

Domestic Engine Certification Issue and Initiatives for Preventing Recurrence

Earnestly Facing Present Issues with Every Employee Making All-Out Efforts in Their Respective Positions to Prevent Recurrence

On March 17, 2023, Toyota Industries announced a violation of laws and regulations in domestic certification for emissions performance of engines for currently available lift trucks and construction machinery. We subsequently stopped shipments of these engines and implemented a recall and other measures for lift trucks within Japan. A Special Investigation Committee conducted an independent investigation, and we submitted a report of the findings to Japan’s Ministry of Land, Infrastructure, Transport and Tourism (MLIT) on January 29, 2024.

We wish to once again express our sincerest apologies to our customers, business partners, shareholders and many other stakeholders for causing great inconvenience. We are committed to implementing Company-wide initiatives to pause if something is wrong and thoroughly adhere to compliance to ensure that such violations never occur again.



Overview of the Domestic Engine Certification Issue

Course of Events to the Present

On March 17, 2023, Toyota Industries announced that there were legal violations for four models of engines for industrial vehicles and set up a Special Investigation Committee consisting of independent outside experts. The findings of the committee's investigation were then reported and disclosed to the supervisory authorities on January 29, 2024. The investigation revealed violations in the certification of nine models, including five old-type engines for lift trucks, and one old-type engine for construction machinery. It also uncovered that emission regulation value limits were exceeded for one current engine model for construction machinery. In addition, new violations were found in the output tests of three engine models for automobiles.

In response to the details of the report, the MLIT issued a Correction Order on February 22, 2024, and cancelled the type designation for three engine models for industrial vehicles on March 5. Toyota Industries reported measures to prevent

recurrence to the ministry on March 22. As an impact on operating profits, related expenses of ¥20.7 billion and ¥52.5 billion were posted in fiscal 2024 and fiscal 2025, respectively.

What the Committee's Investigation Discovered

- Including the current three engine models for lift trucks and one engine model for construction machinery, whose shipments have already been suspended, violations were found in nine engine models for lift trucks (five of which are old types) and two engine models for construction machinery (one of which is old type).
- Emission regulation limits were exceeded for one current diesel engine model for construction machinery, whose shipment has been suspended.
- In addition, during the certification application process conducted by Toyota Motor Corporation and Hino Motors, Ltd. for three diesel engine models for automobiles, violations were uncovered in the output tests conducted by Toyota Industries. (It has been confirmed that these engine models meet the standard values for shipment.)

Details of the Violations and Misconduct

The investigation discovered misconduct for both gasoline and diesel engines for industrial vehicles. Outside of the development stage, improper conduct also occurred during

sampling inspections after the transition to mass production. The main violations at the time of obtaining certification in the development stage are as follows:

- Data different from actual measurements were used in emissions deterioration durability tests.
 - Parts were replaced during the test.
 - Control software different from mass-produced engines was used.
 - Most suitable values were selected from multiple measurements; data were falsified to look better.
- In addition, during sampling inspections of mass-produced engines,
- The frequency of inspection differed from the regulations, and control software different from mass-produced engines was used.

The Special Investigation Committee classified the violations into the following three categories.

- Cases of wilful misconduct while recognizing that it violated domestic laws and regulations, such as rewriting test results in order to obtain certification
- Cases of misconduct such as rewriting data to make discrepancies in values less noticeable, even though

there were no pressing circumstances, such as where domestic certification would not be obtained without engaging in improper conduct

- Cases of misconduct committed without a clear recognition of violation of laws and regulations due to a lack of awareness and understanding of laws and regulations

Review and Acceptance of Findings

Looking at the background factors underlying the misconduct, during the past 20 years, the expansion of production outside Japan and proactive M&As have dramatically increased net sales, the number of employees and the number of bases. In the Engine Business as well, amid our efforts to expand

production capacity globally and increase our role in diesel engines, we recognize that we were deficient in the following areas in terms of responding to changes in society, laws, regulations and market trends in each country and region.

What Toyota Industries Lacked

- We failed to grasp changes in the environment, think through what we should do in step with the latest trends in laws, regulations and markets and foster the mindset and commitment to take relevant initiatives and make appropriate responses.
- We failed to properly allocate the necessary personnel, tools and funds because we did not accurately and sensitively recognize the changes in the tightening of exhaust gas regulations for industrial vehicle engines and understand the certification system.
- We failed as an organization to understand the concerns and hardships of the factory floor and workplace by creating an environment in which small-scale projects and functions with less authority were compelled to engage in misconduct.

