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## Engine certification issues and the "Three Reforms"

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## Summary of the engine certification issues in Japan

# Summary of the engine certification issues in Japan

### Investigation results and findings

Hino identified misconduct in past emissions durability tests and fuel consumption measurement with regard to certification applications for vehicle and industrial diesel engines for the Japanese market. A special investigation committee comprising external experts with no vested interest in Hino has conducted a thorough full investigation and root cause analysis of the incident, and reported the results to the Ministry of Land, Infrastructure, Transport and Tourism (MLIT), and the Ministry of Economy, Trade and Industry (METI).

### Vehicle diesel engines (on-road engines)

Hino has confirmed misconduct with regard to on-road engines, primarily with regard to fuel consumption and in conducting durability tests for emissions performance.

Emissions regulations for the applicable engines are defined in the Road Transport Vehicle Act and other associated laws and regulations. In durability tests, gas emissions must be measured at multiple points (measurement points) defined by these regulations, and an application for certification then filed for the deterioration factors, which are calculated based on extrapolation. However, we discovered that Hino engaged in acts such as failing to conduct durability tests, measuring emissions at different points to those stipulated, were altering test results, and replacing the second muffler\*1 which is part of the after-treatment system.

In FY2006, an incentive system was introduced that provides for a reduction in tax on vehicle acquisition for heavy-duty vehicles with a total weight in excess of 3.5 tons that meet FY2015 targets (FY2015 fuel efficiency standards for heavy-duty

vehicles) for fuel efficiency. Fuel efficiency is measured by measuring the engine fuel efficiency on a bench\*2 and performing calculations using a fuel economy calculation program stipulated by MLIT. However, Hino engaged in misconduct such as manipulating the engine bench fuel flow calibration values to improve fuel economy and submitted the resulting specification values.

\*1 A device that reacts NOx emitted from the engine with fuel (HC), purifying it to nitrogen and water

\*2 A dedicated device for evaluating the performance of the engine alone

### E13C and A09C, heavy-duty engines

It was discovered that in emissions durability tests, Hino altered testing data for the E13C to calculate deterioration factor, and in the A09C, altered data to make it appear that it was measured at the correct points, despite not being measured at the points stipulated by law.

Additionally, we found that when measuring engine fuel efficiency on the bench, fuel flow calibration values were set to favor fuel economy, and tests were conducted in a manner that would show better fuel economy on the fuel consumption meter than is actually achieved.

### A05C (Urea SCR), A05C (HC-SCR), and J05E, medium-duty engines

It was found that in emissions durability tests, measurement data from development was used for the A05C (Urea SCR) and the A05C (HC-SCR), without measuring emission gas at the legally stipulated points. Additionally, for the A05C (HC-SCR), parts that should not be replaced during testing were replaced, and testing continued. Moreover, for the J05E, it was found that test data was altered when calculating deterioration factors.

### N04C (Urea SCR) and N04C (HC-SCR), light-duty engines

For the N04C (Urea SCR), it was found that parts that should not be replaced during emissions durability tests were replaced, and testing continued, and that when measuring engine fuel economy on a bench, measurements were taken before stabilization occurred as required by law, and that the most convenient data was arbitrarily selected.

Moreover, for the N04C (HC-SCR), it was found that the measurements were not taken the number of times stipulated by law in emissions durability tests, with deterioration factors calculated based on a single measurement.

### Industrial diesel engines (off-road engines)

Hino has confirmed misconduct with regard to off-road engines, primarily with regard to durability tests for emissions.

Emissions regulations for the relevant engines are defined in laws such as the Act on Regulations for Emissions from Non-Road Vehicles (the Off-road Law). However, in emissions durability tests, emission gases were measured at each point multiple times and values selected arbitrarily, emission gases were measured at different measurement points to those stipulated, and measurement results were altered.

### E13C-YS, E13C-YM, P11C-VN, J08E-VV/WV, J08E-YD, J05E-UM/UN, J05E-VB/VA, offroad engines

Misconduct was discovered in emission durability tests, such as emission gas measurement points and results being altered, tests being continued even though parts were replaced during testing, and emission gas being measured even though the requisite number of continuous operations defined in law for regeneration tests were not met.

### False reporting to the 2016 MLIT investigation

In April 2016, MLIT asked automobile manufacturers to investigate and report any inappropriate conduct regarding methods for conducting emissions and fuel economy testing for engine certification. In response, we reported that we found there was no inappropriate conduct regarding the E8 regulations that were applicable at the time. When making this report, however, it was not possible to confirm whether certification test data complied with E8 regulations, or whether there were discrepancies between the data and the values in the certification applications; therefore, the persons in charge of development who were collecting relevant materials created test data that matched the values in certification applications or altered the data to make it appear as if the certification tests had been implemented appropriately at the time.

### Summary of issues and analysis of investigation results by the Special Investigation Committee

The following is a summary of the report from the Special Investigation Committee (released on August 2, 2022), which was initiated on March 11, 2022.

### Summary

Looking at vehicle manufacturing at Hino, the Committee feels that although the Company was sufficiently aware of the significance of the conventional negative aspects of such activities, such as risks to physical safety and human life, and is instituting the requisite countermeasures, it did not take sufficient action to address the newly identified negative aspect of manufacturing: environmental impact.

The certification system relied on the good faith of vehicle manufacturers, and this issue has the potential to shake it to its core. Hino should first of all be aware of the severity of what it has done.

### Analysis of the root causes

The Special Investigation Committee summarized the root causes of the misconduct affecting engine certifications for engines certified for sale in the Japan market in three ways:

- (a) Inaccuracy of the slogan "everyone manufactures vehicles together"
  - Sectionalism and immobilization of human resources
  - Insufficient constructive discussion based on professional skepticism and critical thinking
  - There was a disconnect between work sites and management awareness with regard to capacity and resources
  - Weak systems for promoting awareness of trends in laws and rules, and for communicating their content and effects within the Company
  - Insufficient understanding of the roles of the Quality Assurance Division and the Quality Control Division
- (b) Being left behind by the changes in the world
  - Excessively strong top-down atmosphere and a culture of power-based workplace harassment
  - A culture that overemphasizes past successes and is ill-suited to "retreat strategies"
  - Insufficient functions to check Hino development processes
- (c) Neglect of work management mechanisms
  - Lack of clarity on whether development processes can be transferred
  - Development and certification operations undertaken by the same department
  - Insufficient preparation of rules and manuals
  - Inappropriate division of authority between executive class and worksites

In response to the above, the Special Investigation Committee provided Hino with suggestions, such as thoroughly discussing the goal for the state of vehicle manufacturing, clarifying roles of the Quality Assurance Division and strengthening its functions, monitoring trends in relevant laws, regulations and rules, and sharing them internally, and developing a proper quality management system, checking the effectiveness at all times and making improvements as necessary.

