusing their efforts on listening directly to the market. It may take some time, but I expect that shifting from closed innovation to open innovation could open up new markets for us.

Wada: “Not clinging to past policies” is the key point. It’s acceptable to make changes on the fly. China’s regulations changed, US policies shifted, and exchange rates have fluctuated significantly. In these situations, flexibility is vital to allow for immediate adjustments to policy as needed. Staying wedded to plans slows down progress.

The ability to adapt flexibly, even if it means challenging one’s own assumptions, is essential in the times ahead. One of my favorite sayings is the Serenity Prayer. It contains the phrase:

“God, grant me the serenity to accept the things I cannot change, the courage to change the things I can, and the wisdom to know the difference.” While there are things that shouldn’t be changed, everyone should embrace the mindset that things that can be changed should be. Trends such as these are beginning to emerge, but management must constantly assess the situation and remain unafraid of change.

Furukawa: Modern corporate management must adapt flexibly to changes in the external environment. For example, even if a prepared agenda list exists for the Board of Directors, important current events such as the merger of automobile manufacturers or trends in US tariffs should naturally take priority for discussion. And this is how things are actually being handled currently. I believe things are changing substantially.

Aou: I agree. Things have changed significantly. We actively engage in personnel exchanges with external organizations, and we’ve developed a flexibility that allows us to work alongside people who bring new cultures and values to the table.

However, I still don’t think it’s enough. When it comes to DX initiatives, it seems there’s too much insistence on trying to do everything in house. We’re pouring a lot of time and effort into developing digital talent, like generative AI specialists, but it’s not translating into results quickly enough. Our company has many members with technical backgrounds, and their intellectual curiosity about technology is impressive. However, it is also necessary to advance our efforts by enlisting the support of external expertise. The lack of cross-functional coordination, with DX initiatives being driven solely at headquarters, is resulting in missed opportunities.

Maeda: Perhaps we haven’t fully clarified what we aim to achieve with DX. The goal seems to be to streamline operations in order to reduce indirect costs and increase profits, but that

is not the essence of digital transformation. DX is simply a tool for business transformation. We need to develop a mindset focused on how to streamline overall management using digital tools. From that perspective, if DX initiatives remain isolated and organizations fragmented, the desired outcomes will not be achieved. It is extremely difficult to accomplish digital transformation solely with internal personnel.

Wada: The business environment is undergoing rapid change right now. Issues of carbon neutrality, well-being, economic security, and more. One challenge after another demands our attention. To respond swiftly to such changes, we must constantly make choices: discard what needs discarding and pursue what needs pursuing. And this is where DX comes in, as it can enable us to streamline the management process.

➤ Appropriate information disclosure from the executive side is crucial for balancing monitoring and advice

Maeda: Outside directors have two roles: supervisor and advisor. Overemphasizing monitoring can undermine operational flexibility, while excessive reliance on advice risks



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weakening the board's oversight function. We provide more in-depth advice when necessary, and as a result, I feel this leads to more effective monitoring.

Aou: Securing global talent is an urgent priority. With overseas sales accounting for at least 50% of Toyoda Gosei's revenue, global talent is now required in Japan as well. After presenting my opinion at the Board of Directors, we decided to hire several foreign nationals in Japan with an eye toward market growth. I believe this is an example of monitoring and advice working in tandem.

Wada: I feel that the quality of monitoring has improved over the past few years. Accurate information sharing is essential for monitoring, but the executive side has disclosed a great deal of information to us. We also regularly review progress on the 2030 Business Plan, with explanations provided on the current status and future challenges. This allows us to monitor progress as well, creating a situation where it's easier to offer advice such as, "This project doesn't appear very feasible," or "Perhaps we should explore a different direction."

By leveraging our cultivated management foundation and technological capabilities, we anticipate further growth

Furukawa: Among Toyoda Gosei's competitive advantages is its rubber and plastic recycling technology. In particular, our rubber devulcanization and regeneration technology is among the most prominent in Japan. Embracing the trend of environmentally-sound manufacturing and delivering it to the market in high-value-added forms is sure to be a major growth driver for Toyoda Gosei. This technology can help meet the needs of diverse fields beyond the automobile manufacturing industry. Going forward, we plan to strengthen our resources for recycled materials, so expectations are high. Toyoda Gosei

also possesses world-leading technology in manufacturing hydrogen tanks, which could become a significant advantage for the future.

Aou: Toyoda Gosei has a culture of embracing challenges throughout its history. Originally founded on rubber and plastic operations, this company has faced numerous challenges and setbacks, yet continues to venture into new fields, such as LED technology, which hold a lot of promise. I believe it to be a company with a strong sense of entrepreneurship. The Internal Business Idea Contest to create new value has been held since 2021, and this year, the first and second place teams were led by women. The fact that many women are volunteering to take on challenges driven by an intrinsic desire to create new businesses and bring about change in the world represents significant potential for Toyoda Gosei. Expectations are high that they will build the next generation of revenue-generating capabilities.

On the matter of DE&I, I think another unique feature is the factory's thoughtful designs that accommodate a wide range of people. For example, there are production lines designed especially for pregnant women to work comfortably, making them highly gender-neutral. We should communicate more widely outside the company that it's easy for women to work here and thrive. I hope that Toyoda Gosei will emerge as a leader in DE&I within the next decade.

Maeda: It also holds significant potential for global business growth. There's no doubt that India will become a key market for the automobile manufacturing industry in the future. Toyoda Gosei entered the Indian market in 1998 and already has six production sites there, with construction of a new factory underway. We've been aggressive in pitching our products to Japanese and local automakers in the region and it is now our fastest growing market. North America also possesses a robust local production network and is actively expanding sales

to US automobile manufacturers, making it another market with promising growth prospects.

Wada: I hope the stock price will surpass the all-time high it recorded during the peak of the LED business. To achieve this, we must improve management with greater awareness of corporate value while ensuring that each employee understands how their daily work connects to that value. It is important to expand the scale of our non-automotive businesses alongside the growth of our automotive operations.

A broad range of corporate venture capital investments alone is not going to be enough. I believe there is tremendous potential for Toyoda Gosei to grow new businesses out of our unique technical competencies—GaN semiconductors, horizontal recycling of plastic, rubber devulcanization, and the like. Further refining these techniques offers us a realistic growth pathway, but we must continue challenging ourselves to create new value, and DE&I will undoubtedly play a vital role in that. Toyoda Gosei is now developing that corporate culture. I believe the Company's future is bright, but it rests on the shoulders of management and each and every employee.

