Risk Management

❯ Contributing to Sustainable Corporate Value Enhancement by Transforming Risks into Opportunities and Controlling Risks

■ Risks the Company Faces

Amid significant changes in the external environment—from shifts in international affairs and rising geopolitical risks to the increasing prevalence of cyberattacks—as well as growing expectations of respect for human rights and environmental regulations, the business landscape is undergoing substantial transformation. Within the automotive industry specifically, a surge in protectionism is manifesting itself via the imposition of tariffs, while the pace of the spread of electric vehicles has become more subdued. 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. The importance of risk management is greater than ever as we strive to remain a trusted "company of choice" in the eyes of stakeholders and society.

■ Risk Management Activities for Achieving the 2030 Business Plan

Fundamental Initiatives

The Company makes use of methods such as PEST*1 and 3C*2 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.

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.
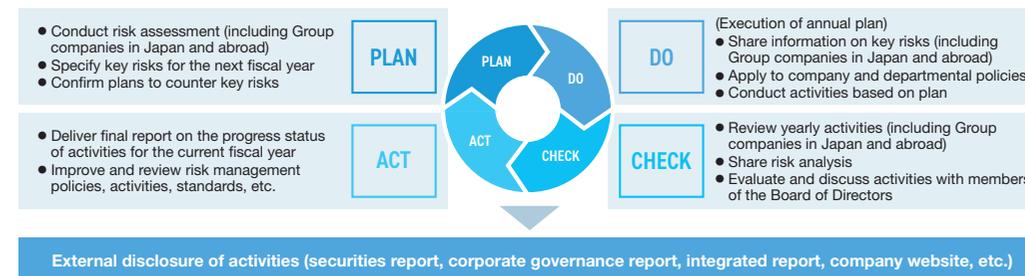
*1 An analytical method that categorizes the external environment into four factors—political, economic, social, and technological—to assess their impact on a company
*2 An analytical method that interprets the market environment from the perspectives of customers, competitors, and the company itself

Internal Controls Committee Organizational Diagram

Internal Controls Committee — Chairperson: President Saito
Deliberation on policies and measures related to internal controls

Risk Management Subcommittee
Identifies major risks, decides measures to avoid or mitigate them, confirms implementation status

Compliance Subcommittee
Reports and deliberates on corporate ethics and status of compliance with laws, etc.

Internal Audit Subcommittee
Status reports on internal audits

Key Risk Management Activities

PLAN
- Conduct risk assessment (including Group companies in Japan and abroad)
- Specify key risks for the next fiscal year
- Confirm plans to counter key risks

DO
(Execution of annual plan)
- Share information on key risks (including Group companies in Japan and abroad)
- Apply to company and departmental policies
- Conduct activities based on plan

ACT
- Deliver final report on the progress status of activities for the current fiscal year
- Improve and review risk management policies, activities, standards, etc.

CHECK
- Review yearly activities (including Group companies in Japan and abroad)
- Share risk analysis
- Evaluate and discuss activities with members of the Board of Directors

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

Review of FY2024

For Business Strategy Risks, we incorporated changes in the business environment, such as global economic conditions, tariff trends in major countries, 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 continued our efforts to address quality certification issues in the automotive industry by enhancing organizational structures and reforming workplace culture. Specific initiatives included identifying workplace challenges while also elevating the independent organization for regulatory certification management from an office to a division in June 2025. In addition, we enhanced communication with suppliers to ensure compliance with antitrust and subcontracting laws.

Risk Management

Among the key risks, those with significant global impact were shared with Group companies both domestically and internationally. Throughout the year, we implemented the 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. Matters pertaining to economic security are being addressed through a working group that reflects domestic and international trends.

We have reorganized internal functions and roles related to risk management to more effectively coordinate and manage the risk mitigation activities and post-occurrence responses that have been identified as priority initiatives for FY2024. In addition, we invited experts to provide crisis management training for officers.

Furthermore, we created the Risk Management and Response Guidelines that outline the fundamental actions to be taken in the event of a risk materializing. These guidelines specify the necessary steps to ensure swift and appropriate action if such a situation arises.