### Background of engine certification issues in Japan

March 4, 2022	Report to MLIT on our misconduct concerning engine certification for engines certified for sale in the Japan market
From March 11, 2022	Start of the investigation by the Special Investigation Committee
March 25, 2022	Submission of statement to MLIT, and report on additional misconduct
March 29, 2022	Revocation of type approval by MLIT
August 2, 2022	Release of the investigation report by the Special Investigation Committee and report on our technical review status
From August 3, 2022	On-site inspection by MLIT Discovery of additional acts of misconduct concerning the emissions durability tests for engines certified for sale in the Japan market in this inspection
August 22, 2022	Report to MLIT on additional findings concerning engine certification for engines certified for sale in the Japan market
September 9, 2022	Receipt of the "Correction Order regarding Type-approval Violation" from MLIT
September 22, 2022	Additional revocation of type approval by MLIT
October 7, 2022	Submission of the recurrence prevention report to MLIT in response to a correction order received from MLIT (1) Clarification of management responsibilities (2) Submission of the recurrence prevention report in response to a correction order received from MLIT and (3) Establishment of the "Three Reforms" to prevent future misconduct

The "Three Reforms"

# Promoting the "Three Reforms" to prevent future misconduct

## Overview

Due to our inability to fully understand or appreciate the front-line situation and prioritization of quantitative expansion in terms of revenues and unit volume, we neglected legal compliance and the fostering of sound corporate culture and lost sight of our goal, vehicle manufacturing, which led to deficiencies in our type approval applications and certification processes. To minimize the risk of similar occurrences in the future and to quickly detect and address issues should they occur, we will promote the reforms for revitalization.

In order to return to our Corporate Mission, we will give top priority to legal compliance and reform ourselves into a company that fulfills our social responsibilities, management will take the initiative and promote reform throughout the entire company.

The first of our "Three Reforms" is "management reforms to emphasize 'respect for all Hino staff' and 'promote working in the right way.'" The management will demonstrate respect for front-line workers on the basis of the notion of contributing to customers and society by giving top priority to legal compliance. Through a structure in which individuals and groups share their objectives across functions and therefore "think and run together," we will revise our approach to management to bring it into closer alignment with both employees and customers.

The second of our "Three Reforms" is "organizational culture reform with 'respect for all Hino staff' as a core value." Under

this reform, all our personnel, including management, will promote reforms to organizational culture with the awareness that Hino's contribution to customers and society is a core part of Hino's mission.

The third of our "Three Reforms" is "structural reforms for a new Hino vehicle manufacturing." In response to the results of the root cause investigation and recommendations by the Special Investigation Committee, and in addition to the recurrence prevention measures we are implementing, we will promote a more fundamental reform in the framework and structure of our development processes in order to achieve a state where everyone truly manufactures vehicles together. To regain the confidence of our customers and society in Hino's product quality, we will promote reforms toward new Hino vehicle manufacturing, in which we address the root causes of past issues, by focusing on creating a framework which we can rely on to secure reasonableness and traceability in the manufacturing process.

With our management's resolve and actions for reform, we will put in place a system to steadily and vigorously promote these reforms throughout the Company, in conjunction with the establishment of a new management system. In particular, with regard to issues and measures related to organization and corporate culture, we plan to promote company-wide and cross-sectional reforms with young employees in each internal organization also becoming proactive leaders.

Returning to our Corporate Mission and reforming as a company that fulfills our social responsibilities

Management will take the initiative and promote reform throughout the entire company



## Activities to promote our foundational corporate philosophy, the HINO Way

We engaged in misconduct in the process of making trucks and buses, vehicles which help people and goods get where they need to go, and as a result, left a great impact on society. In order to return to our basic philosophy, i.e., "We make a better world and future by helping people and goods get where they need to go" as a guiding principle and to fulfill our social responsibilities, we will work to instill our

corporate philosophy, the HINO Way, and to promote the values that each employee should embrace and embody. Employees have to (i) sincerely contribute to servicing our customers, society and colleagues and promote working in the right way, (ii) respect each other, attentively listen to each other's issues and problems and give support to each other, and (iii) be keenly aware that each and every employee's work is closely linked to society, basing all of their decisions and actions on the HINO Way.

**P. 11 How the HINO Way was formulated**

## List of Recurrence Prevention Measures

Returning to Hino's basic philosophy as a guiding principle - starting from contributing to customers and the society

