

TOYOTA MOTOR CORP/  
Form 20-F  
June 24, 2016  
Table of Contents

As filed with the Securities and Exchange Commission on June 24, 2016

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

(Mark One)

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended: March 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Commission file number: 001-14948

# TOYOTA JIDOSHA KABUSHIKI KAISHA

(Exact Name of Registrant as Specified in its Charter)

## TOYOTA MOTOR CORPORATION

(Translation of Registrant's Name into English)

Japan

(Jurisdiction of Incorporation or Organization)

1 Toyota-cho, Toyota City

Aichi Prefecture 471-8571

Japan

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(Address of Principal Executive Offices)

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Address: 1 Toyota-cho, Toyota City, Aichi Prefecture 471-8571, Japan

(Name, telephone, e-mail and/or facsimile number and address of registrant's contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class:  
American Depositary Shares\*  
Common Stock\*\*

Name of Each Exchange on Which Registered:  
The New York Stock Exchange

\* American Depositary Receipts evidence American Depositary Shares, each American Depositary Share representing two shares of the registrant's Common Stock.

\*\* No par value. Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the U.S. Securities and Exchange Commission.

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### Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

### Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **3,037,675,870 shares of common stock (including 66,933,269 shares of common stock in the form of American Depositary Shares) and 47,100,000 First Series Model AA class shares as of March 31, 2016**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes  No

**Table of Contents****TABLE OF CONTENTS**

ITEM 1.	<u>IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u>	1
ITEM 2.	<u>OFFER STATISTICS AND EXPECTED TIMETABLE</u>	1
ITEM 3.	<u>KEY INFORMATION</u>	1
3.A	<u>SELECTED FINANCIAL DATA</u>	1
3.B	<u>CAPITALIZATION AND INDEBTEDNESS</u>	4
3.C	<u>REASONS FOR THE OFFER AND USE OF PROCEEDS</u>	5
3.D	<u>RISK FACTORS</u>	5
ITEM 4.	<u>INFORMATION ON THE COMPANY</u>	8
4.A	<u>HISTORY AND DEVELOPMENT OF THE COMPANY</u>	8
4.B	<u>BUSINESS OVERVIEW</u>	9
4.C	<u>ORGANIZATIONAL STRUCTURE</u>	52
4.D	<u>PROPERTY, PLANTS AND EQUIPMENT</u>	53
ITEM 4A.	<u>UNRESOLVED STAFF COMMENTS</u>	54
ITEM 5.	<u>OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u>	54
5.A	<u>OPERATING RESULTS</u>	54
5.B	<u>LIQUIDITY AND CAPITAL RESOURCES</u>	87
5.C	<u>RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES</u>	90
5.D	<u>TREND INFORMATION</u>	92
5.E	<u>OFF-BALANCE SHEET ARRANGEMENTS</u>	92
5.F	<u>TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS</u>	93
5.G	<u>SAFE HARBOR</u>	94
ITEM 6.	<u>DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u>	94
6.A	<u>DIRECTORS AND SENIOR MANAGEMENT</u>	94
6.B	<u>COMPENSATION</u>	102
6.C	<u>BOARD PRACTICES</u>	103
6.D	<u>EMPLOYEES</u>	104
6.E	<u>SHARE OWNERSHIP</u>	105
ITEM 7.	<u>MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS</u>	106
7.A	<u>MAJOR SHAREHOLDERS</u>	106
7.B	<u>RELATED PARTY TRANSACTIONS</u>	107
7.C	<u>INTERESTS OF EXPERTS AND COUNSEL</u>	107
ITEM 8.	<u>FINANCIAL INFORMATION</u>	107
8.A	<u>CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION</u>	107
8.B	<u>SIGNIFICANT CHANGES</u>	108
ITEM 9.	<u>THE OFFER AND LISTING</u>	108
9.A	<u>LISTING DETAILS</u>	108
9.B	<u>PLAN OF DISTRIBUTION</u>	108
9.C	<u>MARKETS</u>	109
9.D	<u>SELLING SHAREHOLDERS</u>	109
9.E	<u>DILUTION</u>	109
9.F	<u>EXPENSES OF THE ISSUE</u>	109
ITEM 10.	<u>ADDITIONAL INFORMATION</u>	109
10.A	<u>SHARE CAPITAL</u>	109
10.B	<u>MEMORANDUM AND ARTICLES OF ASSOCIATION</u>	109
10.C	<u>MATERIAL CONTRACTS</u>	117
10.D	<u>EXCHANGE CONTROLS</u>	117

**Table of Contents**

10.E	<u>TAXATION</u>	118
10.F	<u>DIVIDENDS AND PAYING AGENTS</u>	124
10.G	<u>STATEMENT BY EXPERTS</u>	124
10.H	<u>DOCUMENTS ON DISPLAY</u>	124
10.I	<u>SUBSIDIARY INFORMATION</u>	124
ITEM 11.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	124
ITEM 12.	<u>DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u>	126
12.A	<u>DEBT SECURITIES</u>	126
12.B	<u>WARRANTS AND RIGHTS</u>	126
12.C	<u>OTHER SECURITIES</u>	126
12.D	<u>AMERICAN DEPOSITARY SHARES</u>	126
ITEM 13.	<u>DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u>	128
ITEM 14.	<u>MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u>	128
ITEM 15.	<u>CONTROLS AND PROCEDURES</u>	128
ITEM 16.	<u>[RESERVED]</u>	129
ITEM 16A.	<u>AUDIT COMMITTEE FINANCIAL EXPERT</u>	129
ITEM 16B.	<u>CODE OF ETHICS</u>	129
ITEM 16C.	<u>PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	130
ITEM 16D.	<u>EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u>	131
ITEM 16E.	<u>PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS</u>	131
ITEM 16F.	<u>CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT</u>	132
ITEM 16G.	<u>CORPORATE GOVERNANCE</u>	132
ITEM 16H.	<u>MINE SAFETY DISCLOSURE</u>	135
ITEM 17.	<u>FINANCIAL STATEMENTS</u>	136
ITEM 18.	<u>FINANCIAL STATEMENTS</u>	136
ITEM 19.	<u>EXHIBITS</u>	137

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## **Table of Contents**

As used in this annual report, the term "fiscal year" preceding a year means the twelve-month period ended March 31 of the year referred to. All other references to years refer to the applicable calendar year, unless the context otherwise requires. As used herein, the term "Toyota" refers to Toyota Motor Corporation and its consolidated subsidiaries as a group, unless the context otherwise indicates.

In parts of this annual report, amounts reported in Japanese yen have been translated into U.S. dollars for the convenience of readers. Unless otherwise noted, the rate used for this translation was ¥112.68 = \$1.00. This was the approximate exchange rate in Japan on March 31, 2016.

### **CAUTIONARY STATEMENT WITH RESPECT TO FORWARD-LOOKING STATEMENTS**

Written forward-looking statements may appear in documents filed with the Securities and Exchange Commission, or the SEC, including this annual report, documents incorporated by reference, reports to shareholders and other communications.

The U.S. Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as the information is identified as forward looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. Toyota relies on this safe harbor in making forward-looking statements.

Forward-looking statements appear in a number of places in this annual report and include statements regarding Toyota's current intent, belief, targets or expectations or those of its management. In many, but not all cases, words such as "aim," "anticipate," "believe," "estimate," "expect," "hope," "intend," "may," "plan," "predict," "probability," "risk," "should," "will," "would," and similar expressions, are used as they relate to Toyota or its subsidiaries to identify forward-looking statements. These statements reflect Toyota's current views with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary materially from those which are anticipated, aimed at, believed, estimated, expected, intended or planned.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ from those in forward-looking statements as a result of various factors. Important factors that could cause actual results to differ materially from estimates or forecasts contained in the forward-looking statements are identified in "Risk Factors" and elsewhere in this annual report, and include, among others:

- (i) changes in economic conditions, market demand, and the competitive environment affecting the automotive markets in Japan, North America, Europe, Asia and other markets in which Toyota operates;
- (ii) fluctuations in currency exchange rates, particularly with respect to the value of the Japanese yen, the U.S. dollar, the euro, the Australian dollar, the Russian ruble, the Canadian dollar and the British pound, and interest rates fluctuations;
- (iii) changes in funding environment in financial markets and increased competition in the financial services industry;
- (iv) Toyota's ability to market and distribute effectively;
- (v) Toyota's ability to realize production efficiencies and to implement capital expenditures at the levels and times planned by management;
- (vi) changes in the laws, regulations and government policies in the markets in which Toyota operates that affect Toyota's automotive operations, particularly laws, regulations and government policies relating to vehicle safety including remedial measures such as recalls, trade, environmental protection, vehicle emissions and vehicle fuel economy, as well as changes in laws, regulations and government policies that affect Toyota's other operations, including the outcome of current and future litigation and other legal proceedings, government proceedings and investigations;

**Table of Contents**

- (vii) political and economic instability in the markets in which Toyota operates;
- (viii) Toyota's ability to timely develop and achieve market acceptance of new products that meet customer demand;
- (ix) any damage to Toyota's brand image;
- (x) Toyota's reliance on various suppliers for the provision of supplies;
- (xi) increases in prices of raw materials;
- (xii) Toyota's reliance on various digital and information technologies;
- (xiii) fuel shortages or interruptions in electricity, transportation systems, labor strikes, work stoppages or other interruptions to, or difficulties in, the employment of labor in the major markets where Toyota purchases materials, components and supplies for the production of its products or where its products are produced, distributed or sold; and
- (xiv) the impact of natural calamities including the negative effect on Toyota's vehicle production and sales.

**Table of Contents****PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****3.A SELECTED FINANCIAL DATA**

You should read the U.S. GAAP selected consolidated financial information presented below together with Operating and Financial Review and Prospects and Toyota's consolidated financial statements contained in this annual report.

**U.S. GAAP Selected Financial Data**

The following selected financial data have been derived from Toyota's consolidated financial statements. These financial statements were prepared in accordance with U.S. GAAP.

	2012	Year Ended March 31,			2016
		2013	2014	2015	
		(Yen in millions, except share and per share data)			
<b>Consolidated Statement of Income Data:</b>					
Automotive:					
Revenues	16,994,546	20,419,100	23,781,404	25,062,129	25,977,416
Operating income	21,683	944,704	1,938,778	2,325,310	2,448,998
Financial Services:					
Revenues	1,100,324	1,170,670	1,421,047	1,661,149	1,896,224
Operating income	306,438	315,820	294,891	361,833	339,226
All Other:					
Revenues	1,048,915	1,066,461	1,151,280	1,255,791	1,177,387
Operating income	42,062	53,616	64,270	65,650	66,507
Elimination of intersegment:					
Revenues	(560,132)	(592,039)	(661,820)	(744,548)	(647,909)
Operating income	(14,556)	6,748	(5,827)	(2,229)	(760)
Total Company:					
Revenues	18,583,653	22,064,192	25,691,911	27,234,521	28,403,118
Operating income	355,627	1,320,888	2,292,112	2,750,564	2,853,971
Income before income taxes and equity in earnings of affiliated companies					
	432,873	1,403,649	2,441,080	2,892,828	2,983,381
Net income attributable to Toyota Motor Corporation					
	283,559	962,163	1,823,119	2,173,338	2,312,694
Net income attributable to Toyota Motor Corporation per common share (yen):					
Basic	90.21	303.82	575.30	688.02	741.36
Diluted	90.20	303.78	574.92	687.66	735.36
Shares used in computing net income attributable to Toyota Motor Corporation per common share, basic (in thousands)					
	3,143,470	3,166,909	3,168,989	3,158,851	3,111,306
Shares used in computing net income attributable to Toyota Motor Corporation per common share, diluted (in thousands)					
	3,143,470	3,167,155	3,170,911	3,160,429	3,144,947





**Table of Contents**

	Year Ended March 31,				
	2012	2013	2014	2015	2016
(Yen in millions, except per share and numbers of vehicles sold data)					
<b>Consolidated Balance Sheet Data (end of period):</b>					
Total Assets:	30,650,965	35,483,317	41,437,473	47,729,830	47,427,597
Short-term debt, including current portion of long-term debt	5,963,269	6,793,956	7,780,483	8,963,492	8,521,088
Long-term debt, less current portion	6,042,277	7,337,824	8,546,910	10,014,395	9,772,065
Toyota Motor Corporation shareholders' equity	10,550,261	12,148,035	14,469,148	16,788,131	16,746,935
Common stock	397,050	397,050	397,050	397,050	397,050
<b>Other Data:</b>					
Dividends per share (yen)	50.0	90.0	165.0	200.0	210.0
<b>Number of vehicles sold</b>					
Japan	2,070,799	2,278,796	2,365,410	2,153,694	2,059,093
North America	1,872,423	2,468,804	2,529,398	2,715,173	2,839,229
Europe	797,993	799,085	844,003	859,038	844,412
Asia	1,326,829	1,683,578	1,608,355	1,488,922	1,344,836
Other*	1,283,885	1,640,401	1,768,867	1,755,037	1,593,758
<b>Worldwide total</b>	<b>7,351,929</b>	<b>8,870,664</b>	<b>9,116,033</b>	<b>8,971,864</b>	<b>8,681,328</b>

\* Other consists of Central and South America, Oceania, Africa and the Middle East, etc.

