

Dialogue between Outside Directors and Institutional Investors

Meeting Summary

Meeting date	February 28, 2024 (Wednesday), 1:00 p.m. – 2:00 p.m.
Organizer	Jointly held by Mizuho Securities and Aisin
Place	Otemachi 1st Square
Attendees from Aisin	Michiyo Hamada, Independent Outside Director Seiichi Shin, Independent Outside Director Tsuguhiko Hoshino, Independent Outside Director
Participating investors	11 persons from 11 companies

Questions and Answers

Q: The effectiveness evaluation identified enhancement of horizontal communication among outside directors as one of the issues in FYE Mar. 2023, and I expect that the situation has improved. Please give us some examples of such improvements, if any, through deeper dialogue and/or exchanges in FYE Mar. 2024.

A: (Director Hamada)

Due to COVID-19, online meetings were the norm for some time, which made it difficult for directors to maintain connections between themselves. As the pandemic has subsided, dinner meetings joined also by outside directors and executive officers have been resumed. More executives than ever before are participating, which is extremely useful for directors to understand the atmosphere of the Company. In addition, outside directors often have the opportunity to talk with each other in the car during pick-up. Through natural conversation on these occasions, outside directors are actively communicating with each other.

(Director Shin)

Now that COVID-19 has subsided, we can visit various premises of the Company. We have more opportunities to learn about the inner workings of the Company through visits to factories and subsidiaries by accompanying Audit & Supervisory Board members in their on-site inspections, and we have been able to listen to what people in the field have to say.

In addition, communication between executive officers, Audit & Supervisory Board members, and directors is also becoming more active.

(Director Hoshino)

When participating in meetings and site visits in Aichi, we have opportunities to converse with our fellow outside directors and to talk with officers on the executive side at luncheons. Relationships that allow for free discussion in a friendly atmosphere and for in-depth discussions about the future of the Company have been built. I feel that the Company is also making efforts to build such relationships.

Q: I understand that Director Hoshino, as a new director who took office in June last year, has felt the need to deepen his understanding of the Company and has taken factory tours. Has the Company actively proposed to Director Hoshino any opportunities or measures to help him to gain a deeper understanding of the Company?

A: (Director Hoshino)

The Company has actively proposed visits to various places. After first receiving an explanation of the Company's operations, I was informed of opportunities to participate in the tours of the Com-center and factories, product exhibitions, etc., and I try to participate in them as much as possible. At new product exhibitions, I was able to see not only improvements to existing products, but also future initiatives first-hand, which was very educational.

(Director Shin)

To add a little more information, there have also been cases in which we made site visits at the request of Ms. Hamada, rather than at the request of the Company.

Q: In what respect do you feel, if any, the existence of an information gap between directors and the Company?

A: (Director Hamada)

We are naturally aware of the information gap between outside directors and the people within the Company who are working hard to execute the Company's business activities. Similarly, I think that there is a large distance between institutional investors and the business execution side. I am sure that institutional investors are also gathering corporate information, but an information gap is inevitable. I believe that we should play the role of asking questions, thinking, and making decisions from a third-party perspective, while being in close contact with important inside information and also being aware of the perspectives of shareholders and investors. Although we are making efforts to fill the information gap, there are limits. However, I believe that this also guarantees our independent position.

(Director Shin)

Although the Company provides us with in-depth information, including information on management meetings, there are some parts that we do not understand as Aisin is a global company with about 100,000 employees. The value of independent outside directors stems from their ability to provide outside knowledge to the Company and impartiality that is not influenced by the Company. There is a gap in the sense that becoming a

complete insider of the Company like an executive officer would destroy our identity. Our Audit & Supervisory Board members are working extremely hard to fill that gap as much as possible, and I feel that the information that we receive from them is extremely useful. Opinions are also exchanged with Audit & Supervisory Board members and Independent Outside Audit & Supervisory Board Members as part of efforts to fill the information gap.

(Director Hoshino)

I think that the gap is particularly large for me since I took office only a short time ago. It is precisely because there is a gap that we are outside the Company, and we must act from a middle position in a sense between the Company and shareholders and investors by honestly communicating what we are learning for the first time and things that we don't understand. I think that we have to be thankful for the gap in that sense.

Q: I would like to ask Director Hoshino, as a new director who took office in June last year, to tell us his first impression of Aisin. I would also like to ask Director Hamada and Director Shin to tell us of any changes in their impression of the Company over the last three to four years.

A: (Director Hoshino)

Being involved in the management of a manufacturer for the first time, I am acutely aware of drastic changes in its external environment and its absolute mission of actually making things. While quality is of the utmost importance, costs and delivery dates are also important for the Company. I feel that Aisin is an organization that takes very seriously the practical steps that need to be taken to build trust.