<b>1</b> Management reforms to emphasize "respect for all Hino staff" and "promote working in the right way"	<b>(1) Reform of members and mindsets of management</b>	
	<b>(2) Creating an organizational structure that embodies mutual assistance and cooperation for contribution to customers and society</b>	
	<b>(3) Governance to support sound management practices</b>	1) Strengthening of internal control systems 2) Strengthening of management's supervisory function
	<b>(4) Raising compliance awareness that does not tolerate or forget the misconduct</b>	1) Initiatives to raise compliance awareness that does not tolerate or forget the misconduct 2) Promotion of initiatives to strengthen compliance
<b>2</b> Organizational culture reform with "respect for all Hino staff" as a core value	<b>(1) A culture where every employee contributes to servicing customers and cooperates together</b>	1) Mindset of valuing the "customers' views" 2) Invigorating vertical, horizontal, and diagonal dialogues and connections among employees 3) Foster psychological safety in the workplace
	<b>(2) Human resource development that encourages independence and skills</b>	1) Expanding measures and personnel systems that support human resource development 2) Investment in human resource development 3) Improving productivity and eliminating inefficiencies
<b>3</b> Structural reforms for a new "Hino vehicle manufacturing"	<b>(1) Restructuring and redefinition of vehicle manufacturing processes</b>	1) Establishment of the system where "everyone manufactures vehicles together" 2) Restructuring of the vehicle manufacturing processes 3) Introduction of "quality management system" with verification by an external entity 4) Establishing and reinforcing checking structure (checking systems) related to the certification function 5) Establishing a function to audit the regulatory certification by an external department 6) Establishing audit programs of the Internal Audit Department 7) Establishing rules related to the preservation of certification test records 8) Establishing a system to preserve test records 9) Revision of the details of assessment for manufactured prototype vehicles and production vehicles by quality assurance functions 10) Planning projects from the perspective of return on investment (ROI) 11) Adjustment of development target values, etc. 12) Increasing the number of personnel in charge of certification work
	<b>(2) Proper implementation of correct procedures</b>	1) Establishing rules related to implementation of certification tests 2) Establishing rules related to the certification application procedures 3) Improving the certification transition management process 4) Establish systems to collect and precisely interpret information about laws and regulations 5) Improving management of changing control software 6) Providing compliance training for development and certification 7) Training of engineers in line with "Hino vehicle manufacturing" 8) Organizational restructuring within the development divisions 9) Establish a system to secure appropriate human resources 10) Installing additional benches for engine certification tests 11) Clarifying budget approval procedures for capital investment

## The "Three Reforms"



# Management reforms to emphasize "respect for all Hino staff" and "promote working in the right way"

We take it extremely seriously as an issue at the management level that we did not prevent or discover the misconduct which occurred over a long period of time. We will review our management style, reform management awareness, and strengthen governance to achieve more effective management.

### Implementation of management to build relationships with front-line workers

We acknowledge and regret the fact that management at Hino neglected the need to build a healthy corporate culture and maintain legal compliance and did not pay attention to the workplace. Management is now working to pay more heed to what goes on in the workplace, engaging in dialogue, and pursuing management with an awareness of the front lines.

#### Main initiatives

- Dialogue Meetings held by the President & CEO and the management at respective business sites
- Collation of employee opinions and company-wide disclosure
- In-house radio distribution (whereby management responds to employee questions)
- Disseminating information and interactive communication through in-house chat

### Dialogue Meetings held by management at respective business sites

Management has visited business sites since March 4, 2022, and held discussions directly with employees focusing on the problems and issues faced by the front-line workers and in those respective workplaces. In FY2022, meetings were held across four business sites for a total of 12 times, with plans to hold similar meetings in the future. We will continue to visit various workplaces and to hold discussions with employees. In November 2022, we launched "management information sharing meeting," in which the President & CEO and executives in charge could share management information and hold Q&A sessions at each business site, thereby expanding opportunities for dialogues between management and employees.

### Disseminating information utilizing an in-house chat

In April 2022, we began utilizing an in-house chat widely accessible by employees for the purpose of strengthening communications among them. Primarily, the in-house chat is a channel to disseminate the Company's policies, messages from management, reports on visits to respective business sites and other companies, and reports on participation in regional events. The number of posts, replies, and reactions have continued to increase since its establishment, and awareness within the Company has also increased. Additionally, we have

embarked on initiatives to share documentation from the Management Committee in order to allow employees to understand the thinking and direction of management and act proactively in the service of society and our customers.

Going forward we will work to improve psychological safety throughout the Company, lower barriers to contributing and replying, and create a space in which anyone can share information with ease.

### In-house radio where each member of management serves as a personality

At the suggestion of interested employees, we have developed an in-house radio program with the theme "concerns in the Company," in which each member of management serves as a personality. The CTO (Chief Technology Officer) serves as the main personality, and as guests, the CxOs and general employees appear. In the broadcast, the CTO responds to inquiries and opinions received from employees, such as observations on the misconduct, a progress of transformation or the Company's course of action. Further, we try to make it easy to listen to the radio by incorporating the CTO's personal topics.

The average number of plays exceeded 2,000, and opinions of employees were positive, including comments that it was easy to listen to while working because it was a radio, and that it could be played during lunch breaks at a manufacturing site. We will continue this activity in the future.



### Establishing a new organization to deal with customers

In order to overcome aspects of our organizational culture, such as an excessive top-down approach, growing sectionalism, and an inability to promote issues with a sense of urgency, we have restructured the organization so that it can (a) contribute

### A new form of communication created across departmental boundaries

Agnes Mineno

Public Affairs Department

I am in charge of planning and operations. As I wanted to share the thoughts of management with employees in a softer tone, I was thinking about starting an in-house radio. This was just when a senior coworker of another department approached me, and the radio program was promptly implemented only after a month from the initial concept.

At the start, we planned to conduct a three-month trial, but because it was well-received, it is still broadcasted intermittently. I am happy to receive feedback directly from people who listened to the broadcast.

I hope that this initiative will lead to broadening the range of communication, or will act as an extra push for those who want to take on new challenges.

to the development of human resources, (b) provide a place where everyone can face customers and society proudly as Hino and not feel ashamed, feel a desire to contribute, and do their best to manufacture vehicles, and (c) reduce unnecessary work, facilitate quick decision-making, and allow for independent thought and judgement.

### Constructing organizational systems to allow us to think and run together

We have constructed a matrix organizational structure with business and functional axes, where each function is intertwined across business units, and a Product Owner plays a central role in dealing with customers from upstream to downstream stages of vehicle manufacturing.