**Dividend Information**

Toyota normally pays dividends twice per year, including an interim dividend and a year-end dividend. Toyota's articles of incorporation provide that retained earnings can be distributed as dividends pursuant to a resolution of its board of directors. Toyota's board of directors resolves to pay year-end dividends to holders of common shares and registered pledgees of common shares of record as of March 31, the record date, in each year.

At the 111th Ordinary General Shareholders' Meeting held in June 2015, Toyota's shareholders approved amendments to Toyota's articles of incorporation permitting the issuance of Model AA Class Shares in the future. The articles of incorporation currently provide that in the event that Toyota pays a year-end dividend to holders of common shares, it will pay a year-end dividend to any holders of Model AA Class Shares or registered pledgees of Model AA Class Shares of record as of the record date for the year-end dividend, in the amount payable on the Model AA Class Shares pursuant to their terms (AA Dividends), in preference to holders of common shares or registered pledgees of common shares.

In addition to these year-end dividends, Toyota may pay an interim dividend in the form of cash distributions from its distributable surplus to holders of common shares and pledgees of common shares of record as of September 30, the record date, in each year by a resolution of its board of directors. The articles of incorporation currently provide that in the event that Toyota pays such interim dividends, Toyota will pay an amount equivalent to one-half of the AA Dividends (AA Interim Dividends) as an interim dividend to any holders of Model AA Class Shares or registered pledgees of Model AA Class Shares of record as of the record date for the interim dividend, in preference to holders of common shares or registered pledgees of common shares.

If the amount of the dividends from surplus paid to holders of Model AA Class Shares or registered pledgees of Model AA Class Shares is less than the prescribed amount of AA Dividends in any fiscal year, the amount of the shortfall will be carried forward to and accumulate in the following fiscal year and thereafter. Dividends from surplus will be paid to holders of Model AA Class Shares or registered pledgees of Model AA Class Shares in preference to the payment of interim and year-end dividends until such payment reaches the amount of the accumulated unpaid dividends on the Model AA Class Shares.

**Table of Contents**

For a further discussion of Model AA Class Shares, please see Additional Information Memorandum and Articles of Association.

In addition, under the Companies Act of Japan (the Companies Act), dividends may be paid to holders of common shares and pledgees of record of common shares as of any record date, other than those specified above, as set forth in Toyota's articles of incorporation or as determined by its board of directors from time to time. Under the Companies Act, dividends may be distributed in cash or (except in the case of interim dividends mentioned in the third preceding paragraph) in kind, subject to limitations on distributable surplus and to certain other conditions.

The following table sets forth the dividends declared per common share by Toyota for each of the periods shown. The periods shown are the six months ended on that date. The U.S. dollar equivalents for the cash dividends shown are based on the noon buying rate for Japanese yen on the last date of each period set forth below.

Period Ended	Cash Dividends per Common Share	
	Yen	U.S. dollars
September 30, 2011	20.0	0.25
March 31, 2012	30.0	0.36
September 30, 2012	30.0	0.38
March 31, 2013	60.0	0.63
September 30, 2013	65.0	0.66
March 31, 2014	100.0	0.97
September 30, 2014	75.0	0.68
March 31, 2015	125.0	1.04
September 30, 2015	100.0	0.83
March 31, 2016	110.0	0.97

Toyota deems the benefit of its shareholders as one of its priority management policies, and it continues to work to improve its corporate structure to realize sustainable growth in order to enhance its corporate value. Toyota will strive to continue to pay stable dividends on its common shares aiming at a consolidated dividend payout ratio, defined as dividends per common share divided by net income attributable to Toyota Motor Corporation per common share, of 30% while giving due consideration to factors such as business results for each term, investment plans and its cash reserves. Toyota will pay dividends on the First Series Model AA Class Shares in accordance with a prescribed calculation method.

In order to successfully compete in this highly competitive industry, Toyota plans to utilize its internal funds for the early commercialization of technologies for next-generation environment and safety giving priority to customer safety and sense of security. Considering these factors, with respect to the dividends for fiscal 2016, Toyota has determined to pay a year-end dividend of 110 yen per common share by a resolution of the board of directors pursuant to Toyota's articles of incorporation. As a result, combined with the interim dividend of 100 yen per common share, the annual dividend will be 210 yen per common share, and the total amount of the dividends on common shares for the year will be 645.5 billion yen. Furthermore, through repurchasing shares, Toyota will return capital to shareholders and promote capital efficiency and agile capital policy in view of the business environment.

In fiscal 2016, Toyota repurchased 39 million common shares, for an aggregate purchase price of 293.3 billion yen, in order to return to shareholders the profits derived from Toyota's business operations in the fiscal year ended March 31, 2015 and repurchased 23 million common shares, for an aggregate purchase price of 139.3 billion yen, in order to return to shareholders the profits derived from Toyota's business operations in the interim period ended September 30, 2015.

**Table of Contents**

In addition, in fiscal 2016, Toyota repurchased 47 million common shares, for an aggregate purchase price of 349.9 billion yen, in order to avoid dilution of common shares as a result of the issuance of the First Series Model AA Class Shares.

Furthermore, Toyota has determined to repurchase 100 million common shares (maximum), for an aggregate purchase price of 500.0 billion yen (maximum), in order to return to shareholders the profits derived from Toyota's business operations in the second half of the fiscal year ended March 31, 2016 by a resolution of the board of directors on May 11, 2016.

**Exchange Rates**

In parts of this annual report, yen amounts have been translated into U.S. dollars for the convenience of investors. Unless otherwise noted, the rate used for the translations was ¥112.68 = \$1.00. This was the approximate exchange rate in Japan on March 31, 2016.

The following table sets forth information regarding the noon buying rates for Japanese yen in New York City as announced for customs purposes by the Federal Reserve Bank of New York expressed in Japanese yen per \$1.00 during the periods shown. At the end of May 2016, the noon buying rate was ¥110.75 = \$1.00. The average exchange rate for the periods shown is the average of the month-end rates during the period.

Fiscal Year Ended or Ending March 31,	At End of Period	Average (of month-end rates) (¥ per \$1.00)	High	Low
2012	82.41	78.86	85.26	75.72
2013	94.16	83.26	96.16	77.41
2014	102.98	100.46	105.25	92.96
2015	119.96	110.78	121.50	101.26
2016	112.42	120.13	125.58	111.30
2017 (through May 31, 2016)	110.75	108.83	112.06	106.34

Month Ended	High (¥ per \$1.00)	Low
December 31, 2015	123.52	120.27
January 31, 2016	121.05	116.38
February 29, 2016	121.06	111.36
March 31, 2016	113.94	111.30
April 30, 2016	112.06	106.90
May 31, 2016	110.75	106.34

Fluctuations in the exchange rate between the Japanese yen and the U.S. dollar will affect the dollar equivalent of the price of the shares on the Japanese stock exchanges. As a result, exchange rate fluctuations are likely to affect the market price of the American Depositary Shares (ADSs) on the New York Stock Exchange (NYSE). Toyota will declare any cash dividends on shares of capital stock in Japanese yen. Exchange rate fluctuations will also affect the U.S. dollar amounts received on conversion of cash dividends.

Exchange rate fluctuations can also materially affect Toyota's reported operating results. In particular, a strengthening of the Japanese yen against the U.S. dollar can have a material adverse effect on Toyota's reported operating results. For a further discussion of the effects of currency rate fluctuations on Toyota's operating results, please see [Operating and Financial Review and Prospects](#) [Operating Results](#) [Overview](#) [Currency Fluctuations](#).

**3.B CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

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**Table of Contents**

**3.C REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable.

**3.D RISK FACTORS**

**Industry and Business Risks**

*The worldwide automotive market is highly competitive.*

The worldwide automotive market is highly competitive. Toyota faces intense competition from automotive manufacturers in the markets in which it operates. Although the global economy continues to recover gradually, competition in the automotive industry has further intensified amidst difficult overall market conditions. In addition, competition is likely to further intensify in light of further continuing globalization in the worldwide automotive industry, possibly resulting in industry reorganizations. Factors affecting competition include product quality and features, safety, reliability, fuel economy, the amount of time required for innovation and development, pricing, customer service and financing terms. Increased competition may lead to lower vehicle unit sales, which may result in a further downward price pressure and adversely affect Toyota's financial condition and results of operations. Toyota's ability to adequately respond to the recent rapid changes in the automotive market and to maintain its competitiveness will be fundamental to its future success in existing and new markets and to maintain its market share. There can be no assurances that Toyota will be able to compete successfully in the future.

*The worldwide automotive industry is highly volatile.*

Each of the markets in which Toyota competes has been subject to considerable volatility in demand. Demand for vehicles depends to a large extent on economic, social and political conditions in a given market and the introduction of new vehicles and technologies. As Toyota's revenues are derived from sales in markets worldwide, economic conditions in such markets are particularly important to Toyota.

Reviewing the general economic environment for the fiscal year ended March 2016, with respect to the world economy, the U.S. economy has seen ongoing recovery mainly due to steady progress of personal consumption, and the European economy has seen a moderate recovery in the eurozone. Meanwhile, weaknesses have been seen in China and other Asian emerging countries. The Japanese economy has been on a moderate recovery as a whole, while weakness could be seen in personal consumption and other areas. For the automobile industry, although markets have progressed in a steady manner, especially in the U.S., markets in some emerging countries have become stagnant, and the Japanese market has slowed down mainly in the sales of mini-vehicles due to the tax increase.

The shifts in demand for automobiles are continuing, and it is unclear how this situation will transition in the future. Toyota's financial condition and results of operations may be adversely affected if the shifts in demand for automobiles continues or progresses further. Demand may also be affected by factors directly impacting vehicle price or the cost of purchasing and operating vehicles such as sales and financing incentives, prices of raw materials and parts and components, cost of fuel and governmental regulations (including tariffs, import regulation and other taxes). Volatility in demand may lead to lower vehicle unit sales, which may result in downward price pressure and adversely affect Toyota's financial condition and results of operations.

*Toyota's future success depends on its ability to offer new, innovative and competitively priced products that meet customer demand on a timely basis.*

Meeting customer demand by introducing attractive new vehicles and reducing the amount of time required for product development are critical to automotive manufacturers. In particular, it is critical to meet customer demand with respect to quality, safety and reliability. The timely introduction of new vehicle models, at competitive prices, meeting rapidly changing customer preferences and demand is more fundamental to Toyota's success than ever, as the automotive market is rapidly transforming in light of the changing global economy.

## **Table of Contents**

There is no assurance, however, that Toyota will adequately and appropriately respond to changing customer preferences and demand with respect to quality, safety, reliability, styling and other features in a timely manner. Even if Toyota succeeds in perceiving customer preferences and demand, there is no assurance that Toyota will be capable of developing and manufacturing new, price competitive products in a timely manner with its available technology, intellectual property, sources of raw materials and parts and components, and production capacity, including cost reduction capacity. Further, there is no assurance that Toyota will be able to implement capital expenditures at the level and times planned by management. Toyota's inability to develop and offer products that meet customers' preferences and demand with respect to quality, safety, reliability, styling and other features in a timely manner could result in a lower market share and reduced sales volumes and margins, and may adversely affect Toyota's financial condition and results of operations.

