

Priority Theme 7

Reinforcement of Corporate Governance and Compliance

Ideal Status in 2020

Engaging in business activities with integrity while constantly improving management transparency

Priorities

- Reinforcing corporate governance
- Further spreading awareness of placing greatest priority on compliance

Reasons for being Priority Issues

Aware of our responsibility to various stakeholders, the Toyo Tires Group has positioned increasing awareness that compliance being the most important issue and maintaining an appropriate management system to ensure transparency in management and pursue fairness within the organization as issues that should be addressed with priority.

Policies

We properly implement the principles of the corporate governance code in order to implement effective corporate governance. We ensure the rights and equality of shareholders, strive to establish appropriate cooperation and dialogue with stakeholders other than shareholders, and work to secure appropriate information disclosure and transparency to achieve this. Taking into consideration its accountability toward shareholders, the Board of Directors properly fulfills its roles and duties to raise corporate profitability, increase capital efficiency, etc., in order to achieve sustainable growth and raise the Company's corporate value in the medium- and long-term. As for efforts to strengthen compliance required to embody this philosophy, the Toyo Tires Group compiled not only the "Toyo Tires Group Charter of Corporate Behavior" as corporate action principles applied uniformly across the Group in order faithfully conduct business activities but also the "Toyo Tires Group Code of Conduct" for each director and employee to put the charter into practice. We strive to spread these throughout the Group.

Management Approach

Goals

We will increase the transparency of management and aim to implement highly specialized, effective corporate governance by spreading awareness of the corporate philosophy and improving compliance levels.

Responsibilities

Corporate Officer of Corporate Headquarters

Activity Promotion System

Role of Governance Entities in Priority CSR Themes

In order to strengthen governance related to efforts targeting the seven priority CSR themes, the Executive Committee (chairperson: President) has created a system to promote the Group's sustainability management.

As for identifying the impacts, risks, and opportunities provided by the Group's sustainable development goals (SDGs) and various priority themes as well as formulating an action plan (orientation, goals and targets), group-wide working groups (WG) established upon approval by the Executive Committee discusses the issues, and then the corporate officer in charge of the Corporate Headquarters compiles the information and reports it to the Executive Committee. WGs for the four themes of "supply chain", "environment", "human rights and labor", and "SDGs" have already been established and discussions are underway. The effectiveness of the processes for each theme discussed by WGs is debated and evaluated when the report is made to the Executive Committee.

Based on the strategy and policy set by the WG, the related special committees develop plans for important activities, analyze the results, and formulate improvement measures, and progress in implementing the plans by the divisions responsible for execution of business operations is reported to the Executive Committee. The corporate officers in charge of the various control departments, which are responsible for the various themes, are in attendance as chairs of the related special committees.

Internal Control System

In accordance with the Companies Act in Japan, the basic policy on constructing the internal control system was decided by the Board of Directors, and the internal control system was created in line with that basic policy. The basic policy is reviewed each year to reflect changes in the management environment and to ensure that our internal control system remains effective.

"Reporting Hotlines" have been established and operated as a system to enable employees to directly report and seek advice regarding their concerns, such as compliance issues that could develop into a crisis. In addition, multiple reporting routes have been secured, and a system that makes it easy for required information to rise to the governance organization has been created.

Corporate Governance System

Corporate governance system of the Toyo Tire & Rubber CO., LTD. consists of the Board of Directors, which is for decision-making and supervision; the Executive Committee, which serves as the decision-making body for business execution; the Special Committees, which act as deliberative and consultative bodies for their respective areas; and the Audit & Supervisory Board, which audits the performance of the Board of Directors and overall business execution.

The Board of Directors nominates candidates who are judged capable of managing the company in a manner that contributes to an increase in corporate value because of their experience, personality, and knowledge. Candidates are elected by shareholders at the annual general meeting of shareholders.

The chairperson of the Board of Directors also serves as the president, who is responsible for executing operations. At least one-third of directors are outside directors, which ensures the independence of the Board of Directors and encourages and strengthens debate. Regular independent evaluations of the Board of Directors ensure the functionality and effectiveness of the Board of Directors and various committees.

The Company's corporate officers are prohibited from acts that result or may result in conflicts of interest with the Group.

Compliance Promotion System

Within Toyo Tires Group, compliance is deemed a matter of the highest priority in management, and the president of Toyo Tire & Rubber CO., LTD. works as the party in charge of compliance to create and improve the compliance system.