P. 42 Restructuring the vehicle manufacturing processes

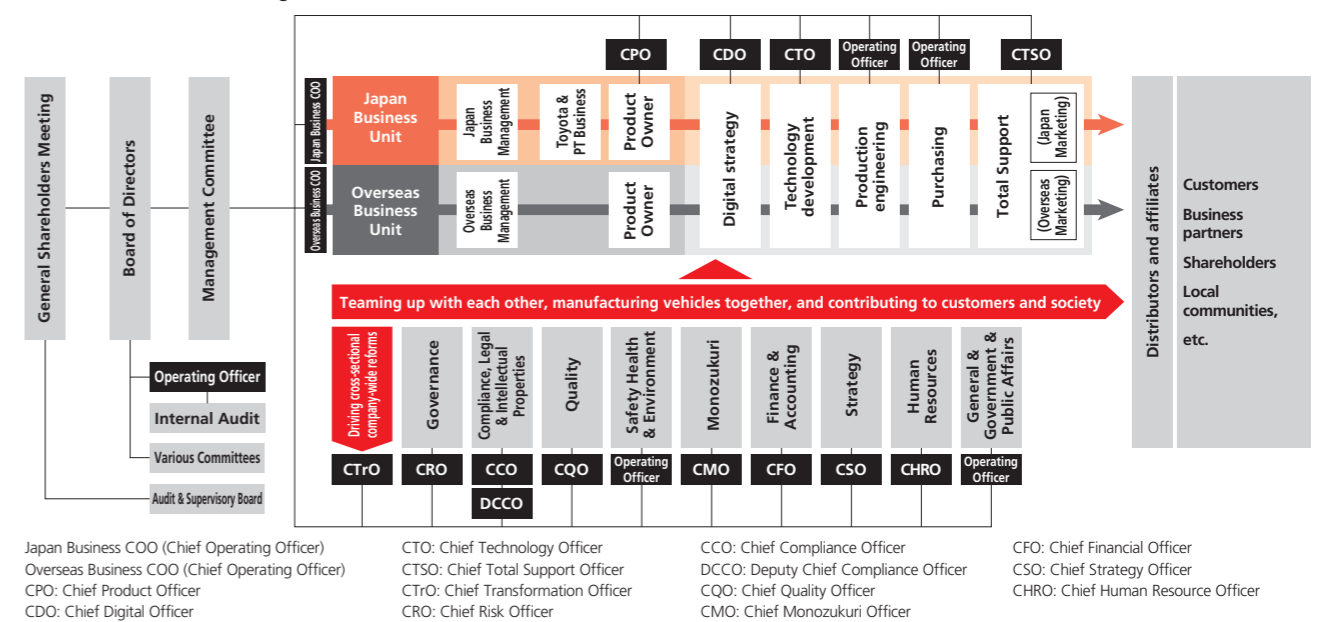
At the same time, we have reduced the organizational hierarchy by eliminating the Unit and business-area-based system and consolidating divisions and have clarified responsibilities by establishing CxOs (persons in charge of functions and roles, or Chief Officers), or function officers. In addition, we are consolidating and eliminating meetings of the board of directors, centralizing decision-making functions, and improving the speed and quality of management by discouraging asymmetric sharing of information to members of management. Through these efforts, we will strive to be an organization that, with the common objective of creating good products that can positively contribute to our customers and society, is able to eliminate waste in business resources and promote quick and autonomous thinking and judgments, based on the common objective of creating good products that can contribute to customers and society. We will also reinforce internal management by re-establishing Deputy General Manager positions to oversee divisions within functions and fostering a corporate culture beneficial for the development of each and every employee.

The entire Company will work together toward the common objective, and, by establishing an organizational structure that is involved in all processes across planning, development, sales, and production, we will promote the development of a human resources team who will lead the next generation of Hino while fostering a broad perspective, a collaborative and cooperative way of thinking, a sense of responsibility, and excellent analytical and communicative skills.

### Establishment of CTRo and dedicated organizations

To thoroughly support the company-wide improvements, including the "Three Reforms," we have established a CTRo (Chief Transformation Officer) and dedicated organizations. While promoting and managing the whole reform program and coordinating issues that cut across businesses and functions, we will advance the reform measures together with the division in charge.

### Outline chart of the new organizational structure (as at the end of June 2023)



## The "Three Reforms"

### Promoting sound management

In view of our longstanding inability to find and prevent misconduct, we are endeavoring to strengthen governance to ensure that work is performed in the right way at a company-wide level.

We have introduced an evaluation of the effectiveness of the Board of Directors' activities by external organizations. With respect to internal control, we have, based on advice from external organizations, restructured our checking systems (three-line systems) and reforming management operations and operational processes by strengthening the internal audit function throughout the internal control system.

### Increasing the number of directors and strengthening supervisory function

In order to steadily promote a "compliance first" stance, we have increased the number of directors by two: Mr. Sato (Director) and Ms. Kimijima (Outside Director) bringing the total to seven directors.

After joining our Company in 1989, Mr. Sato worked in quality assurance, served as CE (Chief Engineer) for medium-duty trucks, and after heading up the Medium- to Long-Term Product Strategy Department, has been the COO (Chief Operating Officer) of the Japan Business since February 2023. He is building on the experience and leadership skills he has acquired thus far to recover trust in Hino and to drive medium- to long-term growth.

After working as an attorney at law, Ms. Kimijima consecutively held key positions in the legal departments at GE Japan Inc. and LIXIL Corporation, and, in addition to her advanced expertise, has extensive experience and broad insight as corporate management personnel. She is tasked with providing strong independent advice on our overall management, particularly in the areas of corporate governance and compliance, and taking on management monitoring and supervisory functions.

**P. 78 Role and approach of senior management**

**P. 85 A dialogue among newly appointed directors**

### Evaluation of the effectiveness of the Board of Directors' activities by external organizations Interviews with directors and with audit and supervisory board members

In March 2023, for the purpose of bringing the achievements and issues with the Board of Directors' activities of our Company to light and examining specific measures to address past issues, an external organization conducted an evaluation of the effectiveness of the Board of Directors' activities.

**P. 82 Evaluation of the effectiveness of the Board of Directors**

### Revising the Basic Policy for Internal Control Systems

We revised our Basic Policy for Internal Control Systems due to the fact that our internal control systems failed to function sufficiently for many years, resulting in a longstanding inability to find and prevent misconduct. In order to incorporate the HINO Way and revisions to our risk management systems and to implement "working in the right way" based on the HINO Way, we hope to enhance systems to ensure that business is conducted in an appropriate manner. In the context of the engine certification issues, we have also established a CRO (Chief Risk Officer) position and have begun building a system to examine company-wide risk management activities that emphasizes both business and operational risks.

### Initiatives to raise compliance awareness that does not tolerate or forget the misconduct

To ensure that Hino does not engage in misconduct again, we are moving forward with initiatives such as displays at permanent facilities and creating opportunities for dialogue to facilitate correct understanding of the engine certification issues. We are also promoting initiatives aimed at improved awareness of compliance and will work to instill a compliance-first attitude throughout the Company.