Company-wide Risk Management System
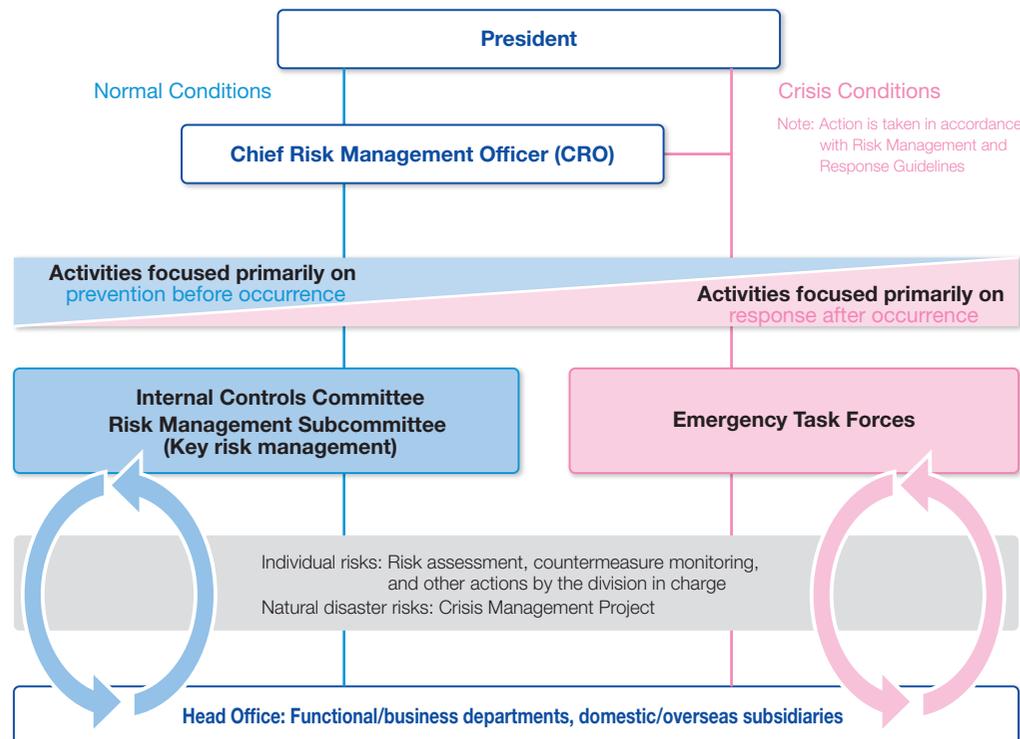
Future Initiatives

For FY2025, we have selected four key Business Strategy Risks. Among these are the risk of failing to properly work toward achieving carbon neutrality and the circular economy, and the risk of being unable to build a value chain that keeps pace with trends in the growing adoption of BEVs, including the establishment of supply chains and production systems capable of adapting to fluctuations in BEV demand. 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, we have selected risk factors that include, the need to respond to US-China trade tensions and US-government policies, with tariffs of particular concern, as well as potential supply chain disruptions arising from inadequate responses to national regulations such as export restrictions on critical minerals. We selected a total of eight 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 Board meetings. Through these discussions, we continuously implement improvements that align with changing circumstances.

Examples of Key Risks

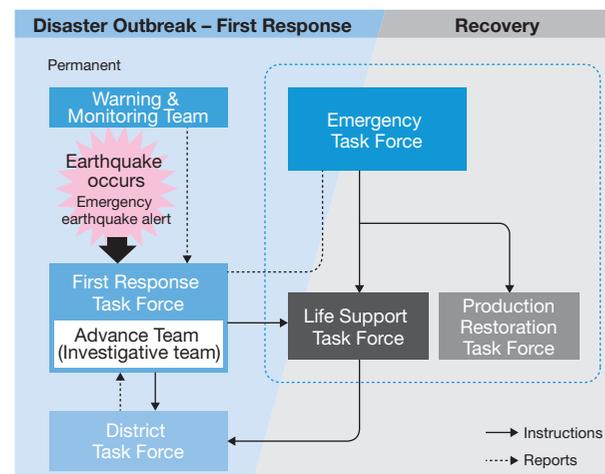| Classification		Main Key Risks
Size of risk Impact on operations (financial impact, etc.) × Possibility of occurrence (frequency)	Large	• Addressing carbon neutrality and the circular economy (including matters pertaining to carbon pricing and rubber/plastic materials) • Large-scale disasters (e.g., abnormal weather) • US-China trade frictions (and other geopolitical risks) • Tariffs and other US-government policies • Supply chain disruptions arising from inadequate responses to national regulations • Injuries and operation shutdowns due to serious work accidents • Recalls due to serious quality issues • Cyberattacks and scam emails
	Medium	• Responding to BEV transition (including the launch of new products for the BEV market and addressing declining demand for fuel-related components) • Fires or explosions leading to an interruption of business operations