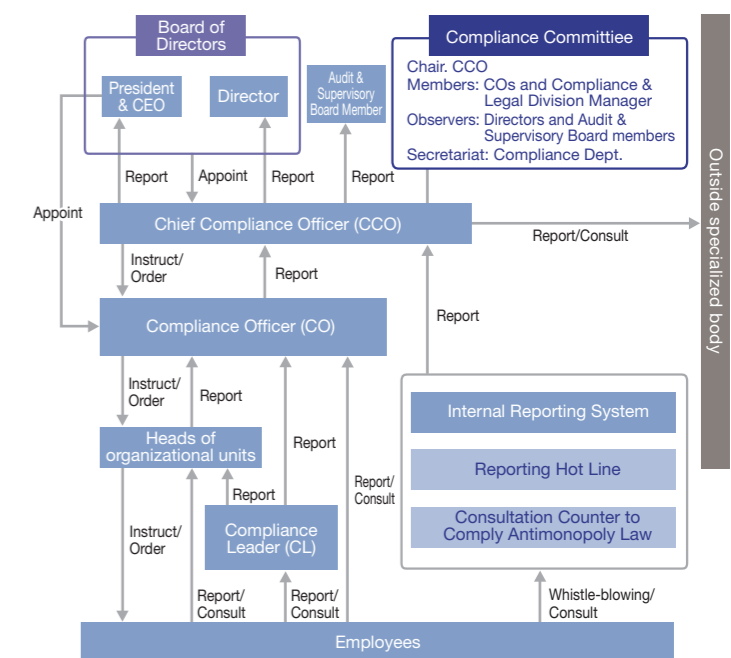
In addition to establishing the Compliance Committee, one of the special committees that debates and examines issues related to promoting compliance, we have a system of compliance officers and are striving to promote compliance, mainly by the chief compliance officer (CCO), compliance officers (CO), and compliance leaders (CL).

Governance Structure *As of April 2018



Compliance Promotion System Diagram *As of April 2018

*The Compliance Dept. provides support at all stages so that the system properly and effectively functions.



Corporate Governance

Spreading the Philosophy

As of January 1, 2017, the Toyo Tires Group has formulated a new philosophy which will be the basis for the work of all corporate officers and employees, and measures are implemented to spread the philosophy among all employees.

In order to spread the philosophy, we have created opportunities for the Company's corporate officers and general managers to discuss it with subordinate employees at our business sites and affiliated companies in Japan. At overseas affiliated companies, our president visits the companies himself and explains the philosophy.

Work of the Board of Directors

In fiscal 2017, the Board of Directors met at least twice a month for a total of 26 times, with the directors and Audit and Supervisory Board members participating.

The effectiveness of the Board of Directors is analyzed and evaluated using a signed survey of directors and Audit and Supervisory Board members regarding the operation, composition and abilities, and general items of the Board of Directors. The results are compiled by a third party in order to ensure impartiality. The results of an analysis and evaluation for fiscal 2017 reveal that there was a positive self-evaluation for all items, and it can be argued that the effectiveness of the overall Board of Directors is ensured. We are, however, continuing to make improvements to the operation of the Board of directors, such as standardizing the allotment of time for the minutes of the Board of Directors and increasing the provision of information to outside directors.

Strengthen the Risk Management System

As the risk manager, in our Group, the person in charge of the Corporate Control Department is responsible for parties below the risk management officer appointed for each risk and the risk management system as stipulated in the Risk Management Rules. The main risks are managed through established activities not only to evaluate and analyze potential risks for the Group during non-emergency times and to reduce the possibility of them occurring, but also to minimize damage during emergencies and to promptly restore business.

The risk management officers have the following roles related to the main risks they are responsible for.

- ① Develop and maintain various systems, measures, rules, and risk management systems, and compile and manage Risk Management Manuals.
- ② Report on (i) the creation status for the risk management system, (ii) evaluation and improvement plans for the risk management system, and (iii) the implementation status of the risk management system improvement plans to the Risk Management Committee at least once a year.

- ③ Immediately report to the risk manager if a report about concerns of an emergency are received by a business site or division manager.

Dialogue with Shareholders and Investors

The Company holds a general meeting of shareholders once a year and a quarterly financial results briefing. During the first half and full year briefings, our top executives provide detailed business information, including financial results, future business outlook, business environment, and market trends, to institutional investors and securities analysts. In addition to announcing financial results, there were also small meetings attended by the president and other parties as well as several engagement opportunities for managers and institutional investors.

In addition, efforts are made to improve understanding of the Group's management by providing opportunities each quarter for IR staff to respond to the particular concerns of institutional investors and analysts (handling individual inquiries). Furthermore, the Group actively works to respond to requests by the growing number of overseas investors, which includes enhanced responding to individual inquiries except during the quiet period and conducting overseas roadshows.