### Establishment of the Right Way to Work Learning Center

As part of our efforts to promote reforms to revitalize the Company, in March 2023, we established the Right Way to Work Learning Center as a venue for us to reflect upon the nature of working in the right way, and to learn about the causes and effects of the misconduct in order to ensure that we do not repeat it.

Here we offer explanations using displays of actual products as well as panels and videos to allow all employees to correctly understand the issues of engine certification and have also established a space to allow teams and colleagues to exchange opinions and share their thoughts on organizational culture reform.

#### Exhibition overview

- Background of response to the engine certification issues
- Regarding three acts of the misconduct
- Impact on stakeholders
- Main causes
- What to do now



### "Culture change plans" to foster compliance awareness

We are promoting a "Culture Change Plan" to foster awareness of compliance. We are continuing our efforts to raise the level of such plans every year. We opened the Compliance Portal on the Company's intranet under the slogan of the "working in the right way" and have conducted awareness-spreading activities, such as disseminating information on the intranet and putting up posters in our offices.

**P. 48 Compliance awareness activities for employees**



### Dialogue sessions featuring discussion leaders

To prevent knowledge of the misconduct issues from fading, the CTO (Chief Technology Officer) has acted as a discussion leader for a total of 92 dialogue sessions with employees that were attended by approximately 1,700 people, addressing the question of why the misconduct occurred and the actions should take in future (as of November 30, 2023).

Following to these meetings, we received comments such as "I was able to understand the facts of the misconduct in depth" and "It gave me an opportunity to think about the quality assurance style." Going forward, we will continue to hold these meetings to establish a comprehensive dialogue with a small number of people to diversify our themes and to deepen mutual understanding.

### Strengthening systems that allow employees to "speak up" without anxiety

To strengthen systems, we have inaugurated a 24-hour 365-day-a-year service offering telephone advisory services even during times when the Hino Compliance Consulting Desk was unable to offer a response. This has made our internal reporting systems easier to use, and the number of reports received is on the rise.

We will continue to strengthen our investigation functions and promote the horizontal development of recurrence prevention measures for whistleblowing cases, with the aim of creating a highly effective internal reporting system that makes it easier for people to speak up.

**P. 48 Internal reporting**

## Message

**We are working to improve company-wide risk management through process creation and human resource development.**

**Noboru Yamate, Senior Managing Officer and Chief Risk Officer (CRO)**

The business activities of the Hino Group involve a variety of risks such as those related to products, production and supply, and accidents and disasters. These risks can never be completely eliminated; what is important is to make sure that they are kept within the bounds of expectations rather than being completely unexpected. To make that possible, we are promoting the construction of processes that facilitate effective risk management throughout the Group, and moving forward with initiatives that enhance the sensitivity of each of our employees to risk. We will continue to anticipate and prepare for risks as a matter of course in our daily operations.



## Message

**We will contribute to corporate culture reform, which prevents the knowledge of the misconduct from fading away and prevents future misconduct.**

**Takeshi Yasuda, Director of the Right Way to Work Learning Center**

The two goals of establishing the Right Way to Work Learning Center are (i) to seek recurrence prevention, that is, to prevent the misconduct from happening again and to prevent the knowledge of the engine certification issues from fading away, and (ii) to ensure that all employees properly understand the certification issues and proceed with the corporate culture reform. We believe that corporate culture reform can be realized only when the thinking and actions of each and every person in the organization changes and when they work in the same direction. We will continue to conduct exhibitions that will provide an understanding of "how misconduct can lead to a loss of trust."



## The "Three Reforms"

# Reform 2

## Organizational culture reform with "respect for all Hino staff" as a core value

Hino's management and all Hino employees are aware that contributing to our customers and society is our mission. We aim to break away from our inward-looking, conservative corporate culture built around unilateral communication, and transform the mindset and behavior of each individual in order to create a more desirable corporate culture in which to work. Centered on our corporate philosophy, the HINO Way, we will endeavor to reform our awareness and our systems to allow each one of us to contribute to our customers and other stakeholders while retaining a sense of ownership and a mutual respect for other people.

### A culture where every employee contributes to servicing customers and cooperates together

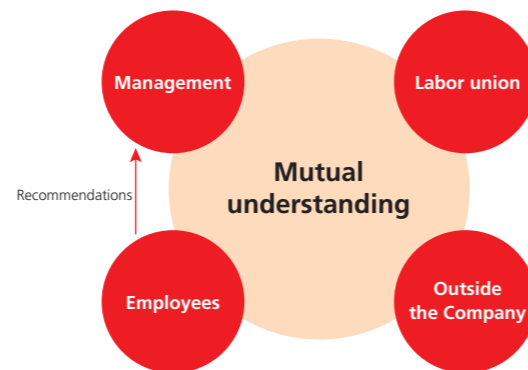
In order to alter the passive, inward-looking orientation of our own organization, we will visit customer sites and promote active exchanges of personnel with distributors and other industries to foster and establish a customer-centric mindset. In addition, to develop a fundamental culture of cooperation that will enhance mutual understanding throughout the Company, we will initiate dialogue and connection between individuals by increasing communication between employees and management, holding conferences among each layer of staff led by internal "Corporate Culture Reformation Team" volunteers, and creating opportunities for conversation between the President & CEO and all employees. Furthermore, we will also continue to promote the initiative to eliminate workplace harassment "No Workplace Bullying Initiative" foster workplaces where employees feel comfortable engaging in open discussion with their colleagues.

### Increasing opportunities for various dialogue

In order to promote vertical, horizontal and diagonal communication and mutual understanding, we held a number of dialogues in various places in the Company to understand actual on-site conditions and obtain firsthand feedback.

Initiatives to promote corporate culture reforms based on "dialogue" began in March 2022 and the content of and participants in these activities will be gradually expanded. Since September 2022, we have been promoting our activities under the "Corporate Culture Reformation Team," which is currently comprised of approximately 20 mid-level employees selected from each Division/site.