*Toyota's ability to market and distribute effectively is an integral part of Toyota's successful sales.*

Toyota's success in the sale of vehicles depends on its ability to market and distribute effectively based on distribution networks and sales techniques tailored to the needs of its customers. There is no assurance that Toyota will be able to develop sales techniques and distribution networks that effectively adapt to changing customer preferences or changes in the regulatory environment in the major markets in which it operates. Toyota's inability to maintain well-developed sales techniques and distribution networks may result in decreased sales and market share and may adversely affect its financial condition and results of operations.

*Toyota's success is significantly impacted by its ability to maintain and develop its brand image.*

In the highly competitive automotive industry, it is critical to maintain and develop a brand image. In order to maintain and develop a brand image, it is necessary to further increase customers' confidence by providing safe, high-quality products that meet customer preferences and demand. If Toyota is unable to effectively maintain and develop its brand image as a result of its inability to provide safe, high-quality products or as a result of the failure to promptly implement safety measures such as recalls when necessary, vehicle unit sales and/or sale prices may decrease, and as a result revenues and profits may not increase as expected or may decrease, adversely affecting its financial condition and results of operations.

*Toyota relies on suppliers for the provision of certain supplies including parts, components and raw materials.*

Toyota purchases supplies including parts, components and raw materials from a number of external suppliers located around the world. For some supplies, Toyota relies on a single supplier or a limited number of suppliers, whose replacement with another supplier may be difficult. Inability to obtain supplies from a single or limited source supplier may result in difficulty obtaining supplies and may restrict Toyota's ability to produce vehicles. Furthermore, even if Toyota were to rely on a large number of suppliers, first-tier suppliers with whom Toyota directly transacts may in turn rely on a single second-tier supplier or limited second-tier suppliers. Toyota's ability to continue to obtain supplies from its suppliers in a timely and cost-effective manner is subject to a number of factors, some of which are not within Toyota's control. These factors include the ability of Toyota's suppliers to provide a continued source of supply, and Toyota's ability to effectively compete and obtain competitive prices from suppliers. A loss of any single or limited source supplier or inability to obtain supplies from suppliers in a timely and cost-effective manner could lead to increased costs or delays or suspensions in Toyota's production and deliveries, which could have an adverse effect on Toyota's financial condition and results of operations.

*The worldwide financial services industry is highly competitive.*

The worldwide financial services industry is highly competitive. Increased competition in automobile financing may lead to decreased margins. A decline in Toyota's vehicle unit sales, an increase in residual value risk due to lower used vehicle price, an increase in the ratio of credit losses and increased funding costs are factors which may impact Toyota's financial services operations. If Toyota is unable to adequately respond to the changes and competition in automobile financing, Toyota's financial services operations may adversely affect its financial condition and results of operations.

**Table of Contents*****Toyota's operations and vehicles rely on various digital and information technologies.***

Toyota depends on various information technology networks and systems, some of which are managed by third parties, to process, transmit and store electronic information, including sensitive data, and to manage or support a variety of business processes and activities, including manufacturing, research and development, supply chain management, sales and accounting. In addition, Toyota's vehicles may rely on various digital and information technologies, including information service and driving assistance functions. Despite security measures, Toyota's digital and information technology networks and systems may be vulnerable to damage, disruptions or shutdowns due to attacks by hackers, computer viruses, breaches due to unauthorized use, errors or malfeasance by employees and others who have or gain access to the networks and systems Toyota depends on, service failures or bankruptcy of third parties such as software development or cloud computing vendors, power shortages and outages, and utility failures or other catastrophic events like natural disasters. Such incidents could materially disrupt critical operations, disclose sensitive data, interfere with information services and driving assistance functions in Toyota's vehicles, and/or give rise to legal claims or proceedings, liability or regulatory penalties under applicable laws, which could have an adverse effect on Toyota's brand image and its financial condition and results of operations.

**Financial Market and Economic Risks*****Toyota's operations are subject to currency and interest rate fluctuations.***

Toyota is sensitive to fluctuations in foreign currency exchange rates and is principally exposed to fluctuations in the value of the Japanese yen, the U.S. dollar and the euro and, to a lesser extent, the Australian dollar, the Russian ruble, the Canadian dollar and the British pound. Toyota's consolidated financial statements, which are presented in Japanese yen, are affected by foreign currency exchange fluctuations through translation risk, and changes in foreign currency exchange rates may also affect the price of products sold and materials purchased by Toyota in foreign currencies through transaction risk. In particular, strengthening of the Japanese yen against the U.S. dollar can have an adverse effect on Toyota's operating results.

Toyota believes that its use of certain derivative financial instruments including foreign exchange forward contracts and interest rate swaps and increased localized production of its products have reduced, but not eliminated, the effects of interest rate and foreign currency exchange rate fluctuations. Nonetheless, a negative impact resulting from fluctuations in foreign currency exchange rates and changes in interest rates may adversely affect Toyota's financial condition and results of operations. For a further discussion of currency and interest rate fluctuations and the use of derivative financial instruments, see [Operating and Financial Review and Prospects](#) [Operating Results Overview](#) [Currency Fluctuations](#), [Quantitative and Qualitative Disclosures About Market Risk](#), and notes 21 and 22 to Toyota's consolidated financial statements.

***High prices of raw materials and strong pressure on Toyota's suppliers could negatively impact Toyota's profitability.***

Increases in prices for raw materials that Toyota and Toyota's suppliers use in manufacturing their products or parts and components such as steel, precious metals, non-ferrous alloys including aluminum, and plastic parts, may lead to higher production costs for parts and components. This could, in turn, negatively impact Toyota's future profitability because Toyota may not be able to pass all those costs on to its customers or require its suppliers to absorb such costs.

***A downturn in the financial markets could adversely affect Toyota's ability to raise capital.***

Should the world economy suddenly deteriorate, a number of financial institutions and investors will face difficulties in providing capital to the financial markets at levels corresponding to their own financial capacity, and, as a result, there is a risk that companies may not be able to raise capital under terms that they would expect to receive with their creditworthiness. If Toyota is unable to raise the necessary capital under appropriate conditions on a timely basis, Toyota's financial condition and results of operations may be adversely affected.

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**Table of Contents**

**Political, Regulatory, Legal and Other Risks**

*The automotive industry is subject to various governmental regulations.*

The worldwide automotive industry is subject to various laws and governmental regulations including those related to vehicle safety and environmental matters such as emission levels, fuel economy, noise and pollution. In particular, automotive manufacturers such as Toyota are required to implement safety measures such as recalls for vehicles that do not or may not comply with the safety standards of laws and governmental regulations. In addition, Toyota may, in order to reassure its customers of the safety of Toyota's vehicles, decide to voluntarily implement recalls or other safety measures even if the vehicle complies with the safety standards of relevant laws and governmental regulations. Many governments also impose tariffs and other trade barriers, taxes and levies, or enact price or exchange controls. Toyota has incurred, and expects to incur in the future, significant costs in complying with these regulations. If Toyota launches products that result in safety measures such as recalls, Toyota may incur various costs including significant costs for free repairs. Furthermore, new legislation or changes in existing legislation may also subject Toyota to additional expenses in the future. If Toyota incurs significant costs related to implementing safety measures or meeting laws and governmental regulations, Toyota's financial condition and results of operations may be adversely affected.

*Toyota may become subject to various legal proceedings.*

As an automotive manufacturer, Toyota may become subject to legal proceedings in respect of various issues, including product liability and infringement of intellectual property. Toyota may also be subject to legal proceedings brought by its shareholders and governmental proceedings and investigations. Toyota is in fact currently subject to a number of pending legal proceedings and government investigations. A negative outcome in one or more of these pending legal proceedings could adversely affect Toyota's financial condition and results of operations. For a further discussion of governmental regulations, see [Information on the Company Business Overview Governmental Regulation, Environmental and Safety Standards](#) and for legal proceedings, please see [Information on the Company Business Overview Legal Proceedings](#).

*Toyota may be adversely affected by natural calamities, political and economic instability, fuel shortages or interruptions in social infrastructure, wars, terrorism and labor strikes.*

Toyota is subject to various risks associated with conducting business worldwide. These risks include natural calamities; political and economic instability; fuel shortages; interruption in social infrastructure including energy supply, transportation systems, gas, water, or communication systems resulting from natural hazards or technological hazards; wars; terrorism; labor strikes and work stoppages. Should the major markets in which Toyota purchases materials, parts and components and supplies for the manufacture of Toyota products or in which Toyota's products are produced, distributed or sold be affected by any of these events, it may result in disruptions and delays in the operations of Toyota's business. Should significant or prolonged disruptions or delays related to Toyota's business operations occur, it may adversely affect Toyota's financial condition and results of operations.

**ITEM 4. INFORMATION ON THE COMPANY**

**4.A HISTORY AND DEVELOPMENT OF THE COMPANY**

Toyota Motor Corporation is a limited liability, joint-stock company incorporated under the Commercial Code of Japan and continues to exist under the Companies Act. Toyota commenced operations in 1933 as the automobile division of Toyota Industries Corporation (formerly, Toyoda Automatic Loom Works, Ltd.). Toyota became a separate company on August 28, 1937. In 1982, the Toyota Motor Company and Toyota Motor Sales merged into one company, the Toyota Motor Corporation of today. As of March 31, 2016, Toyota operated through 548 consolidated subsidiaries (including variable interest entities) and 200 affiliated companies, of which 54 companies were accounted for through the equity method.



**Table of Contents**

See Business Overview Capital Expenditures and Divestitures for a description of Toyota's principal capital expenditures and divestitures between April 1, 2013 and March 31, 2016 and information concerning Toyota's principal capital expenditures and divestitures currently in progress.

Toyota's principal executive offices are located at 1 Toyota-cho, Toyota City, Aichi Prefecture 471-8571, Japan. Toyota's telephone number in Japan is +81-565-28-2121.

**4.B BUSINESS OVERVIEW**

Toyota primarily conducts business in the automotive industry. Toyota also conducts business in finance and other industries. Toyota sold 8,681 thousand vehicles in fiscal 2016 on a consolidated basis. Toyota had net revenues of ¥28,403.1 billion and net income attributable to Toyota Motor Corporation of ¥2,312.6 billion in fiscal 2016.

Toyota's business segments are automotive operations, financial services operations and all other operations. The following table sets forth Toyota's sales to external customers in each of its business segments for each of the past three fiscal years.

	Yen in millions		
	Year Ended March 31,		
	2014	2015	2016
Automotive	23,733,855	25,006,224	25,923,813
Financial Services	1,379,267	1,621,685	1,854,007
All Other	578,789	606,612	625,298

Toyota's automotive operations include the design, manufacture, assembly and sale of passenger vehicles, minivans and commercial vehicles such as trucks and related parts and accessories. Toyota's financial services business consists primarily of providing financing to dealers and their customers for the purchase or lease of Toyota vehicles. Toyota's financial services also provide retail installment credit and leasing through the purchase of installment and lease contracts originated by Toyota dealers. Related to Toyota's automotive operations, Toyota engages in intelligent transport systems (ITS). Toyota's all other operations business segment includes the design and manufacture of prefabricated housing and information technology related businesses including a web portal for automobile information called GAZOO.com, etc.

Toyota sells its vehicles in approximately 190 countries and regions. Toyota's primary markets for its automobiles are Japan, North America, Europe and Asia. The following table sets forth Toyota's sales to external customers in each of its geographical markets for each of the past three fiscal years.

	Yen in millions		
	Year Ended March 31,		
	2014	2015	2016
Japan	8,532,875	8,338,881	8,588,437
North America	7,938,615	9,430,450	10,822,772
Europe	2,614,070	2,690,803	2,507,292
Asia	4,475,382	4,531,178	4,475,623
Other*	2,130,969	2,243,209	2,008,994

\* Other consists of Central and South America, Oceania, Africa and the Middle East.

During fiscal 2016, 23.7% of Toyota's automobile unit sales on a consolidated basis were in Japan, 32.7% were in North America, 9.7% were in Europe and 15.5% were in Asia. The remaining 18.4% of consolidated unit sales were in other markets.