(Director Shin)

My relationship with Aisin dates back to joint research in the 1990s. I have the impression that many people at the Company are free to do what they like. I believe that this was the policy of the former president and chairman, Mr. Kanshiro Toyoda, who wanted everyone to do what they loved and help the Company to thrive. However, since they are doing what they like so much, I feel that there is a bit of a lack of cohesiveness. As a director, I believe that the Company must maintain this atmosphere while firmly connecting it to its business. I think that we have reached a point where we need to think about new developments while at the same time stimulating the entire automotive industry, so I would like to consider new business developments while working also with Toyota.

(Director Hamada)

When I became an outside Audit & Supervisory Board member of Aisin in 2004, I became a colleague of Shoichiro Toyoda, who had served as Aisin's outside Audit & Supervisory Board member since the 1990s. Even he said that he didn't know what he didn't know and pointed out what needed to be pointed out. Following his remarks, there was a lot of discussion back and forth at every board meeting, and there was a sense of tension. I realized that just one person from outside the Company can liven up a meeting and change the atmosphere and that the presence of someone in a position to evaluate can have a major impact on governance. From that time on, I had the impression that Aisin was a company whose executives had a

humble attitude, were enthusiastic about manufacturing and research and development, and deeply respected the thoughts of each and every employee. I then went to the Japan Fair Trade Commission and returned as an outside director in 2016. It was very impressive to see how the corporate governance of a company, which had not changed much even after trying to change it through the Companies Act, has changed so much with the introduction of the Corporate Governance Code, which is a soft law.

Q: I presume that Director Hamada has become a particularly valuable asset among the current outside and inside directors as she took office for the first time as an Audit & Supervisory Board member as early as in 2004. I would like to ask Director Hoshino if he has found anything to learn from Director Hamada, who is in a position to know the past.

A: (Director Hoshino)

There is a lot to learn from Ms. Hamada and Mr. Shin. One of the most memorable comments made by Ms. Hamada during a board meeting was that “Aisin has many new ideas, but is weak at turning them into business. Therefore, we need to think carefully about establishing subsidiaries for the new fields that we want to commercialize and giving them the responsibility and authority to commercialize them.”

Mr. Shin has repeatedly said, “We should properly assert and explain the synergistic effects of various excellent technologies as a whole, rather than just focusing on them individually.” Comments from these perspectives are very educational.

In addition, from the perspective of learning from the past, Aisin is putting a lot of effort into learning from past mistakes and has a facility called the Densho-kan, which collects experiences from past accidents and disasters. All employees are required to visit the facility once a year. We also visited the facility, and there was, for example, a section on the Kumamoto Earthquake, where people can share what was difficult at that time. In the recent Noto Peninsula Earthquake, none of the problems that occurred during the Kumamoto earthquake occurred as the experience gained from it was put to good use and necessary measures have been taken. This may seem like nothing special, but I believe that Aisin is a company that takes on such issues in a positive and solid manner and is learning from the past.

Q: What impression do you have about the current atmosphere of the Board of Directors and the impression of top management compared to the past?

A: (Director Shin)

The Board of Directors is operated in a very positive atmosphere, and I feel that Mr. Yoshida is coordinating the meeting proceedings very well. However, the problem is that it depends on a particular individual. We need to create a system that can maintain this kind of atmosphere in preparation for future changes in the members of the Board of Directors, including the President. As the Toyota Group dislikes dependence on a particular individual, it is important to create a solid framework before selecting new people.

Q: Among the directors of Aisin, I am particularly interested in the presence of Mr. Kobayashi. Please tell us how he makes statements and provides advice, and from what standpoint, within the Board of Directors.

A: (Director Hamada)

His position is somewhere between the one held by Mr. Shoichiro Toyoda in the old days and the one currently held by us independent outside directors. Like Shoichiro Toyoda, he is proactive in speaking up and I feel that he is a valuable asset for Aisin and is playing a major role. However, given the Company's relationship with Toyota, there are some roles that should only be played by independent outside directors, and I think the Company views the three of us as one team to play such roles.

(Director Shin)

Mr. Kobayashi speaks with great love for Aisin. We should play a role in restraining any statements coming from him that appear to us to prioritize Toyota's interests. However, as no such statements have been made by him so far, I believe that he is an extremely beneficial outside director for the Company.

Q: Amid the current progress in corporate governance reform, I feel that the type of outside directors a company has is important in determining whether the corporate value of the company will rise going forward. Please tell us how you have increased the corporate value of the Company so far as outside directors? Please tell us also what value you can add as outside directors to the Medium-term Management Plan.

A: (Director Hamada)

I think that there are many roles that independent outside directors can play in enhancing corporate value. On an individual basis, for example, my legal knowledge may be helpful, but we are not in a position to directly give specific instructions regarding the Company's business development. However, we hope our frank opinions and discussions are of some use in strategic discussions about the direction in which the Company's business should move in relation to society as a whole. When it comes to harmonizing detailed levels with the direction of major issues, we should take the stance of those who evaluate from a third-party perspective. I expect that we will evaluate and support the people in the field in implementing the strategy and raise issues when necessary.