The "Corporate Culture Reformation Team" supports the holding of cross-organizational dialogue meetings and dialogue meetings within each division as part of its efforts to create an environment where candid dialogue can take place. In addition, based on employee feedback obtained through various dialogues, we are creating visual representations of



### Reform of our corporate culture to foster and establish a customer-centric mindset

Each employee should be aware that Hino's contribution to customers and society is a core part of Hino's mission.

Desirable corporate culture	
Sense of purpose	Contribution to customers and society
Attitude and mindset	<ul style="list-style-type: none"> <li>• Outward-looking, visiting local sites and being hands on</li> <li>• Voluntary and independent</li> <li>• Interactive and open exchange of ideas</li> <li>• Willingness to take on challenges</li> <li>• Teamwork</li> </ul>

- (1) Culture where every employee contributes to servicing customers and cooperates with each other
- (2) Human resource development that encourages independence and skills

organization-wide problems, publicizing them internally and offering recommendations to management.

Furthermore, opportunities for dialogue are gradually expanding. These include labor-management dialogue meetings, management-off-site meetings, workplace meetings in each department, meetings to exchange opinions on the HINO Way, external networking events, and voluntary dialogue meetings. Promoting mutual understanding leads to enhanced linking between functions, and rapid resolution of worksite issues. Additionally, more employees are now expressing their opinions to management, and signs of change are now apparent, such as the start of a number of voluntary initiatives led primarily by young people.



### Initiative to eliminate workplace harassment

Based on our strong determination to reject all acts of harassment, we strive to be a company where psychological safety is assured and where our employees and all those who have contact with Hino are free from harassment by ensuring that all of our employees act in a manner that respects the personality and human rights of others.

In particular, with regard to power harassment, we are working on "No Workplace Bullying Initiatives" with a strong intention to eliminate such behavior. We are reviewing various personnel measures, including fact-finding investigations based on the speak-up cases brought to the consulting desk.

In addition to addressing employee problems and workplace issues, we will continually evaluate and work to improve the effectiveness of our initiatives.

### Measures implemented for the "No Workplace Bullying Initiatives"

- (1) Company-wide fact-finding investigations on power harassment**
  - (i) Implementation of emergency fact-finding investigations through the Stop Harassment Consulting Desk
  - (ii) Implementation of self-diagnosis for management
- (2) Stricter punishments for those who commit power harassment, and dissemination of anti-harassment policy to employees**
- (3) Review of various personnel policies**
  - (i) Implementation of 360-degree Feed-Back (FB) for assistant managers and above
  - (ii) Preventing harassment and implementing thorough recurrence prevention education
  - (iii) Strengthening operation of the personnel rotation system
  - (iv) Revitalization of open and flat internal communication

### Short-term in-house secondment of members of the development divisions to the sales divisions

In November 2022, members of the development divisions teamed up with sales representatives for two to three months and visited customers, dealers and coachbuilders so that the development divisions can carry out their operations with a more customer-centric view.

The experiences from connecting with the sales divisions and dealers and the opinions directly received from customers through this initiative offer new insights that are utilized in planning and development work for vehicles that better reflect the needs of our customers.

I will apply what I learned from my short-term in-house secondment to product development in the future.

Yasuhiro Sakai

Vehicle Development Division

I participated in a short-term secondment for a period of two months from November 2022. Usually, I focus on designing light-duty trucks; however, I noticed many things when I participated in business negotiations with customers alongside members of the sales division. For example, while durable vehicles are required, we also need to consider the ease of maintenance on commercial vehicles that have a long duration of use. This prompted a realization of what we should keep in mind when we design vehicles in order to fulfill both needs.

In the future, I would like to develop products by not only thinking from Hino's perspective, but also from an even broader perspective.

### Commencement of "Exploring Beyond Our Company"

We are also working to develop human resources through interaction with external parties. We are holding exchange meetings with other manufacturers undergoing organizational reforms, which involves employees visiting each other's sites.

We plan to expand these opportunities so that many of our employees can interact with external parties.



## The "Three Reforms"

### Human resource development that encourages independence and skills

We are promoting initiatives to foster the development of outward-looking, proactive, and interactive human resources with a hands-on approach who value teamwork and are willing to take on a challenge. In relation to the measures and systems that support human resource development within the Company, we will develop opportunities to encourage each employee's ambitions to take on challenges, such as participating in projects on a voluntary basis and job rotations linked to career planning.

#### Job rotation measures linked to career planning

In FY2022, we introduced career planning interviews as an opportunity to discuss the realization of future careers envisioned by each Hino employee.

Each employee prepares their work experience and skills, a career direction that they want to aim for, and the work experience they believe is necessary to realize such a career. The employees learn independently through dialogue with their supervisors and self-development support measures, which will lead to the realization of the careers that they aim for. The Company respects the career orientations and transfer requests indicated during discussions with supervisors, and promotes personnel transfers that are not constrained by the timing of traditional regular rotations.

In addition, we hold career planning seminars, disseminate information encouraging the consideration of career paths on a new portal site, and conduct training to improve supervisors' abilities to interview employees about their career goals.

In the future, we plan to hold new career planning seminars for each milestone in life and to establish a new career consulting desk.

#### Commencement of the "CE-DOJO" project.

We established the Chief Engineer Dojo (CE-DOJO) as a venue to train the next generation of development leaders. Nineteen people participated in the first phase, which spanned across the divisional boundaries. Through active discussion and actual work onsite, participants enhanced each other's skills in the four areas of reading, watching, creating, and gaining empathy, and deepening their mutual trust. They then put what they had learned into practice in their own workplaces. Currently, we have changed the name of the program to "Trail-DOJO" for the second phase of activities, and are continuing the program by recruiting personnel across a wide range of departments, including not only our technical staff but also our administrative staff.



I understood the importance of thinking from the customer's perspective.

**Tomohiko Araki**  
Product Promotion Department

We had discussions on "What is a desirable car?" and through practical programs including the compilation of future forecasts, I had an opportunity to once again understand the importance of vehicle manufacturing from the customer's perspective. In addition, by working with dedicated members, I learned that empathy for colleagues is an essential trait for development leaders.