During fiscal 2017, the IR staff held dialogues with over 400 shareholders and investors from 300 companies. About 5% of those provided opportunities to discuss our ESG. The opinions and requests of shareholders and investors are regularly used as feedback for management and in-house related departments.

TOPICS

Holding Tours of Tire Production Facilities in the Americas for Analysts and Institutional Investors

In order to increase the understanding of Japanese analysts and institutional investors regarding the potential of the Americas market, our core business, we held a tour of Toyo Tire North America Manufacturing Inc (TNA), a tire production facility in the Americas.

Local management provided an explanation of various items including an overview of the plant, our proprietary A.T.O.M. manufacturing method, organization, R&D strategy in the Americas, sales strategy. The participants also viewed the TNA process. They were also taken to a distributor who handles our products, making it possible for participants to directly obtain information on how our products are evaluated by the market.



Meeting during analyst tour

Compliance

Spreading Awareness of the Charter of Corporate Behavior and Code of Conduct

The Toyo Tires Group has the "Toyo Tires Group Charter of Corporate Behavior" and "Toyo Tires Group Code of Conduct". Taking into the consideration differences in laws, regulations, and customs between countries and regions, the various overseas Group companies have created independent codes of conduct using the code of conduct as action guidelines.

In Japan, reading aloud the Code of Conduct Handbook, which was developed as a tool to spread the code of conduct, is done by all corporate officers and employees, including those at Group companies, and after completing the training, participants submit a pledge that states they will promote compliance. In fiscal 2017, all employees received the training and submitted pledges.

Overseas, the Code of Conduct Handbook has been translated into seven languages (English, Russian, German, Italian, Chinese, Thai, and Malaysian) and distributed to all business sites. We are working to spread the code of conduct throughout the Group and reinforce compliance.

Internal Reporting System

We have been operating an internal reporting system since fiscal 2006. "Reporting Hotlines" have been established in Toyo Tire & Rubber Co., Ltd. Audit Department, an independent law office, and independent specialized companies as an in-house whistle blower system. Not only employees but also business partners can use the system, and reports can also be made anonymously. Overseas, we are moving forward with efforts to establish hotlines at each business site.

TOPICS

Results of the FY2017 Compliance Survey

*Response rate 93.0% [90.4% for 2016]

① Conducting compliance promotion activities

Conducted at least one activity to raise compliance awareness within the last year. **97%** (88% in FY 2016)

② Awareness and understanding of compliance

Know the meaning of compliance. **85%** (83% in FY 2016)

* Toyo Tires Group's compliance: We shall comply with laws and internal rules in all aspects of our business activities and shall conduct ourselves according to the highest ethical standards.

③ Making compliance part of the corporate character

Conscious of compliance when conducting your work. **94%** (92% in FY 2016)

Preventing Anti-Competitive Behavior

We are moving forward with the building of a compliance system, conducting educational activities, etc., in order to thoroughly comply with competition related laws and ordinances in all countries. As for concrete measures, sales staff are required to submit a prior request to meet with competitors, a post-meeting report of request for exemption, and a pledge to adhere to antimonopoly laws in line with the "Cartel Prevention Rules".

In addition, we are actively working to comply with laws and ordinances, and these efforts include establishing an Antimonopoly Law Compliance Hotline, having the Audit Department conduct audits of the compliance status with Cartel Prevention Rules, and providing training, including e-learning, to related parties.

Anti-Corruption

In addition to prohibiting all corrupt practices that could lead to misconduct, violations of laws, and breach of trust in our business activities, we strive to avoid all negative impacts, such as poverty in transition economies, damage to the environment, abuse of human rights, abuse of democracy, misallocation of investments, and undermining the rule of law, that could arise from corrupt practices.

The risk of corruption in countries and regions in which the Group has business sites is evaluated using the fiscal 2017 Corruption Perceptions Index (CPI) surveyed and published by the international NGO, Transparency International. We believe caution be required in particular for business activities in countries with a CPI of less than 40.

We are conducting educational activities at a time when regulations related to corrupt acts, particularly bribery, are being reinforced around the world. Between fiscal 2016 and fiscal 2017, in Japan, Malaysia, Thailand, and China, attorneys from local law offices were invited to serve as instructors for Anti-Corruption seminars.

Comment

There is growing awareness of compliance among employees, including a larger number of workplaces enthusiastically engaged in compliance activities and a greater number of communication opportunities within the workplace.

Our goal is to continue to review our training and education activities and to increase and firmly root a strong compliance awareness among all employees through communication at all workplaces.



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