## **Table of Contents**

### **The Worldwide Automotive Market**

Toyota estimates that annual worldwide vehicle sales totaled approximately 91 million units in 2015.

Automobile sales are affected by a number of factors including:

social, political and economic conditions;

introduction of new vehicles and technologies; and

costs incurred by customers to purchase and operate automobiles.

These factors can cause consumer demand to vary substantially from year to year in different geographic markets and in individual categories of automobiles.

In fiscal 2016, the U.S. economy experienced steady growth, with Europe undergoing gradual recovery following additional monetary easing measures while the economy in Japan lacked strength as the improvement in the jobs market did not impact income and consumption remained low. Growth in emerging markets slowed due to weakness of local currencies deriving partly from a downturn in the Chinese economy, as well as a decline in prices of natural resources in resource-producing countries.

The automotive industry was also impacted by this trend. In 2015, with respect to developed countries, markets in Europe and the United States expanded. In addition, in Japan, market demand decreased despite a recovery in general consumption levels and signs of recovery from the consumption tax increase in April 2014. In emerging markets, the expansion of the Chinese market continued, but markets in other emerging countries contracted.

However, in the medium- to long-term, Toyota expects the automotive market to grow driven principally by the growth in emerging markets. Global competition is expected to be severe, as competition in compact and low-price vehicles intensifies, and technological development and development of new products become more frequent with a heightened global awareness of the environment and more stringent fuel economy standards.

In 2015, China, North America, Europe and Asia were the world's largest automotive markets. The share of each market across the globe, which Toyota estimates based on the available automobile sales data in each country and region information, was 28% for China, 23% for North America (22% excluding Mexico and Puerto Rico), 21% for Europe and 10% for Asia. In China, new vehicle sales increased to approximately 25.0 million units. In North America, new vehicle sales increased to approximately 20.8 million units. In Europe, new vehicle sales increased to approximately 19.0 million units. In Asia (including India but excluding Japan and China), new vehicle unit sales increased from the previous year to approximately 9.3 million units.

The worldwide automotive industry is affected significantly by government regulations aimed at reducing harmful effects on the environment, enhancing vehicle safety and improving fuel economy. These regulations have added to the cost of manufacturing vehicles. Many governments also mandate local procurement of parts and components and impose tariffs and other trade barriers and price or exchange controls as a means of creating jobs, protecting domestic producers or influencing their balance of payments. Changes in regulatory requirements and other government-imposed restrictions can limit an automaker's operations. These regulations can also make it difficult to repatriate profits to an automaker's home country.

The development of the worldwide automotive market includes the continuing globalization of automotive operations. Manufacturers seek to achieve globalization by localizing the design and manufacture of automobiles and their parts and components in the markets in which they are sold. By expanding production capabilities beyond their home markets, automotive manufacturers are able to reduce their exposure to fluctuations in foreign exchange rates as well as to trade restrictions and tariffs.

## **Table of Contents**

Recently, there have been many global business alliances and investments entered into between manufacturers in the global automotive industry. There are various reasons behind these transactions including the need to respond to the excessive global capacity in the production of automobiles, the need to reduce costs and improve efficiency by increasing the number of automobiles produced using common vehicle platforms and by sharing research and development expenses for environmental and other technology, the desire to expand a company's global presence through increased size and the desire to expand into particular segments or geographic markets.

Toyota believes that its research and development initiatives, particularly the development of environmentally friendly new vehicle technologies, vehicle safety and information technology, provide it with a strategic advantage.

Toyota's ability to compete in the global automotive industry will depend in part on Toyota's successful implementation of its business strategy. This is subject to a number of factors, some of which are not in Toyota's control. These factors are discussed in Operating and Financial Review and Prospects and elsewhere in this annual report.

### **Toyota Global Vision**

In March 2011, Toyota unveiled its Toyota Global Vision corporate outline for the future, which serves not only to give direction to Toyota employees around the world, but also to convey such direction to customers and to the public at large. Toyota will work to achieve sustained growth through the realization of the following ideals which are parts of the Vision:

#### **The safest and most responsible ways of moving people**

Safety is Toyota's highest priority, and Toyota will continue to provide world-class safety.

Toyota will also continue to contribute to environmental quality and to human happiness by using leading environmental technology and by deploying that technology in a growing line of vehicle models. At the same time, Toyota will work through the provision of products, sales and services that exceed customer expectation to offer a rewarding experience for customers.

#### **Enriching lives around the world**

Toyota has been consistently true to its founding spirit of serving society through conscientious manufacturing, and it will continue working in that spirit to contribute to enhance the quality of life wherever it has operations.

Toyota will strive to continue contributing to economic vitality wherever it has operations by generating stable employment and by participating in mutually beneficial business relationships with dealers and suppliers. It will also strive to continue to actively engage in initiatives for human resources development and the promotion of cultural activities of its host communities.

#### **Lead the way to the future of mobility**

Toyota will lead the industry in technological development that will spawn next-generation mobility. For example, it will explore possibilities in personal mobility and in the convergence of information technology for automobiles and smart grids for optimizing energy generation and consumption. Toyota will strive to offer products and services that match the needs in each market.

Toyota will strive to advance environmental technology and develop low-carbon technologies and technologies for maximizing safety through interaction with the transport infrastructure to lay a foundation for sustainable and amenable future mobility.

## **Table of Contents**

### **Our commitment to quality, constant innovation**

Toyota is committed to providing quality vehicles that are highly reliable and driven with a sense of safety and reliability.

Toyota will constantly reinvent itself and continue to engage in cutting-edge technology development. Toyota will work towards offering vehicles around the world that address the needs of today and of tomorrow at affordable prices.

### **Continued awareness for the Earth and environment**

Toyota will continue to work towards minimizing environmental impact in its manufacturing and other operations, and products.

With an emphasis on environmental awareness, Toyota will in its operations work towards energy conservation, reduction in carbon dioxide emission, efficient use of resources such as recycling, and human resource development and production methods that allow for coexistence with nature.

### **Exceed expectations and be rewarded with a smile**

Everyone at Toyota will continuously maintain a sense of gratitude to customers and will strive to earn smiles with products and services that are stimulating and inspiring and exceed customer expectations.

### **There is always a better way**

All Toyota employees will share the recognition that there is always a better way and share a commitment to continuous improvement, which are fundamental to The Toyota Way.

### **Meet challenging goals by engaging the talent and passion of people**

Toyota will nurture a corporate culture where teamwork and individual creativity thrive and where people will approach their work with pride and passion.

Toyota will honor the spirit of diversity in recruiting, training and promoting capable individuals around the world. Human resources development at Toyota will continue to promote the transfer of the company's *monozukuri* spirit of conscientious manufacturing and related skills and know-how from one generation to the next.

As for the future business environment, the U.S. is expected to continue recovering and Europe, chiefly in the eurozone, is expected to continue its moderate recovery. Meanwhile, China and other emerging countries are showing a risk of a slowdown. With regards to the Japanese economy, attention needs to be paid to an economic decline caused by a slowdown in emerging countries.

The automotive market is expected to progress steadily in developed countries, though concerns over slowdowns in emerging countries continue. In addition, measures to respond to environmental and fuel consumption regulations in various countries and to reinforce efforts toward the development of safety technologies are required, while companies in other businesses are newly venturing into the development of automated driving technology. Fierce competition is thus intensifying on a global scale.

In this severe business environment, Toyota intends to steadily progress toward the realization of the Toyota Global Vision through sustainable growth based on the following policies:

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First, Toyota intends to contribute to the realization of a future mobility society through pioneering technologies, products and businesses. Toyota will develop human resources who will foresee the future and courageously take on new challenges.

## **Table of Contents**

Second, Toyota intends to reinforce true competitiveness in order to grow as steadily as a tree adding annual growth rings. Toyota will thoroughly improve quality, establish new working methods to sincerely engage with customers and cars, and enhance its crisis management abilities for responding to crises of every type.

In order to realize the above vision, Toyota reorganized its corporate structure in April 2016 to establish a three-part structure: product-based in-house companies, region-based business units, and the head office. At the product-based in-house companies, streamlined operation from planning through manufacturing enables quick and independent decision-making. Within the region-based business units, Toyota aims to build even more regional operations. The head office will work to formulate a medium- to long-term vision and management strategy, including an appropriate allocation of resources, with an eye toward the future.

Based on these initiatives, Toyota will contribute to enriching lives of communities by providing ever-better cars. This is expected to encourage more customers to purchase Toyota cars and thereby lead to the establishment of a stable business base. By perpetuating this cycle, Toyota will aim to realize sustainable growth and enhance corporate value. In addition, through full observance of corporate ethics such as compliance with applicable laws and regulations, Toyota will fulfill its social responsibilities.

### **Toyota Environmental Challenge 2050**

Positioning responding to environmental issues as one of the most prioritized challenges for management, Toyota has tackled head-on activities such as the development and promotion of next-generation vehicles including hybrid vehicles and fuel cell vehicles, efficient production that puts less of a burden on the environment, the recycling of end-of-life vehicles and hybrid vehicle batteries, planting trees for the coexistence of humans and nature in harmony, and conservation of ecosystems.

However, in recent years, the seriousness of environmental issues is increasing over a wide area, as evidenced by global warming, water shortages, resource depletion, and degradation of biodiversity. In response to the situation, Toyota believes it is necessary to take on new challenges that consider the world 20 or 30 years in the future, in order to remain closely aligned with the global environment. Accordingly, Toyota announced Toyota Environmental Challenge 2050 in October 2015.

With the aims of reducing the environmental impact of vehicles as much as possible as well as moving toward a net positive impact, by 2050 in order to contribute to the realization of a sustainable society, the Toyota Environmental Challenge 2050 has set forth the following six challenges for Toyota to address.

1. New Vehicles Zero CO2 Emissions Challenge
2. Life Cycle Zero CO2 Emissions Challenge
3. Plant Zero CO2 Emissions Challenge
4. Challenge of Minimizing and Optimizing Water Usage
5. Challenge of Establishing a Recycling-Based Society and Systems
6. Challenge of Establishing a Future Society in Harmony with Nature

Further strengthening collaboration with the Toyota group and all other stakeholders, Toyota will consolidate new ideas, dynamism and technology to tackle together the realization of a truly sustainable society from a long-term perspective.

### **Automotive Operations**

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Toyota's revenues from its automotive operations were ¥25,977.4 billion in fiscal 2016, ¥25,062.1 billion in fiscal 2015 and ¥23,781.4 billion in fiscal 2014.

## **Table of Contents**

Toyota produces and sells passenger vehicles, minivans and commercial vehicles such as trucks. Toyota Motor Corporation's subsidiary, Daihatsu Motor Co., Ltd. ( Daihatsu ), produces and sells mini-vehicles and compact cars. Hino Motors, Ltd. ( Hino ), also a subsidiary of Toyota Motor Corporation, produces and sells commercial vehicles such as trucks and buses. Toyota also manufactures automotive parts, components and accessories for its own use and for sale to others.

On January 29, 2016, Toyota and Daihatsu announced that, with an aim to strengthen competitiveness in the small car segment, they entered into a share exchange agreement to make Daihatsu a wholly-owned subsidiary of Toyota as of August 1, 2016. Under a joint strategy, Toyota and Daihatsu will be able to plan and implement optimal strategies including combining their technical expertise and bases of operations, joint development of next-generation technology, bold cost reduction and expansion of product lineups with a global brand strategy. Daihatsu will play a key role in developing globally competitive small cars of both brands based on the technology Daihatsu has developed through manufacturing of mini-vehicles.

### ***Vehicle Models***

Toyota's vehicles (produced by Toyota, Daihatsu and Hino) can be classified into three categories: hybrid vehicles, conventional engine vehicles, and fuel cell vehicles. Toyota's product line-up includes subcompact and compact cars, mini-vehicles, mid-size, luxury, sports and specialty cars, recreational and sport-utility vehicles, pickup trucks, minivans, trucks and buses.