#### Overseas trainee system, supporting career development of young employees

This is a system in which young employees take on challenges regarding their careers and professional growth. Upon receiving a recommendation from their division, a young employee with more than four years with Hino will be assigned to an overseas entity for a period of one year and will learn from visiting local sites and hands on experience. On their return, we assist them in putting their experiences and learning to use in shaping their careers based on their own aspirations.

I will use what I learned from training at the local site to help build my future career.

**Aika Hirata**  
Overseas Aftersales Service Division

During my one-year training at the Malaysian sales dealers, I learned about the challenges, problems, and needs of the local dealers, which I had not been aware of before, and it made me realize the importance of visiting local sites and being hands on. As a person aiming to be involved in the management of overseas sites, this experience became a valuable opportunity to expand my perspective as a global employee.

#### Improving work productivity

Recognizing the fact that Hino has prioritized business expansion over developing human resources to date, we are now focusing on improving productivity through measures to eliminate waste in our operations, using the extra capacity this creates to actively invest in developing human resources. We have reduced low-value operations by eliminating advance explanations and simplifying documentation for running meetings. We will continue to improve productivity by listening to the voices of our employees.



## Structural reforms for a new "Hino vehicle manufacturing"

In order to prevent misconduct from occurring again, we are promoting proper implementation of correct procedures along with the restructuring of vehicle manufacturing processes as a more fundamental structural reform of Hino vehicle manufacturing, sharing our aspirations and thinking and acting together as we work to create vehicles together.

### Restructuring the vehicle manufacturing processes

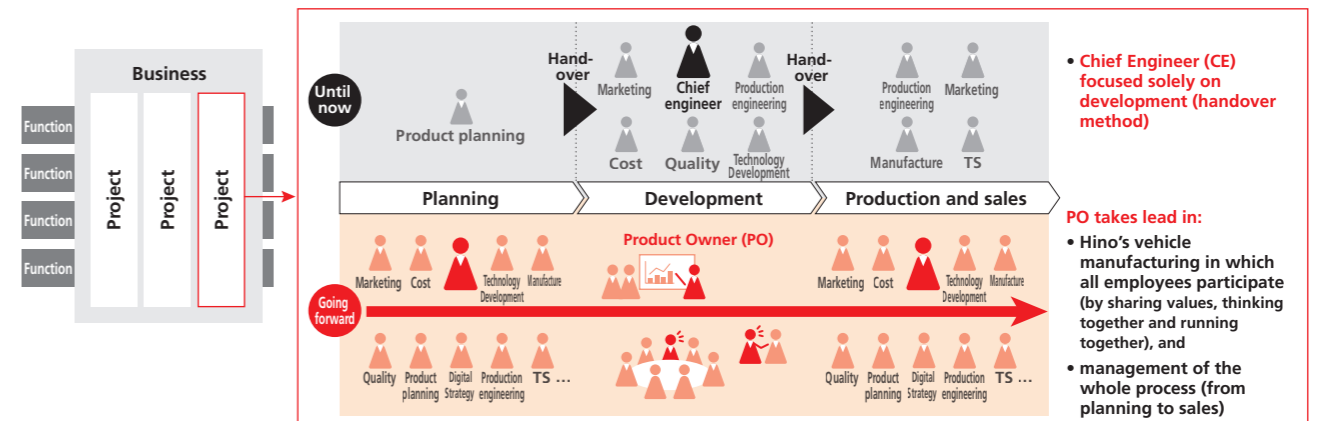
Since our development efforts were previously based on the division of labor and we were not able to make vehicles that were completely optimized, we are constructing systems that allow us to address customers upstream and downstream of vehicle manufacturing and are working across organizational boundaries to resolve problems, in order to establish a system themed around the concept "everyone manufactures vehicles together."

We have clarified the role of the chief engineers at the center of these efforts as being to manage project in their entirety, redefining these personnel as product owners. In

addition to taking a core role in product development itself, they will act as the owners of the various products and services, participating in everything from product planning with an eye to business profitability through to development, production, sales, and total support for customer operations, including appropriate compliance with laws and regulations.

These processes include the enhancement of internal verification functions, such as separating the Regulation & Certification Division from the development divisions and ensuring that only projects that can be properly managed with available resources are planned. We also (i) rebuilt our business processes with respect to development, certification and quality assurance, and (ii) identified key milestones and events in the vehicle manufacturing process and defined them as critical milestones.

#### Establishing the system led by Product Owners where "everyone manufactures vehicles together" (February 2023 onwards)



### Message

We will work to reform our development processes to achieve our vehicle manufacturing goals and improve internal communications.

**Makoto Wakimura** Chief Technology Officer (CTO)

I believe that the CTO has two major roles. The first is to lead the development process reforms to promote working in the right way. The CTO will identify any issues with the existing structures and work processes, and consider and propose work practices to ensure rationality and transparency. The second is to promote communication throughout the entire company. The CTO will take the initiative in creating a corporate culture that (i) enhances mutual understanding through dialogue with the employees and messaging from the management, and (ii) fosters an environment in which it is easy to express opinions. We will continue to do our utmost to achieve the happiness of our customers, community, and employees.



## The "Three Reforms"

### Proper implementation of correct procedures

In order to manage the correct procedures appropriately for our reconstructed vehicle manufacturing, we are moving ahead with the introduction of effectiveness checks performed by external entities.

In addition, as a basic premise for manufacturing vehicles, we will establish a system to understand applicable laws and regulations in a timely manner and correctly interpret and reflect them in our development process. We will also implement processes for the development and management of relevant software by collaborating among the persons in charge at respective divisions of Hino.

### Introduction of a quality management system that includes checks by external entities

We are in the process of introducing a quality management system (QMS) to monitor and review the appropriateness of our vehicle manufacturing business processes.

Since we believe that external reviews are crucial for the QMS, we are working to acquire ISO9001 certification, which requires external audits. We selected an ISO9001 certification body and established an internal system to work toward acquiring this certification. We are preparing rules with the aim of having them examined by the certification body in 2024.

#### [Mechanisms] Restructuring of the QMS, including external audit

In order to achieve the following, we will implement thorough restructuring with respect to business processes and evidence management, as well as introduce the QMS (via ISO9001 certification, as noted above), with its related external audits. These steps will enable us to manage the development target, shipment management and specification values, while sharing the knowledge necessary to ensure product quality with each department.