Risk Management

Examples of Risk Response

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 240 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 Toyoda 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 Toyoda Gosei and other companies, and collaborative preparation of business continuity plans (BCP) are carried out.

Schematic of Response in a Large-Scale Disaster

Initiatives to Date

Classification	Measures
Facility and equipment measures	• Earthquake resistance measures for buildings and facilities • Establishment of a disaster preparedness center to serve as an operations base for the entire company in the event of a disaster • Equipping all locations with multi-channel access (MCA) radio system*1 and satellite phones • Deployment of Starlink to the First Response and Production Restoration Task Forces • Installation of crisis management servers (earthquake-resistant structure) and emergency power generators • Operation of a DR*2 system and DCs*3
System measures	• Implementation of site and building safety assessments • Training in operation of earthquake early warning systems and employee safety information systems • Preparation and visualization of supply chain information • Preparation of a business continuity plan (BCP)
Skills	• Ongoing resilience training (disaster simulation exercises)

*1 Radio system used in Japan for various purposes, from daily operations to emergencies and disasters
*2 Disaster Recovery: System for restoring and repairing damaged systems
*3 Data Center: General term for special facilities equipped with operating computers, data communications, and other equipment

Cybersecurity Countermeasures

We recognize the importance of information in corporate activities and the elevated risks associated with it, so we regard comprehensive management of confidential information and strengthened cybersecurity as key issues in risk management and are implementing countermeasures accordingly. In January 2025, we established a Security Promotion Team of specialists that will work to accelerate these countermeasures.

To ensure proper management of confidential information, we conduct yearly company-wide inspections in accordance with our confidentiality management regulations to confirm that each division is in compliance with confidentiality rules. Self-inspections and on-site audits are also conducted at Group companies in Japan and overseas to ensure that the confidentiality management framework is firmly embedded throughout the organization.

Specifically, we promote comprehensive initiatives across the entire supply chain, encompassing our head office, Group companies, and suppliers. We place particular priority on safety verification at high-risk sites and suppliers, with the order of priority determined by the degree of risk they pose to production and shipments. As a key initiative going forward, we are planning to put in place the operating environment (i.e., have the necessary tools at the ready) and conduct response drills based on realistic incident scenarios so that the relevant personnel can act swiftly in an emergency. We are also working to raise the baseline level of security for the Group as a whole through global security awareness activities and worldwide meetings. The implementation status of these initiatives is regularly reported and discussed at company-wide meetings, and we continually refine our security measures in response to changing circumstances and other factors.

Main Cybersecurity Initiatives

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	• Data encryption on personal computers • USB device connection controls
	System measures	• Security measures when sending emails out of the Company (mandatory cc to superior's email address, encryption of attached files)
Prevent leakage and damage due to malicious intent	Facility and equipment measures	• Installation of computer anti-virus software • Firewalls to control communication with outside parties • Constant monitoring of unauthorized communication • Detecting and preventing tampering with systems open to the public outside the Company • Prevention of unauthorized connections to the network
	System measures	• Confidentiality pledge • Restricted access to file servers • Stricter standards for allowing items to be taken from premises
Measures to improve corporate ethics		• Security training for employees • Training in responding to targeted email attacks • Company-wide confidentiality controls inspections and on-site audits using check sheets