#### ***Hybrid Vehicles***

The world's first mass-produced hybrid car was Toyota's Prius. It runs on an efficient combination of a gasoline engine and motor. This system allows the Prius to travel more efficiently than conventional engine vehicles of comparable size and performance. The hybrid design of the Prius also results in the output of 75% less emission than the maximum amount allowed by Japanese environmental regulations. Toyota views the Prius as the cornerstone of its emphasis on designing and producing eco-friendly automobiles.

In the last three years, Toyota has strengthened its hybrid lineup by introducing the fully remodeled IS300h in May 2013, the fully remodeled Corolla Axio HV/Corolla Fielder HV in August 2013, the fully remodeled Harrier HV in December 2013, the fully remodeled Voxy HV/Noah HV in January 2014, the NX300h in July 2014, the RC300h and the Esquire HV in September 2014, the fully remodeled Alphard and Vellfire in January 2015, the Sienta HV in June 2015, the fully remodeled RX-HV in September 2015 and the fully remodeled Prius in November 2015. In the hybrid vehicles area, where strong growth is anticipated, Toyota aims to continue its efforts to offer a diverse line-up of hybrid vehicles, enhance engine power while improving fuel economy and otherwise work towards increasing the sales of hybrid vehicles.

#### ***Fuel Cell Vehicles***

Toyota began limited sales of a fuel cell vehicle in Japan and the United States in December 2002. In June 2005, Toyota's new fuel cell passenger vehicle became the first in Japan to acquire vehicle type certification under the Road Vehicles Act, as amended, on March 31, 2005, by Japan's Ministry of Land, Infrastructure, Transport and Tourism. Leases for fuel cell vehicles began in July 2005. By 2007, Toyota was able to make improvements to start-up and cruising distance at temperatures below freezing, which were technological challenges. Toyota has made advances by solving technological issues such as the above and worked towards the practical use of such solutions, culminating in the general sale of the world's first mass produced fuel cell vehicle MIRAI in Japan beginning in December 2014, in the United States beginning in June 2015 and in Europe beginning in September 2015.



## **Table of Contents**

### *Conventional Engine Vehicles*

#### *Subcompact and Compact*

Toyota's subcompact and compact cars include the four-door Corolla sedan, which is one of Toyota's bestselling models. The Yaris, marketed as the Vitz in Japan, is a subcompact car designed to perform better and offer greater comfort than other compact cars available in the market with low emissions that are particularly attractive to European consumers. In Europe, Toyota introduced the fully remodeled Aygo in June 2014. In Japan, Toyota introduced the remodeled Corolla Axio/Fielder in May 2012, the remodeled Porte and its variant, the Spade, in July 2012 and the remodeled Auris in August 2012. In India, Asia, China and other markets, Toyota introduced the Etios and Vios. In addition, Toyota introduced the AGYA, which is designed and manufactured by Daihatsu. Moreover, Scion iA, which is designed and manufactured by Mazda Motor Corporation, was newly introduced in July 2015.

#### *Mini-Vehicles*

Mini-vehicles are manufactured and sold by Daihatsu. Daihatsu manufactures mini-vehicles, passenger vehicles, commercial vehicles and auto parts. Mini-vehicles are passenger vehicles, vans or trucks with engine displacements of 660 cubic centimeters or less. Daihatsu sold approximately 530 thousand mini-vehicles and 177 thousand automobiles on a consolidated basis during fiscal 2016. Daihatsu's largest market is Japan, which accounted for approximately 80% of Daihatsu's unit sales during fiscal 2016. From 2011, Toyota began to sell some mini-vehicles manufactured by Daihatsu under the Toyota brand.

#### *Mid-Size*

Toyota's mid-size models include the Camry, which has been the bestselling passenger car in the United States for eighteen of the past nineteen calendar years (from 1997 to present) and also for the last fourteen consecutive years. The Camry was fully remodeled in August 2011. Camry sales in the United States for 2015 were approximately 429 thousand units (including Camry hybrids). In addition, Toyota's other mid-size models include the REIZ for the Chinese market, the Avensis, which was remodeled in November 2008 for the European market, and the Mark X, which was remodeled in October 2009 for the Japanese market.

#### *Luxury & Large*

In North America, Europe, Japan and other regions, Toyota's luxury lineup consists primarily of vehicles sold under the Lexus brand name. Lexus passenger car models include the LS, the GS, the ES, the IS, the HS, the CT and the RC. Lexus models also include the LX, the GX, the RX and the NX sold as luxury sport-utility vehicles. Toyota commenced sales of its luxury automobiles in Japan under the Lexus brand in August 2005. As of March 31, 2016, the Lexus brand lineup in Japan includes the LS, the GS, the HS, the IS, the CT, the LX, the RX, the NX and the RC. The Toyota brand's full-size luxury car, the Avalon, was remodeled in October 2012, and the Crown was remodeled in December 2012. Toyota also sells the Century limousine in Japan.

#### *Sports and Specialty*

In the United States Toyota sells the Scion tC, a sports model targeted at young drivers. In December 2010, Toyota introduced the LFA model under the Lexus brand as the high-performance sports model, and in April 2012, Toyota introduced the 86 (called Scion FR-S in the U.S.), a compact sports car with a front-mounted engine and rear-wheel drive. In October 2014, Toyota introduced the RC coupe that leads the image of Lexus, which engages drivers on a sentimental level.

#### *Recreational and Sport-Utility Vehicles and Pickup Trucks*

Toyota sells a variety of sport-utility vehicles and pickup trucks. Toyota's sport-utility vehicles available in North America include the Sequoia, the 4Runner, the RAV4, the Highlander, the FJ Cruiser and the Land

## **Table of Contents**

Cruiser, and pickup trucks available are the Tacoma and Tundra. The Tacoma, the Tundra, the Highlander and the Sequoia are manufactured in the United States. Toyota also offers four types of sport-utility vehicles under the Lexus brand, including the LX, the GX, the RX, and the NX. Toyota also manufactures the RX and RAV4 models in Canada. Toyota's pickup truck, the Hilux, has been the bestselling model of all Toyota cars sold in Thailand. In North America, the fully remodeled RAV4 was introduced in December 2012 and the fully remodeled Highlander was introduced in December 2013. In July 2014, Toyota introduced the new NX model under the Lexus brand. In May 2015, Toyota introduced the fully remodeled Hilux in Thailand and in September 2015, it introduced the fully remodeled RX of the Lexus brand in North America.

### *Minivans and Cabwagons*

Toyota offers several basic models for the global minivan market. Its largest minivans in Japan, the Alphard and the Vellfire, were remodeled in January 2015. In addition, the Corolla Verso was remodeled in December 2008 in Europe, and the Wish was remodeled in April 2009, the Noah/Voxy was remodeled in January 2014 and the new model Esquire was introduced in October 2014 in Japan. Toyota's other minivan models include, in Japan, the Estima, the Sienta and the Isis, and, in North America, the Sienna.

### *Trucks and Buses*

Toyota's product lineup includes trucks (including vans) up to a gross vehicle weight of five tons and micro-buses that are sold in Japan and in overseas markets. Trucks and buses are also manufactured and sold by Hino, a subsidiary of Toyota. Hino's product lineup includes large trucks with a gross vehicle weight of over eleven tons, medium trucks with a gross vehicle weight of between five and eleven tons and small trucks with a gross vehicle weight of up to five tons. Hino's bus lineup includes medium to large buses used primarily as tour buses and public buses, small buses and micro-buses.

### *Product Development*

New cars introduced in Japan during fiscal 2016 and thereafter include the Sienta HV and the GS F. Remodeled cars in Japan during fiscal 2016 and thereafter include the Sienta, the RX, the Prius and the Passo. New vehicles introduced outside of Japan during fiscal 2016 and thereafter include the MIRAI, the Scion iA and the GS F. Remodeled cars outside of Japan during fiscal 2016 and thereafter include the Hilux, the RX and the Prius.

In addition, the IMV product lineup based on the IMV project to optimize global manufacturing and supply systems is a lineup of strategic multipurpose vehicles produced from a single platform to meet market demand. The IMV product lineup includes, as of March 31, 2016, the Hilux, Fortuner, and Innova, one or all of which are available in all regions except for Japan.

**Table of Contents****Markets, Sales and Competition**

Toyota's primary markets are Japan, North America, Europe and Asia. The following table sets forth Toyota's consolidated vehicle unit sales by geographic market for the periods shown. The vehicle unit sales below reflect vehicle sales made by Toyota to unconsolidated entities (recognized as sales under Toyota's revenue recognition policy), including sales to unconsolidated distributors and dealers. Vehicles sold by Daihatsu and Hino are included in the vehicle unit sales figures set forth below.

Market	2012		2013		Year Ended March 31, 2014		2015		2016	
	Units	%	Units	%	Units	%	Units	%	Units	%
Japan	2,070,799	28.2%	2,278,796	25.7%	2,365,410	26.0%	2,153,694	24.0%	2,059,093	23.7%
North America	1,872,423	25.5	2,468,804	27.8	2,529,398	27.7	2,715,173	30.3	2,839,229	32.7
Europe	797,993	10.8	799,085	9.0	844,003	9.3	859,038	9.6	844,412	9.7
Asia	1,326,829	18.0	1,683,578	19.0	1,608,355	17.6	1,488,922	16.6	1,344,836	15.5
Other*	1,283,885	17.5	1,640,401	18.5	1,768,867	19.4	1,755,037	19.5	1,593,758	18.4
<b>Total</b>	<b>7,351,929</b>	<b>100.0%</b>	<b>8,870,664</b>	<b>100.0%</b>	<b>9,116,033</b>	<b>100.0%</b>	<b>8,971,864</b>	<b>100.0%</b>	<b>8,681,328</b>	<b>100.0%</b>

\* Other consists of Central and South America, Oceania, Africa and the Middle East, etc.

The following table sets forth Toyota's vehicle unit sales and market share in Japan, North America, Europe and Asia on a retail basis for the periods shown. Each market's total sales and Toyota's sales represent new vehicle registrations in the relevant year (except for the Asia market where vehicle registration does not necessarily apply). All information on Japan excludes mini-vehicles. The sales information contained below excludes unit sales by Daihatsu and Hino, each a consolidated subsidiary of Toyota. Vehicle unit sales in Asia do not include sales in China.

	(Thousands of Units)				
	Fiscal Year Ended March 31,				
	2012	2013	2014	2015	2016
<b>Japan:</b>					
Total market sales (excluding mini-vehicles)	3,067	3,242	3,433	3,126	3,126
Toyota sales (retail basis, excluding mini-vehicles)	1,396	1,570	1,605	1,439	1,462
Toyota market share	45.5%	48.4%	46.7%	46.0%	46.8%

	(Thousands of Units)				
	Calendar Year Ended December 31,				
	2011	2012	2013	2014	2015
<b>North America:</b>					
Total market sales	15,417	17,153	18,514	19,597	20,804
Toyota sales (retail basis)	1,880	2,360	2,520	2,670	2,817
Toyota market share	12.2%	13.8%	13.6%	13.6%	13.5%
<b>Europe:</b>					
Total market sales	19,074	18,171	18,009	18,397	18,971
Toyota sales (retail basis)	820	838	848	888	874
Toyota market share	4.3%	4.6%	4.7%	4.8%	4.6%
<b>Asia (excluding China):</b>					
Total market sales	7,861	8,986	8,899	8,785	9,287
Toyota sales (retail basis)	1,103	1,487	1,427	1,324	1,249
Toyota market share	14.0%	16.5%	16.0%	15.1%	13.4%



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**Table of Contents**

*Japan*

Japan is one of the leading countries with respect to technological advancements and improvements and will continue to demonstrate such strength. Toyota strives to earn customer satisfaction by introducing products distinctive of Japan's manufacturing ability such as value-added products including Lexus models, hybrid vehicles, vehicles with 3-seat rows and mini-vehicles. Toyota's consolidated vehicle sales in Japan in fiscal 2016 was 2,059 thousand units, a decrease of 95 thousand units in comparison with the previous year. Toyota endeavors to secure and maintain its large share of and position atop the Japanese market. Toyota held a domestic market share (excluding mini-vehicles) on a retail basis of 46.7% in fiscal 2014, 46.0% in fiscal 2015 and 46.8% in fiscal 2016.