- Establishment of a series of business process management mechanisms related to planning → designing → testing → certification.
- Improvement of the certainty of each business process for development, regulatory certification and quality assurance.

#### [Operation] Establishment of a governance system to ensure the effectiveness of the QMS

In order to realize the following, we will (i) strengthen the system for gathering regulatory trends and related information, (ii) rebuild the system for sharing such information internally, and (iii) strengthen the auditing function with respect to the operational status of development processes.

- Strengthen the involvement of the quality assurance divisions from the perspective of ensuring not only shipping quality, but also product quality in development/design specifications.
- Strengthen the mechanisms for confirming that development infrastructures are being properly prepared, maintained and managed, such as timely updates of rules, and facility management in accordance with regulatory requirements.

### Acquiring, understanding, and sharing legal information

With regard to the weakness of our systems to grasp trends in laws, regulations, and rules and disseminate their content and effect within the Company, we are working to ensure that regulatory trends and regulatory information are widely shared and deployed internally, in a timely manner and with each division. We hold regular meetings to share such information with employees involved in industrial and technical public relations activities.

#### Organization of the JAMA Engineering Team to share regulatory information internally

We have established our own "JAMA Engineering Team." This team consists of members who participate in the technology related activities of the committees and subcommittees of Japan Automobile Manufacturers Association (JAMA) and who understand the latest regulatory trends, as well as members from various divisions, such as the Regulation & Certification, Quality Assurance, Government & Public Affairs and Technology Development.

We will consolidate information obtained through technology-related activities within the JAMA and establish a system for gathering and internally sharing regulatory information. As a first step, we have organized the Regulation Supervisor\*, which consists of personnel who are well versed in (i) technological capabilities related to development and (ii) regulatory trends and regulatory information, and who were given the role of connecting development (products) with regulations (requirements).

The JAMA Engineering Team will interpret regulations in a timely and accurate manner and incorporate them into product strategies and development processes. We are forming teams (consisting of members from the JAMA Engineering Team, the Regulation Supervisor, and related departments) to promote the study of each regulation.

\* Regulation Supervisor: This group consists of personnel who will investigate the impact of each regulation, consider response policies and internally share such information.

#### Commencement of educational programs by external specialized institutions

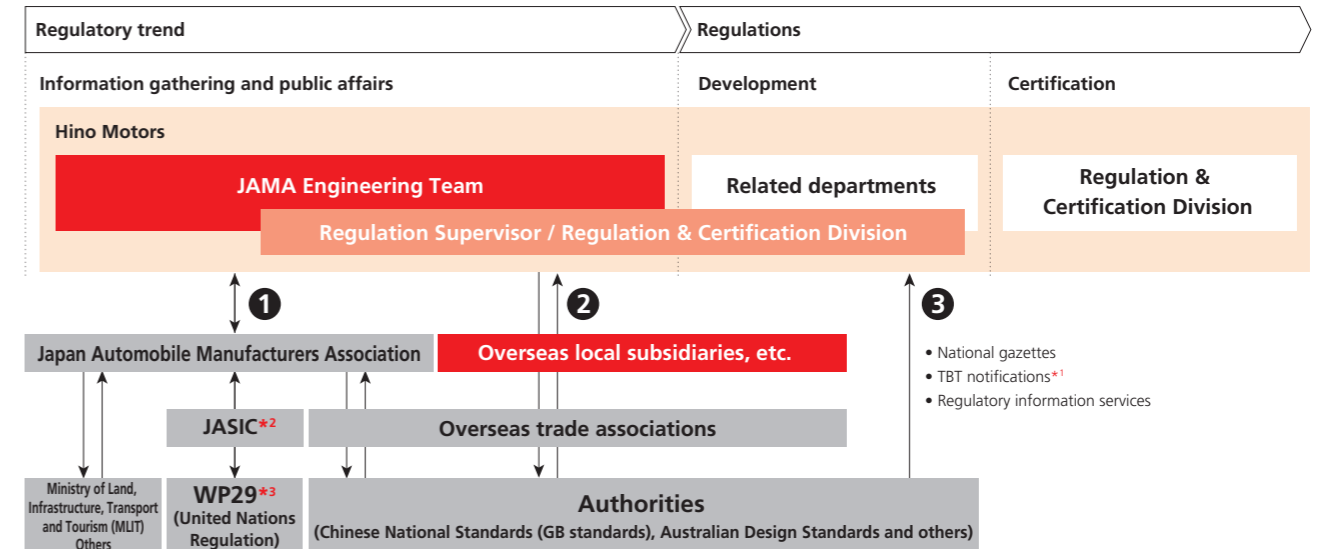
In order to promote understanding of regulations, we have invited outside instructors to conduct training on the legal theories underlying relevant vehicle regulations, as well as the content of actual testing methods and completion inspections.

For the domestic training related to regulations, a total of 13 programs, which were designed for all departments involved in businesses related to regulations, were completed and a total of 4,000 employees attended the programs. In addition, for regulations in North America, we also completed a total of 16 programs and approximately 2,500 employees attended the programs.

After the training, with respect to both the domestic and North American training programs, we worked to promote and instill regulatory information by releasing training videos to the entire company and conducting on-line testing to measure and remind employees of the benefits of learning.

### Three channels for obtaining regulatory information

- (i) Obtain regulatory information from JAMA
- (ii) Obtain regulatory information via the Company or Toyota's overseas affiliates (dispatch of staff, etc.)
- (iii) Obtain regulatory information directly from the national gazettes of each country, TBT notifications\*1 or private regulatory information services.



\*1: TBT notifications:

TBT notifications are notifications to WTO member states to prevent the creation of unnecessary barriers to international trade when there is a risk of a significant impact on the trade of member states caused by mandatory standards or conformity assessment procedures with respect to all products proposed by another country.

\*2: JASIC: Japan Automobile Standards Internationalization Center

JASIC was established in 1987 through the cooperation of public- and private sectors with the aim of supporting the government's internationalization promotion activities, such as standards and certification systems for vehicles. JASIC consists of members from the MLIT, the Ministry of the Environment, the Examination Department, JAMA and other trade associations.

\*3: WP29: World Forum for Harmonization of Vehicle Regulations