Special Investigation Committee's Recommendations

The report by the Special Investigation Committee, published on January 29, 2024, recommended a wide scope of countermeasures, ranging from direct measures to infrastructure-related initiatives. These recommendations can be summarized into the following three points.

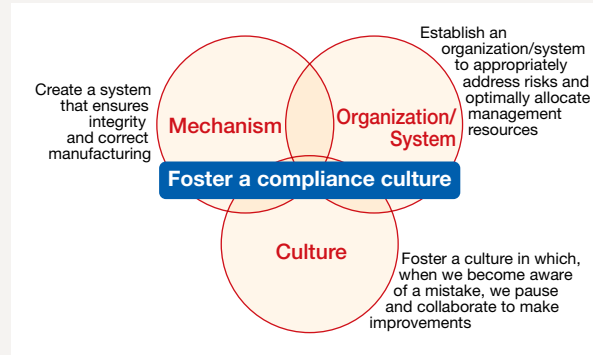
1. Foster a compliance culture
2. Establish mechanisms contributing to the prevention and early detection of improper conduct
3. Reform awareness and behavior of the management

These incidents of improper conduct are a Company-wide problem rather than a problem attributable to any specific function or organization. We have held Company-wide discussions about this issue and shared details regarding the importance of this problem and its background factors. Toyota Industries is now being called into question regarding whether it has the “culture,” “mechanism” and “organization/structure” needed for truly undertaking *monozukuri* (manufacturing). Toyota Industries must go back to the basics of manufacturing and have a strong determination to never let such improper conduct occur again. To prevent recurrence, we will first take a moment to properly organize and reflect on our actions. Upon doing so, we will prioritize the necessary initiatives as detailed on the following pages.

Initiatives for Preventing Recurrence

Go Back to the Basics and Make a Fresh Start

In preventing recurrence, Toyota Industries will go back to the basics of providing customers with safe and reliable quality products and continuing to contribute to society. To ensure we do the right thing in the correct way, we will incorporate three reforms in terms of “culture,” “mechanism” and “organization/structure” into recurrence prevention measures, with all employees working as one team. These efforts will not be limited just to the domestic engine certification issue. They will also extend to addressing issues concerning our organizational culture as we extensively consider the initiatives we must implement and promote reforms across the entire Company.



Three Reforms We Will Implement in Earnest

Three reforms in terms of “culture,” “mechanism” and “organization/structure” have been incorporated into recurrence prevention measures. Meanwhile, the status of implementation and effects of these reforms are confirmed by the Restart Committee, which consists of the president, heads of business divisions and chief officers.

On March 26, 2024, the Recurrence Prevention Project was renamed the Restart Committee with the attendance of 20 members, including President Koichi Ito, heads of business divisions and relevant executives, to promote recurrence prevention measures. The committee first examined the content of the guidance we received from the MLIT regarding our recurrence prevention measures announced on March

22. It then discussed how to proceed with the initiatives, such as introducing an automatic data storage system by the Engine Division, reviewing the format of the standard development schedule and implementing measures to further strengthen the legal certification department.

The committee will continue to confirm the progress of each initiative while publicizing and sharing the details both inside and outside the Company.



Restart Committee starting operation after being renamed from the Recurrence Prevention Project (March 2024)

Culture

Foster a culture in which, when we become aware of a mistake, we pause and collaborate to make improvements

Our approach is to foster a culture in which, when we become aware of a mistake, we pause and make improvements by engaging all employees. Although this engine certification case involved the violation of laws and regulations, the most important point each employee should keep in mind is that we failed to foster a culture that prioritizes compliance. Along with the Company's mechanism and organization/system, we believe that each and every employee's awareness of compliance and cultivating an open workplace culture where everyone can communicate without barriers is of paramount importance.