Although Toyota's principle is to conduct production in regions where it enjoys true competitiveness, it considers Japan to be the source of its good manufacturing practices. Toyota supports its operations worldwide through measures such as the development of new technologies and products, low-volume vehicles to complement local production, production of global vehicle models which straddle multiple regions and supporting overseas factories. Toyota will also launch the implementation of the new platform and the new unit for the Toyota New Global Architecture ( TNGA ) globally, with Japan at the core. In Japan, Toyota is implementing flexible production based on market needs, in order to support its large share of domestic sales.

Since Toyota formed an alliance with Fuji Heavy Industries, Ltd. ( FHI ) in 2005, Toyota and FHI have utilized each other's resources in development and production. In April 2008, in order to create synergy and to further strengthen competitiveness, Toyota, Daihatsu and FHI agreed on the following three points: (1) Toyota and FHI will jointly develop a compact rear-wheel-drive sports car that will be marketed by both Toyota and FHI, (2) Toyota will provide FHI with a compact car on an original equipment manufacturing basis ( OEM ) and (3) Daihatsu will supply FHI with mini-vehicles and an FHI version of the Daihatsu Coo compact car on an OEM basis. In order to promote a smooth cooperation, FHI transferred 61 million FHI shares owned by FHI to Toyota in July 2008. As a result of this transfer, Toyota owns 16.5% of FHI issued shares. While Toyota vehicles have been manufactured at FHI's North American production center, Subaru of Indiana Automotive, Inc., since 2007, Toyota and FHI have decided to cease such production in the fall of 2016, and the collaboration between Toyota and FHI will shift going forward to collaboration focusing on products and technology.

Toyota and Mazda have been engaged in collaboration such as the licensing of Toyota's hybrid technologies to Mazda and the production of compact cars for Toyota at Mazda's plant in Mexico. In May 2015, Toyota and Mazda entered into an agreement to build a mutually beneficial long-term partnership that leverages the resources of both companies to complement and enhance each other's products and technologies and that will result in more appealing cars that meet the diverse needs and tastes of customers around the world. A joint committee is currently evaluating how best to utilize each company's respective strengths. The committee will encourage broad and meaningful collaboration across a range of fields, including environmental and advanced safety technologies.

In 2011, Toyota and BMW Group agreed to conduct collaborative research in the field of next-generation lithium-ion battery technologies and for BMW to supply diesel engines to Toyota Motor Europe, Toyota's European subsidiary. In 2013, as part of their strategic long-term cooperation in the field of sustainable mobility, Toyota and BMW Group entered into agreements for the joint development of a fuel cell system, joint development of architecture and components for sports vehicles and joint research and development of lightweight technologies. The two companies also agreed to commence collaborative research on lithium-air batteries, a post-lithium-battery solution, marking the second phase of collaborative research into next-generation lithium-ion battery cells.

In Japan, there are five major domestic manufacturers, five specialized domestic manufacturers and a growing volume of imports from major United States and European manufacturers. The prolonged economic slump in the Japanese economy and the recent increases in environmental awareness have also shifted consumer preference towards more affordable automobiles such as compact and subcompact vehicles and towards utility

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**Table of Contents**

vehicles such as mini-vans. For more than 40 years, Toyota has maintained its position as the largest automobile manufacturer in Japan. Every year since fiscal 1999, Toyota, excluding Daihatsu and Hino, has achieved a market share (excluding mini-vehicles) of over 40%, reflecting in part the success of the introduction of new models for subcompact and compact cars, mini-vans and sedans. In August 2005, Toyota launched the Lexus brand in Japan and achieved a record top market share of 25.6% in the luxury market in 2011. Toyota aims to further distinguish the Lexus brand by continuing to attract new and affluent customers including customers that typically had purchased imported vehicles.

*North America*

The North American region is one of Toyota's most significant markets. Toyota has reorganized its production structure and made improvements to its product lineup. In addition, Toyota is actively working to promote increased local operations independence in North America, in accordance with the Toyota Global Vision, announced in 2011.

In the North American region, of which the U.S. is the center, Toyota has a wide product lineup (excluding large trucks and buses), and sold 2,839 thousand vehicles on a consolidated basis in fiscal 2016. This represents approximately 33% of Toyota's total unit sales on a consolidated basis. The U.S., in particular, is the largest market in the North American region, accounting for 89% of the retail sales of Toyota in such region. Sales figures for fiscal 2016 were 104.6% of those in the prior fiscal year.

Toyota commenced sales of the first-generation Prius hybrid model in North America in 2000. The Prius became Toyota's bestselling model behind the Corolla and Camry, having gained particular support among customers concerned with the environment. Toyota introduced the first hybrid model under the Lexus brand, the RX400h, and the Highlander hybrid in 2005. Toyota continued further expansion of its environmentally friendly vehicles with the introduction of models such as the CT200h in 2011, the ESh and the Avalon HV in 2012, the NXh in 2014 and the all-new Prius and the fuel cell vehicle MIRAI in 2015.

Since the introduction of the LS and ES models under the premium brand model, Lexus, in the United States in 1989, Toyota has expanded its Lexus sales with models including the GS, IS and RX. In 2013, Toyota introduced the new IS model, and unit sales reached 274 thousand units. Toyota is seeking to steadily increase sales every year and achieved sales of 311 thousand units through the introduction of the new NX and RC models in 2014 and 344 thousand units through the introduction of the new RX model in 2015.

Toyota is continuing to revise its vehicle models and North American production capacities in response to changes in market conditions. Starting 2011, Toyota, instead of importing from Japan, began production of the Corolla at its Mississippi plant. In 2013, the production capacity at the Woodstock plant in Canada increased from 150 to 200 thousand units per year, and the production capacity at the Indiana plant also increased. Toyota commenced production of the RX450h hybrid model at its Cambridge plant in Canada in 2014. Through the business alliance with Mazda Motor Corporation, the production of Toyota brand light vehicles for sale mainly in North America began at Mazda's plant in Mexico in June 2015. In addition, Toyota commenced production of the Lexus ES350 at its Kentucky plant for sale in the North America market starting in October 2015.

In terms of auto parts, Toyota increased production capacity of engine plants in Kentucky and Alabama in 2013 and 2014, respectively, to meet rising demand, and also increased production capacity of auto parts at its automatic transmission plant in West Virginia in 2014.

In order to further strengthen competitiveness in North America, Toyota will continue the realignment of North American manufacturing operations going forward. As part of this effort, a new plant will be built in Mexico in 2019 and production of the Corolla will be shifted from the plant in Canada to the new plant in Mexico. In addition to the plant in Mississippi, compact cars will also be produced at the new plant. Toyota will

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## **Table of Contents**

consider focusing its production of mid-sized vehicles in the plant in Canada, along with the plants in Indiana and Kentucky, by commencing production of mid-sized vehicles instead of the Corolla in Canada starting in 2019.

As for Toyota's vehicle development in North America, the Toyota Technical Center spearheads the design, planning, and evaluation of vehicles and parts as to their ability to meet customer needs. Toyota will continue to promote self-reliance towards producing even better cars in the future.

In April 2014, Toyota decided to relocate its North American headquarters for manufacturing, sales and marketing, financial services and other functions to the city of Plano in northern Dallas, Texas. By unifying its North American operations, Toyota plans to promote collaboration and efficiencies across functions, position itself to deliver ever-better cars to customers and work towards realizing sustainable growth in the North America market. The relocation is expected to take place following the completion of the construction of the new headquarters in late 2016 or early 2017.

### *Europe*

While competition continues to intensify, Toyota has expanded its lineup of hybrid models to further strengthen its sales operations, and has entered into supply agreements with BMW and PSA for diesel engines and light commercial vehicles, respectively. As a result, Toyota launched the BMW engine-equipped Verso in early 2014 and started equipping the RAV4 with BMW engines beginning in 2015. Toyota also began sales of light commercial vehicles supplied by PSA from mid-2013. In addition, Toyota is actively promoting production and sales measures that meet local demand by strengthening its value chain including used car dealerships, after-sales services and finance and insurance services.

In 2015, while the market in Eastern European countries, mainly in Russia, continued to stagnate due to factors such as a decline in crude oil prices, the European market expanded from the previous year as the Eurozone market grew steadily due to its strong economy.

Sales in 2015 in Europe decreased from the previous year due to the slowdown in Eastern European countries including Russia, but sales in the Eurozone exceeded the previous year's sales due to the introduction of new models and increased sales of hybrid models. Moreover, annual sales in Turkey, Poland and Israel reached a record high. Going forward, Toyota will strive to maintain sales with the expansion of its product lineup while being responsive to market risks. Toyota's consolidated vehicle sales in Europe in fiscal 2016 was 844 thousand units, a decrease of 1.7% from fiscal 2015.

Toyota has in the past increased European production in response to sales growth, establishing Toyota Motor Manufacturing (UK) Ltd. (TMUK) in 1992, Toyota Motor Manufacturing Turkey Inc. (TMMT) in 1994 and Toyota Motor Manufacturing France S.A.S. (TMMF) in 2001. Further, in 2005, Toyota Peugeot Citroën Automobile Czech was formed as a result of a joint venture with PSA Peugeot Citroën as vehicle supply factories to Europe. At the time of the economic crisis in Europe, Toyota promptly reduced personnel and made adjustments to its plant operations. In addition, in 2010, TMUK limited its production to one production line at its Burnaston plant. At the same time, Toyota conducted measures such as changing from a two-shift to a one-shift production operation at TMMT and change from a three-shift to a two-shift production operation at Toyota Motor Manufacturing Poland SP.zo.o. To increase the utilization rate of these factories, Toyota began to transfer the production of the Corolla from South Africa to TMMT and commenced exporting the TMMF Yaris to North America in 2013. Toyota plans to commence production of the compact crossover C-HR by increasing the annual production capacity of TMMT from 150,000 units to 280,000 units by the end of 2016.

Toyota opened the Toyota Motor Manufacturing Russia (TMMR) plant in 2007 as a base for its manufacturing operations in the Russian market. A two-shift production operation started in September 2012 and production capacity was increased from 20,000 units to 50,000 units per year. In addition, Toyota decided in September 2013 to manufacture a second model, namely the RAV4. Moreover, OOO Toyota Motor (sales) and

## **Table of Contents**

TMMR were merged into one company at the end of 2013 to strengthen the business base and promote coordination of manufacturing and sales operations. Toyota commenced contract assembly of the Land Cruiser Prado by Sollers Bussan in Vladivostok in February 2013, but ended production at the end of June 2015. Toyota commenced complete knock down, or CKD, production of the IMV Fortuner in Kazakhstan beginning in the spring of 2014.

Toyota's principal European markets are Germany, France, the United Kingdom, Italy, Spain and Russia. Toyota's principal competitors in Europe are Volkswagen, Renault, Ford, Opel and Peugeot, as well as Korean manufacturers Hyundai and Kia.

### *Asia*

Toyota's consolidated vehicle sales in Asia (including China) in fiscal 2016 was 1,345 thousand units, a decrease of 9.7% from fiscal 2015.

In light of the importance of the Asian market that is further expected to grow in the long term, Toyota aims to build an operational framework that is efficient and self-reliant as well as a predominant position in the automotive market in Asia. Toyota has responded to increasing competition in Asia by making strategic investments in the market and developing relationships with local suppliers. Toyota believes that its existing local presence in the market provides it with an advantage over new entrants to the market and expects to be able to promptly respond to demand for vehicles in the region.

In this region, Toyota has been further strengthening its business foundations by improving its product line-up, expanding local procurement and increasing production capacities.

As an example of enhancing the product line-up, Toyota began producing IMVs (the Hilux, Fortuner and Innova) in Thailand, Indonesia, India, the Philippines and Malaysia in 2005 and in Vietnam in 2006. Furthermore, with increased production capacity, the Thailand plant now produces IMVs for export outside of Asia, including to Australia and to the Middle East, contributing greatly to the expansion of Toyota's automotive business.

As part of Toyota's efforts to expand business, Toyota Motor Thailand Co., Ltd. commenced production of hybrid vehicles such as the Camry hybrid in 2009. Toyota also started operation of its second Gateway plant in 2013, expanding production capacity by 80 thousand units in Thailand to 810 thousand units. In April 2015, Toyota implemented a full model change for IMV models manufactured at its plant in Thailand.

