

## Corporate Governance

**Fundamental Approach** Toyota regards sustainable growth and the stable, long-term enhancement of corporate value as essential management priorities. Building positive relationships with all stakeholders, including shareholders, customers, business partners, local communities and employees, and consistently providing products that satisfy customers are key to addressing these priorities. To this end, Toyota constantly seeks to enhance corporate governance. Moreover, Toyota complies with the general principles of the Corporate Governance Code promulgated in June 2015. The specifics of these efforts are discussed in Sustainability Meetings and reported to the Board of Directors.

In March 2011, Toyota announced the Toyota Global Vision, formulated in light of the operating environment at the time and the Guiding Principles at Toyota. Based on a commitment to being a company that customers will choose and will feel good about having chosen, the Toyota Global Vision clearly defines Toyota's aspirations for the future.

### Organization and Structure

#### ■ Business Execution and Supervision

With the aim of achieving the Toyota Global Vision, Toyota has been implementing ongoing revisions in its operational framework in order to quickly respond to the unprecedentedly rapid changes occurring in the external environment. Toyota introduced regional entity operations in 2011, followed by the business unit system in 2013 and the in-house company system in 2016. Then, in 2017, to accelerate decision-making and operational execution, Toyota further clarified that the Members of the Board of Directors are responsible for decision-making and management oversight, and operating officers are responsible for operational execution. Furthermore, in 2018, to accelerate management oversight that is fully coordinated with the workplace, Toyota moved up the timing for changing the executive lineup from April to January, revised the corporate strategy function, and restructured the Japan Sales Business Group based on regions rather than sales channels. These organizational changes are designed to transform the company structure into one that facilitates decision-making close to customers and close to where the action takes place.

Together with the business units (in-house companies and Business Planning & Operation Units), operating officers, mainly consisting of the president and executive vice presidents, to whom authority is delegated by the Board of Directors, will realize prompt decision-making and move forward with initiatives toward sustainable growth and medium- to long-term improvement of corporate value. As part of the management oversight of operations, the Sustainability Meetings deliberate the corporate governance structure that executes such initiatives.

Toyota has also established an International Advisory Board, comprising experts from around the world. The board provides advice on management issues from a global perspective as needed. Toyota also deliberates on and monitors management and corporate conduct from the diverse stakeholder perspectives in meetings, such as the Labor-Management Council/Joint Labor-Management Round Table Conference.

## ■ Board of Directors and Related Structures

Toyota's Board of Directors consists of nine directors (of which three are outside directors). The structures related to the Board of Directors are based on comprehensive considerations with the aim of ensuring prompt, appropriate decision making and appointing the right person to the right position.

Toyota believes that it is crucial to appoint individuals who comprehend and are capable of putting into practice its core concepts of making ever-better cars and *genchi genbutsu* (onsite hands-on experience). Moreover, these individuals must be able to contribute to decision making aimed at sustainable growth into the future. Toyota's Executive Appointment Meeting, half the members of which are Outside Directors, makes recommendations to the Board of Directors regarding such appointments.

In order to ensure that outside perspectives are adequately reflected in management decision making, there are three Outside Directors, all of whom are registered as independent officers with the relevant financial instruments exchanges. When selecting Outside Directors who will serve as independent officers, Toyota considers the requirements set forth in the Companies Act and independence standards established by the relevant financial instruments exchanges. Toyota's Outside Directors draw on their broad experience and insight, including their respective fields of expertise, to inform decision-making from a perspective independent from management structure.

## ■ Audit & Supervisory Board

Toyota has adopted an Audit & Supervisory Board system. Six Audit & Supervisory Board Members (including three outside members) play a key role in Toyota's corporate governance by undertaking audits in line with the audit policies and plans. In appointing Audit & Supervisory Board Members, Toyota believes it is necessary to elect individuals who have broad experiences and insight in their respective fields of expertise and can advise management from a fair and neutral perspective, as well as audit the execution of business. Toyota's Executive Appointment Meeting, half the members of which are Outside Directors, makes recommendations to the Audit & Supervisory Board regarding such appointments. Three individuals, all of whom are registered as independent officers with the relevant financial instruments exchanges, have been appointed as Outside Audit & Supervisory Board Members. When appointing Outside Audit & Supervisory Board Members, Toyota considers the requirements set forth in the Companies Act as well as the independence standards established by the relevant financial instruments exchanges.

## ■ Remuneration of Members of the Board of Directors and Audit & Supervisory Board Members

Basic remuneration and bonuses for Members of the Board of Directors are linked to corporate performance while reflecting individual job responsibilities and performance. The amount and method of payment of remuneration are determined also considering the remuneration level in countries of origin. Bonuses are paid based on the relevant fiscal year's consolidated operating income, comprehensively taking into account dividends, the levels of bonuses for employees, trends at other companies, medium- to long-term business performance and past remuneration. Because the role of Outside Directors includes monitoring and supervising management from an independent standpoint, they are not paid bonuses.

Members of the Board of Directors receive remuneration and bonuses within the range of the total amounts determined in the Shareholders' Meeting. The amounts are decided at a meeting of the Board of Directors with reference to proposals submitted by the Executive Remuneration Meeting, half the members of which are Outside Directors.