(Director Shin)

I think it's very important to increase the value of the Company. I have advised the Company to stress its aim to achieve a PBR of over 1x at the medium/long-term business strategy briefing and have actively spoken out at board meetings, while closely checking the work of executive officers. I would like to push forward with things that meet the expectations of our shareholders. For example, the Board of Directors is thoroughly discussing appropriate inventory levels and risk management. As a result of these discussions, individual Audit & Supervisory Board members have begun to voice their opinions to executive officers on whether President Yoshida and other executive officers are implementing appropriate measures. We are working to increase corporate value by raising the Company's issues in discussions between us and Audit & Supervisory Board

members, as well as between outside Audit & Supervisory Board members and outside directors.

(Director Hoshino)

The Board of Directors has repeatedly discussed medium- to long-term strategies since shortly after I took office last year. I get the impression that the comments and opinions of outside directors have been reflected to a large extent in the points emphasized in the materials presented and the stories told at the medium/long-term business strategy briefing in September. Subsequent meetings of the Board of Directors have had discussions about the future direction of the Company's business, and the discussions have been quite in-depth. Therefore, I feel that outside directors' participation in the discussions has contributed positively to the management and business of the Company.

Q: You have told us that risk management has been discussed among directors, but I feel that risk management is weak as I look at the corporate governance structure chart. What is your view on this point? Please explain further as the structure chart alone does not give us the whole picture.

A: (Director Hamada)

First of all, I would like to take your opinion as a valuable one. In reality, risk management personnel are appropriately assigned, and close communication between the executive side and Audit & Supervisory Board members is also maintained. We control risks properly by, for example, holding regular interviews with the President and others under him in addition to interviews to be held when a problem occurs, and I think that, in practice, a cycle is in place where we learn from problems when they occur and apply them to the next step. That said, as there are always cases where unforeseen risks arise, I try to always keep my sense of danger.

(Director Shin)

When the Company becomes aware of a risk, it reports it to the Board of Directors as soon as possible, and subsequent responses are also reported as they are made. I would like you to understand that we operate with a sense of danger, as we, as outside directors, would in a sense be unable to avoid responsibility if a risk materializes while reporting is lacking. As the Toyota Group is actively working to build a robust management system through acknowledgement of past failure, we cannot afford to overlook risks. As you know, problems with poor quality and quality fraud have occurred throughout the Toyota Group, and Chairman Akio Toyoda has instructed the entire Group to take another look. As risk management issues have been reported to and discussed by the Board of Directors and will be announced externally going forward, I hope that you will review and evaluate them at that time.

Q: From the perspective of corporate value, I think that compensation governance and nomination governance will become major pillars. According to your disclosure on the composition of remuneration of directors, fixed remuneration, bonuses, and share-based remuneration account for 50%, 35%, and 15%, respectively. Compared to top-ranking Japanese companies, the ratio of fixed remuneration appears to be relatively high, and the ratio of share-based remuneration appears to be relatively low. I think that it is up to each company to decide what remuneration system to adopt as it

faces different circumstances. I would like to know your view on this point.

A: (Director Hamada)

Shortly before I was called back as an outside director in 2016, councils for officers' personnel affairs and for compensation had already been established, and nomination and compensation decisions had been made in an objective and independent manner. Although the Nomination and Compensation Committee already had a strict structure that was dominated by outside officers, it was determined inappropriate for the President to chair the Committee, and I assumed the role of chairperson. I have no choice but to change my stance after becoming the chairperson from my previous stance merely as a member of the Committee. Looking back, Aisin was one of the first companies to introduce share-based remuneration in 2019, which was ahead of legal revisions and social trends, and was somewhat advanced in practice at the time.

However, although minor revisions were made thereafter, no fundamental changes were made.

At present, there are various problems compared to other companies. As you have pointed out, although performance-linked remuneration and share-based remuneration have been introduced, their ratios are too small. Therefore, from a governance perspective, we are discussing the possibility of increasing the incentive portion of remuneration a little more. As shareholders are also looking for leaders with entrepreneurial skills rather than salaried employees, remuneration should be consistent with their expectations. In particular, I believe that share-based remuneration should be enhanced in order for the Company to think from the same perspective as shareholders. Regarding performance-linked remuneration, although improving profitability is the most important issue, we are aware of the need to evaluate whether it is sufficient to simply use operating profit as a performance indicator. Aisin has determined materiality and set forth KPIs as stated in its integrated report and has just begun discussing whether it should select and introduce some appropriate performance indicators linked to incentives in that regard. As for the Nomination and Compensation Committee, it is about to start deliberations on remuneration as the next step now that specifics of personnel affairs have been finalized.

(Director Hoshino)

I absolutely agree with your point that we need to give more thought to the performance-linked portion of remuneration. I think that we are about to enter a phase in which we will consider and flesh out such matters.