In India, Toyota constructed a second plant with an annual production capacity of 70 thousand units and commenced production and sales of the Etios compact model designed specifically for the Indian market in 2010. Furthermore, Toyota increased production capacity in India during 2012 and 2013 to 210 thousand units. Moreover, Toyota began exporting the gasoline-fueled model of the Etios to South Africa from India in 2012.

In Indonesia, Toyota introduced the Etios and commenced operation of a second plant in Karawang in 2013 in order to meet the diverse customer needs and the expanding market. In 2014, Toyota increased the initial production capacity of 70 thousand units per year to 120 thousand units per year with the introduction of the Vios and the Yaris, and also began exporting the Vios to the Middle East. Toyota also constructed a passenger vehicle engine plant that commenced production in February 2016. In Malaysia, Toyota began production of the Camry hybrid in March 2015, and is planning to reorganize its production structure there in 2019 by building a new plant dedicated to passenger vehicles while making the existing plant dedicated to commercial vehicles. In addition, in 2012 Toyota began production and sales of the Camry hybrid in Taiwan to accommodate the spread of environmentally friendly vehicles. Moreover, in light of the free trade agreement between the U.S. and Korea, Toyota began sales of the U.S.-produced Camry in Korea in January 2012.

Toyota's principal Asian markets are Thailand, Indonesia, India and Taiwan.



**Table of Contents***China*

Toyota has been conducting operations in China through joint ventures, and its success in producing products that meet local demands and in establishing its sales and service network has significantly contributed to Toyota's profits. Based on the firm business foundation that it has established, Toyota is conducting its operations with the aim of promoting further growth and increasing profitability through further development of its sales and service network and expansion of its product lineup.

In China, Toyota has been conducting joint ventures with two major partners. First, with respect to the joint venture with China FAW Group Corporation since Toyota first launched the Vios through the joint venture in 2002, Toyota has been producing and selling the Land Cruiser Prado, the Land Cruiser, the Corolla, the Corolla HV, the Crown, the REIZ, the Coaster and the RAV4 in China. With regard to production capacity, in 2007, Toyota commenced production at the new Tianjin Teda plant, which has an annual production capacity of 200 thousand units, and in 2012, commenced production at a new factory in Changchun, China, which has an annual production capacity of 100 thousand units. Toyota also increased annual production capacity of the plant in Sichuan from 30 thousand units to 50 thousand units in the spring of 2015 to increase production of the Prado. Toyota plans to construct a new production line to replace an aging existing line at the Tianjin Teda plant in the middle of 2018.

GAC Toyota Motor Co., Ltd., a joint venture between Toyota and Guangzhou Automobile Group Co., Ltd., commenced sales of the Camry in 2006, followed by production and sales of the Yaris, the Highlander, the E'z, the Levin and the Levin HV. In 2006, it commenced production at the first plant on a single shift basis with an annual production capacity of 100 thousand units and expanded its annual production capacity to 200 thousand units on a double shift basis. In addition, a second plant commenced production in 2009 and Toyota plans to complete construction of a third plant in 2017. In terms of auto parts, in 2014, Toyota opened a plant in Changshu in Jiangsu, China for the production of the CVT as the first CVT plant outside of Japan. Toyota also opened a plant to produce hybrid vehicle batteries in October 2015.

Total vehicle sales in the Chinese market increased 4% from 24.03 million in 2014 to 25.00 million in 2015. In this market, Toyota's sales in 2015 were 1.12 million vehicles, up 9% from the previous year. In the passenger vehicle market (19.29 million units), Toyota had a market share of 6%. In 2015, favorable conditions in the less-than-1.6 liter market continued, and in particular sales of SUVs expanded as a result of customers' value diversification. As for Toyota's distribution network, Toyota has been expanding the distribution network for locally produced vehicles in cooperation with Chinese joint venture partners under Tianjin FAW Toyota Motor Co., Ltd. and Guanqi Toyota Motor Co., Ltd., and for imported vehicles, Toyota has also been expanding primarily the Lexus brand sales network. Toyota plans to further increase sales by expanding the number of dealers and the product lineup for both locally produced and imported vehicles, particularly inland. In addition, as the market in China develops, Toyota plans to promote the so-called "Value Chain" businesses such as used cars, services, financing and insurance.

*South and Central America, Oceania, Africa and the Middle East*

Toyota's consolidated vehicle sales in South and Central America, Oceania, Africa and the Middle East (collectively, the "Four Regions") in fiscal 2016 were 1,594 thousand units, a decrease of 9.2% from fiscal 2015. The core models in this region are global models such as the Corolla, IMV (the Hilux) and Camry. In order to increase production of IMVs, Toyota expanded the annual production capacity of its Argentina factory from 70 thousand units to 90 thousand units in 2011. Toyota further increased annual production capacity to 140 thousand units per year at the end of 2015 and is seeking to increase production to meet demand after 2016. In order to expand business in Brazil, Toyota constructed a new factory in Sorocaba with an annual production capacity of 70 thousand units, and in 2012, began production and sales of compact vehicles. Starting from the beginning of 2016, Toyota increased production capacity to 110 thousand units per year. Further, Toyota began local production of the Fortuner in Egypt in 2012. Moreover, in terms of auto parts, Toyota commenced production at a plant in Brazil for passenger vehicle engines in February 2016.

**Table of Contents**

Toyota decided to end production of vehicles and engines at Toyota Motor Corporation Australia Ltd. by the end of 2017.

In these regions, which are expected to become increasingly important to Toyota’s business strategy, Toyota aims to develop new products which meet the specific demands of each region, increase production and further promote sales.

Toyota’s principal markets in the Four Regions are Brazil in South and Central America, Australia in Oceania, South Africa in Africa and Saudi Arabia in the Middle East.

***Production***

Toyota and its affiliated companies produce automobiles and related parts and components through more than 50 overseas manufacturing companies in 28 countries and regions besides Japan. Toyota’s major manufacturing facilities include plants in Japan, the United States, Canada, the United Kingdom, France, Turkey, Thailand, China, Taiwan, India, Indonesia, South Africa, Australia, Argentina and Brazil. Daihatsu brand vehicles are produced at 4 factories in Japan and 4 manufacturing companies in 3 other countries, including Indonesia and Malaysia. Hino brand vehicles are produced at 2 factories in Japan and 10 manufacturing companies in 10 countries, including Indonesia and Thailand. For a listing of Toyota’s principal production facilities, see Information on the Company Property, Plants and Equipment.

In promoting a sustainable growth strategy, establishing a system capable of providing optimal supply of products in the global market is integral to Toyota’s strategy.

In line with its basic policy of manufacturing where there is demand and where Toyota is truly competitive, Toyota will make efficient use of and maximize capacity utilization at its existing plants to respond to the expanding market and will continue to focus on making efficient capital investments as necessary. Furthermore, Toyota will continue to place top priority on safety and quality in strengthening true competitiveness with the aim of achieving sustainable growth.

In 2015, 75.1% of Toyota vehicles sold in overseas markets were manufactured in overseas plants by Toyota and its unconsolidated affiliated companies. In 2015, approximately 72.2% of Toyota vehicles sold in North America were produced in North America. Of the vehicles sold in Europe in 2015, approximately 76.3% were produced in Europe. In fiscal 2016, Toyota produced on a consolidated basis 3,981 thousand vehicles in Japan and 4,595 thousand vehicles overseas, compared to 4,125 thousand vehicles in Japan and 4,805 thousand vehicles overseas in fiscal 2015.

The following table shows the worldwide vehicle unit production by Toyota for the periods shown. These production figures do not include vehicles produced by Toyota’s unconsolidated affiliated companies. The sales unit information elsewhere in this annual report includes sales of vehicles produced by these affiliated companies. Vehicles produced by Daihatsu and Hino are included in the vehicle production figures set forth below.

	Year Ended March 31,				
	2012	2013	2014	2015	2016
Units Produced	7,435,781	8,698,454	9,032,165	8,929,887	8,575,899

Toyota closely monitors its actual units of sale, market share and units of production data and uses this information to allocate resources to existing manufacturing facilities and to plan for future expansions.

See Capital Expenditures and Divestitures for a description of Toyota’s recent investments in completed plant constructions and for a description of Toyota’s current investments in ongoing plant constructions.

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**Table of Contents**

*The Toyota Production System*

Toyota pioneered the internationally recognized production system known as the Toyota Production System. The Toyota Production System is based on Toyota's own concepts of efficient production of only necessary and quality products and efficient cost reduction, and has the following two principal elements:

*Just-in-Time*, and

*Jidoka*.

*Just-in-Time* is an approach in which necessary parts and components are manufactured and delivered in just the right quantity in a timely manner just as they are needed. This allows Toyota to maintain low levels of inventory while maintaining operating efficiency.

*Jidoka* is a production concept which involves immediate stop of work when problems arise in the production line in order to stop the production of defective items from being passed on to subsequent stages of the process, and therefore making quality assurance an inherent part of the production process. To achieve this, Toyota's equipment is designed to detect and highlight abnormalities and to stop whenever abnormalities occur. Toyota also authorizes its machine operators and other members of its production team to stop production whenever they note anything suspicious. This helps Toyota to build quality into the production process by avoiding defects and preventing the waste that would result from producing a series of defective items.

Toyota believes that the Toyota Production System allows it to achieve mass-production efficiencies even in high-mix, low-volume production. This belief gives Toyota the flexibility to respond to changing consumer demand without significantly increasing production costs. While the Toyota Production System remains the basis of Toyota's automobile production, the system has been expanded for use in Toyota's parts production, logistics and customer service activities as well.

Through the Toyota Production System, issues are identified and analyzed at the actual site, the entire production process is made visible and production efficiency as well as product quality are improved through the application of measures to address the sources of problems. As one method to implement these measures, Toyota utilizes sophisticated information technologies to improve each step of its vehicle development process, from product planning to commencement of mass-production. These technologies are intended to enhance flexibility, simplification, quality, cost competitiveness and speed. Specifically, detailed virtual assembly and other simulations of manufacturing processes are conducted on computers for a new vehicle or new production equipment/systems before a prototype is made. An actual prototype is made only after defects and related issues have been identified and resolved by computer simulation, thereby minimizing the time required for rebuilding prototypes and significantly shortening the time required before starting mass production. Moreover, this system is used to prepare virtual factories and other visual aids in order to facilitate training and communication at overseas plants and enable the efficient transfer of necessary technology and skills.

In order to strengthen manufacturing and promote localization of overseas production, Toyota established the Global Production Center ( GPC ) in July 2003 as a development and training center for global human resources. The GPC is intended to introduce local managers to the Toyota methodology, allowing them to train their subordinates while managing locally. GPC develops simple, easy-to-understand and efficient training systems for the development of explicit knowledge. One characteristic of the GPC is that managers and supervisors, new hires and experienced workers can all receive common skill-training. GPC's training system involves a pre-training phase where trainees learn basic skills and discover the skills that they must acquire through image training. This is followed by various steps, from basic skill training and elemental task training to standard task training, which ensures a step-by-step training. The fruits of this training method are reduced training time, higher levels of achievement and the efficiency of training. Since January 2006, Toyota has opened regional GPCs in North America, Europe and Asia. In each region, Toyota commenced courses where trainees from each department are trained by local trainers to become trainers themselves.

## Table of Contents

In April 2015, the GPC was reorganized into TPS Promotion Center in order to promote TPS (Toyota Production System) and activities centering on improving production engineering and manufacturing methods at each manufacturing process by sharing global best standards in cooperation across different plants in order to foster highly skilled workers and improve logistics in order to comprehensively improve manufacturing abilities. Through these activities, Toyota has been making efforts to resolve issues relating to the entire supply chain.

Toyota is working company-wide towards the production of ever-better cars. The production engineering and manufacturing divisions are developing Toyota's own innovative production systems, equipment and processing technologies and deploying them in production lines in order to produce vehicles that create excitement, joy and fun for customers through truly competitive manufacturing methods.

### *Distribution*

Toyota's automotive sales distribution network is the largest in Japan. As of March 31, 2016, this network consisted of 280 dealers employing approximately 33 thousand sales personnel and operating approximately 4.7 thousand sales and service outlets. Toyota owns 15 of these dealers and the remainder is independent.