As an example of our initiatives, we believe that top

Approach

Foster a culture in which, when we become aware of a mistake, we pause and collaborate to make improvements

- (1) Repeatedly convey clear messages as a company, with each employee understanding and putting these into practice in their respective positions.
- (2) Develop human resources who do not blindly follow precedents and can think independently, consult and confirm whether something is a problem.
- (3) Promote flat, interactive communication without hierarchical barriers.

management and chief officers must continue to convey messages on this issue. As such, we are deploying a variety of tools such as direct dialogue, archived video distribution, in-house newsletters and employee blogs to disseminate our initiatives and approach. We will introduce an improvement proposal system to develop human resources who do not blindly follow past precedents and can think and make improvements independently, thereby further improving their compliance awareness. We will also set up a proposal desk through an intranet and written suggestions. Excellent proposals will be awarded by the management team and introduced within the Company. Going forward, we will continue to convey the message that compliance is the most essential of all basics. We will also enhance education while facilitating discussions on compliance in respective workplaces and promoting diverse and multi-layered communication.



Directly conveying messages from the top management to employees through a variety of media, including dialogue, video and text

Mechanism

Create a system that ensures integrity and correct manufacturing

The reforms of the mechanism are based on creating a system that ensures integrity and correct manufacturing. Accordingly, we will work to establish standardized and clear-cut development, certification and quality assurance processes and strengthen the check and monitoring functions in the development and certification processes.

Specifically, we have an urgent need to rebuild the Company-wide quality management system (QMS) that will allow us to launch products with confidence in quality and compliance with rules. Given this need, the Engine Division is taking the lead in reorganizing various types of standards, setting rules and standardizing processes for compliance with laws and regulations. Furthermore, to strengthen the check and monitoring functions in the development and certification processes, we collaborated with external institutions to establish a system for quality management audits and

commenced its operation. To offer even better products, three check lines, from the quality assurance departments of business divisions to the quality management department at the Head Office, will conduct audits from various perspectives and roles. (Please refer to the Relationship with Our Customers section (quality management) on pages 48–49.)

Approach

Create a system that ensures integrity and correct manufacturing

- (1) Review and clarify quality control rules, processes and procedures
- (2) Create the mechanism for acquiring information, methods and knowledge essential to quality control
- (3) Strengthen check and monitoring functions in the development and certification processes

Organization/System

Establish an organization/system to appropriately address risks and optimally allocate management resources

As the third reform, we will establish an organization/system that can respond appropriately to risks and autonomously detect and respond to changes in the environment. We are taking this action in recognition that the cause of the misconduct was rooted in having low sensitivity for responding to the introduction of full-fledged emission regulations for industrial vehicle engines.

As an example of specific initiatives, we established the Risk Management Committee, entrusted with the functions of detecting and properly assessing all business-related risks. We will increase our sensitivity to risks across the entire Company

and allocate the necessary personnel, tools and funds. Additionally, we have established an Enterprise Risk and Compliance Management Office as a dedicated organization to promote compliance across the Company and manage and control risks in corporate activities. We have also appointed chief officers who oversee each business and the entire Group from the functional perspectives of compliance, quality and legal affairs. In the future, each officer and management function will watch actual work sites and listen to employees in the true sense to recognize and respond to their concerns and issues.

Approach

Establish an organization/system to appropriately address risks and optimally allocate management resources

- (1) Strengthen functions for detecting and properly assessing all business-related risks
- (2) Strengthen functions for avoiding and minimizing risks
- (3) Raise the effectiveness and reinforce the implementation of control rules in business processes
- (4) Strengthen a system for assuring the appropriateness of business operations across the entire Company
- (5) Establish a system for sharing targets and issues and cooperating among business divisions and departments



Global Chief Compliance Officer (GCCO)
Hiroshi Fukagawa
Senior Executive Officer



Chief Quality Officer (CQO)
Hiroya Akatsuka
Executive Officer



Chief Legal Officer (CLO)
Taeko Kojima
Executive Officer

Making a Fresh Start

In making a fresh start, Toyota Industries will work to improve the mechanism and organization/structure to prevent a recurrence. However, creating a corporate culture in which each employee remains mindful of this incident and continues to adhere to the basics will take time and effort. There is no endpoint to these efforts either.

For Toyota Industries Corporation to remain a company worthy of the Toyoda Precepts as its corporate creed,

we regard these reforms as a serious challenge that we must never give up on and never make any compromises. As such, each department is independently considering appropriate approaches and initiatives matched to its specific circumstances. In this endeavor, all Toyota Industries employees are considering this incident as their own personal matter and making a sincere commitment to prevent recurrence.