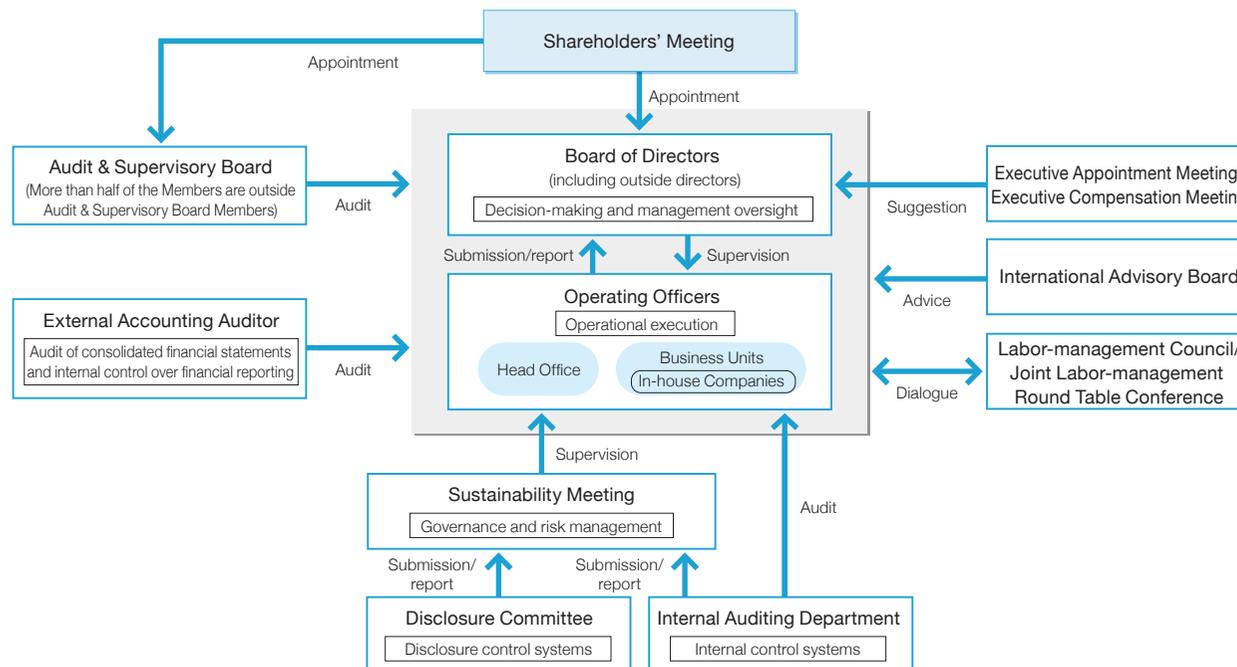
Remuneration for Audit & Supervisory Board Members consists only of fixed basic payments and does not include bonuses. As a result, this remuneration system is not readily impacted by business performance, helping to ensure independence from management. Remuneration for Audit & Supervisory Board Members is determined by the Audit & Supervisory Board within the scope determined by resolution of the Shareholders' Meeting.

## ■ Analysis and Evaluation of the Effectiveness of the Board of Directors

After the Secretariat of the Board of Directors conducts a quantitative analysis of the state of performance pursuant to an instruction of the Chairman of the Board of Directors, a survey is conducted of Members of the Board of Directors (Members of the Board of Directors and Audit & Supervisory Board Members) regarding the state of execution of operations and of the supervision of such execution. Furthermore, interviews are held individually with Members of the Board of Directors, including the Outside Directors and Outside Audit & Supervisory Board Members, based on results of the survey. The Secretariat of the Board of Directors Meeting combines and explains the findings to the Chairman of the Board of Directors and reports and discusses the findings at the Board of Directors.

For FY2018, it was confirmed, as a result of the evaluation, that effectiveness was secured. Based on meaningful comments provided regarding “acceleration of decision making,” “management oversight of operations” and other matters during the process of the evaluation, Toyota will continue to make improvements during FY2019 to further enhance effectiveness.

### Corporate Governance Organizational Diagram (Emphasizing Frontline Operations + Multidirectional Monitoring)



## Fundamental Approach and Maintenance of Internal Control Systems

### ■ Basic Stance on System for Ensuring Appropriate Business Operations

TMC and its subsidiaries work to foster a sound corporate culture based on the Guiding Principles at Toyota and the Toyota Code of Conduct. Toyota integrates the principles of problem identification and *kaizen* (continuous improvement) into its operational processes and makes continuous efforts to train employees who will put these principles into practice.

### ■ System to Ensure Appropriate Operations

Toyota endeavors to maintain and properly operate a system for ensuring the appropriateness of business operations as a corporate group in accordance with its Basic Policies on Establishing Internal Controls. Each fiscal year, Toyota inspects the establishment and implementation of internal controls to confirm that the organizational units responsible for implementing internal controls are functioning autonomously and enhancing internal controls as necessary. The findings of these inspections are reviewed in the Sustainability Meetings and the Board of Directors Meetings.

For details on Fundamental Approach and Maintenance of Internal Control Systems, please see “IV. Basic Approach to Internal Control System and its Development” in the *Corporate Governance Report*.

Corporate Governance Report

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