Toyota believes that this extensive sales network has been an important factor in its success in the Japanese market. A large number of the cars sold in Japan are purchased from salespersons who visit customers in their homes or offices. In recent years, however, the traditional method of sales through home visits is being replaced by showroom sales and the percentage of automobile purchases through showrooms has been gradually increasing. Toyota expects this trend to continue, and accordingly, is working to improve its sales activities such as customer reception and meticulous service at showrooms to increase customer satisfaction.

Sales of Toyota vehicles in Japan are conducted through four sales channels: Toyota, Toyopet, Corolla and Netz. In addition, Toyota introduced the Lexus brand to the Japanese market in August 2005, and currently distributes the Lexus brand vehicles through a network of 169 sales outlets in order to enhance its competitiveness in the domestic luxury automobile market. The following table provides information for each channel as of March 31, 2016.

Channel	Dealers			Market Focus
	Toyota Owned	Independent	Total	
Toyota	4	45	49	Luxury channel for Toyota brand vehicles
Toyopet	4	48	52	Leading channel for the medium market
Corolla	4	70	74	Volume retail channel centering on compact models
Netz	3	102	105	Sales channel targeting customers with new values for the 21 <sup>st</sup> century

  

Brand	Sales Outlets		Market Focus
	Number	Percentage	
Lexus	169		Premium brand

Outside Japan, Toyota vehicles are sold through approximately 170 distributors in approximately 190 countries and regions. Through these distributors, Toyota maintains networks of dealers. The chart below shows the number of Toyota distributors as of March 31, 2016 by country and region:

Country/Region	Number of Countries	Number of Distributors
North America	3	5
Europe	53	30
China	1	4
Asia (excluding China)	19	12
Oceania	17	15
Middle East	16	14
Africa	55	48
Central and South America	30	40



## **Table of Contents**

### ***Improving Efficiency***

Toyota is working on the following to create a corporate structure allowing for efficient development, production and sales that can respond flexibly to changes in the external environment:

working with suppliers as one team to dramatically increase the efficiency of development;

creating a production structure that can better withstand fluctuations in demand and currency exchange rates; and

strengthening sales capabilities in line with local conditions.

Toyota also plans to improve profitability and enhance operating efficiency by continuing to pursue aggressive cost reduction programs, including:

improving product development and production efficiencies through the re-integration and improvement of vehicle platforms and power trains as well as through the development of electronic platforms which organize electronic devices of vehicles as a package and standardize electronic structure and infrastructure;

implementing Ryohin-Renka Cost Innovation ( RR-CI ) activity, which aims for the elimination of waste in all processes from design to production while ensuring the reliability and safety of each part;

applying advanced information technologies to improve efficiency throughout the product development and production processes;

promoting global reinforcement of the supply base under an open and fair purchasing policy;

streamlining production systems; and

improving the efficiency of domestic and international distribution.

Toyota is further improving production efficiency by installing more versatile equipment and systems, modifying vehicle body designs to allow for a greater variety of models on each production line and sharing more parts among vehicles, not simply among different models but also among different platforms.

In April 2012, Toyota announced a new development framework, the TNGA, which reconciles sweeping advances in product appeal with cost reductions. The new framework sets forth an architecture that incorporates not only the three fundamental vehicle functions of moving, turning and stopping, but also ergonomics such as driving position as well as freedom of design. Toyota plans to efficiently develop cars with high basic-performance attributes by developing parts and modules based on this architecture. The TNGA provides for handling multiple models simultaneously in grouped development projects that will increase the sharing of parts and core vehicle components. This sharing, carried out in cooperation with suppliers, will result in lowered costs, thereby allowing developmental manpower and funds to be reinvested in R&D to meet consumer preferences and R&D to meet regional needs, resulting in further product improvement.

By April 2013, Toyota established systems to rapidly promote the TNGA and carried out product development under this new way of doing business. As a result, Toyota realized high basic performance and marketability in the Prius that was introduced in Japan in December 2015. Toyota plans to roll out the results of development to other vehicles.

*Enhancing Vehicle Functionality and Realizing a Smart Mobility Society*

Toyota is striving to realize a smart mobility society in which people feel at ease and excited about being in cars and in everyday life by connecting vehicles, people and communities in order to meet the needs of rapidly changing societies, including the falling birth rate and aging populations in developed nations and an increasingly diverse range of energy sources, among others. In particular, Toyota aims to contribute to an affluent lifestyle

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## Table of Contents

that offers peace of mind by enhancing vehicle functionality that will increase the attractiveness of vehicles and the excitement of driving, enhancing transport systems that make being in cars more comfortable and more environmentally friendly, and realizing Smart Communities that aim for optimization of local energy use and establishment of a low-carbon emission transportation system.

### *Enhancing Vehicle Functionality Information Service Functions*

To Toyota, enhancing vehicle functionality means advancing information service functions that integrate vehicles with telecommunication systems, and driving assistance functions that use communication technologies and sensor technologies to create vehicles with intelligent features. Information service functions can improve convenience and enrich the driving experience through information communication technologies that add new functions that are connected to the basic vehicle functions of running, turning and stopping. Examples include the following:

Toyota is advancing enhancement of car navigation systems, such as car parking maps that display detailed information inside car parks, as well as the VICS system (Vehicle Information and Communication System) that provides real-time road traffic information such as congestion, accidents, traffic restrictions and parking. Car navigation systems play an increasingly important role in providing drivers with various types of information on safety, smooth traveling, comfort and convenience.

T-Connect/G-BOOK is the latest information network service that merges the latest network technologies and car multimedia a step ahead of the arrival of the ubiquitous network society. T-Connect/G-BOOK provides various types of information useful for driving, as well as safety and security services that detect unusual conditions in the vehicle, thereby supporting a lifestyle with one's vehicles anytime and anywhere through a network. In 2005, Toyota started G-BOOK ALPHA and G-Link for Lexus, each with additional various features including traffic congestion forecast service. In 2007, Toyota launched G-BOOK mX, which in addition to the well-received conventional safety and security services of G-BOOK, introduced even more useful car navigation services such as Map-on-Demand the world's first technology for automatically updating map data and Probe Communication Traffic Information that provides drivers with highly precise information on traffic congestion. In 2014, Toyota launched T-Connect, which in addition to conventional telematics services, provides new services and functions through the distribution of applications to on-board device, as well as destination and other information searches through the adoption of a voice recognition system.

HELPNET is an emergency dial system that, in the event of a traffic accident or medical emergency, transmits information required for emergency rescue, such as present-location data and vehicle details, either automatically or with the touch of a button. It immediately contacts police and fire departments through the HELPNET Operation Center. This system is integrated into T-Connect/G-BOOK and G-Link to improve the quality of services. HELPNET shortens the time taken to report following an emergency situation, which contributes to decreasing the number of traffic accident fatalities and reducing the level of impact, while at the same time aiming to prevent secondary disasters and ease traffic congestion.

In addition to the above, Toyota also operates a Japanese-language web portal for automobile information, GAZOO.com. The name GAZOO originates from the Japanese word *gazo*, meaning images. GAZOO was established as an Internet membership service linking Toyota, its national dealer network and GAZOO members, and has provided information on new and used Toyota vehicles and related services, as well as online shopping services. GAZOO currently provides information on not only Toyota vehicles but also other automakers, as well as offering a rich blog feature as a social networking portal site on automobiles. In addition, GAZOO features GAZOO Racing and Gazoo mura, through which Toyota aims to expand the fan base of car enthusiasts by promoting activities such as user-participatory motor sports, where customers can experience in real life the enjoyment that cars offer, to further complement its contents line-up. Toyota utilized its GAZOO technology to further expand its automobile information service by launching the G-BOOK telematics service in Japan in fall 2002 and G-Link, which is a service exclusive to Lexus, in August 2005. Toyota also offers a theft detection system, vehicle tracking service and operator support service as standard services to enhance services aiming to



**Table of Contents**

provide safety, security and comfort for T-Connect/G-BOOK and G-Link users in their lifestyle using vehicles. With G-BOOK mX announced in April 2007, Toyota started offering services that allow drivers to use more convenient navigation systems such as Map-on-Demand the world's first technology for automatically updating map data. In addition, Toyota has further strengthened its linkage between GAZOO and G-BOOK and has, for example, allowed map information searched on a blog on GAZOO.com to be used on G-BOOK, further maturing as a comprehensive telematics service. In Japan, Toyota is seeking to promote the use of the T-Connect/G-BOOK by equipping all Lexus models and certain Crown models with the T-Connect/G-BOOK as a standard feature. Toyota has also licensed its T-Connect/G-BOOK technology to certain other competitors in Japan. Toyota is applying the technology and experience which it has accumulated in Japan to regions outside Japan; G-BOOK services were introduced in China in March 2009, and unique telematics services in the United States were launched in August 2009. In addition, Toyota began offering telematics services for smartphones in December 2010 in Japan, and began to offer the same service in Thailand in March 2012 and the Middle East from January 2014 (UAE, Qatar and Lebanon in January 2014, Saudi Arabia in August 2014, Bahrain in October 2014 and Kuwait in January 2015).

In addition, in March 2004, Toyota launched its CRM (Customer Relationship Management) system called e-CRB (evolutionary Customer Relationship Building) in Thailand. e-CRB builds on a technology cultivated through the development of Gazoo and G-BOOK and offers its customers a variety of services such as providing information on new vehicles, accepting requests for brochures and estimates and notifying customers when it is time for maintenance by keeping track of the vehicle's maintenance history and mileage. In addition, e-CRB offers an advanced operation system that can be utilized comprehensively at dealers including new and used cars and services. Toyota is promoting e-CRB in countries such as China, Thailand, Australia, India and Brazil where steady progress has been made as the service-in ratio has increased. In 2013, Toyota introduced the next-generation e-CRB that adopts tablet terminals (portable information processing terminals) in China. These tablet terminals are supporting the improvement of customer satisfaction at points of sale and in after-sale service.

Toyota also introduced a system called Sales Logistics Integrated Management ( SLIM ) in Guangzhou, China and India. By utilizing real sales information and linking with production and distribution, Toyota is able to realize the Just-in-Time production system of producing and delivering only the number of vehicles that have been sold. SLIM has been recognized to significantly increase the freshness of inventory and improve cash flow.

In September 2010, Toyota announced its smart-grid initiatives, which are intended to demonstrate efficient energy use toward the realization of a low-carbon and energy-saving society. By utilizing technology cultivated through the Internet and telematics services mentioned above, Toyota developed the Toyota Smart Center ( TSC ) that optimally controls electricity and links EV (electric vehicles) and PHV (plug-in hybrid vehicles) with homes, and conducted a demonstration project in Rokkasho Village in Aomori aimed at reducing overall CO2 emissions and users' electricity costs. In addition, in order to develop a global platform of the TSC, Toyota announced a partnership with Microsoft Corp. in April 2011 and a partnership with Salesforce.com in May 2011. Toyota plans to utilize the cloud technology of these two companies in its Internet and telematics services to build a framework for TSC's global implementation. In January 2012, Toyota began eConnect and TOYOTA friend services for PHV. In May 2013, Toyota utilized the latest version of Microsoft's SharePoint to comprehensively redesign GAZOO, the automobile information portal site. Toyota aims to offer new services, achieve better vehicle quality and enhance product attractiveness as well as contribute further to society by utilizing the vehicle information, road conditions and other parameters collected via telematics services and stored at the TSC. With regard to contribution to society, Toyota began offering the Big Data Traffic Information Service in June 2013, through which traffic information, statistics and other related information are provided to local governments, universities and businesses to support traffic flow improvement and assist disaster prevention measures. Toyota plans to continue to work with new information technologies and the IT industry to establish a framework for TSC's global implementation and to realize a mobility society of the future.

In 2016, Toyota has been working actively on connected car technology and alliances with other companies for effective vehicle data utilization to make ever-better cars and for safer and securer connected

## **Table of Contents**

service. In January 2016, Toyota announced a connected vehicle framework to increase installation of a Data Communication Module (DCM) into a broader range of its vehicles starting in the United States from 2017. In April 2016, Toyota established a new company, Toyota Connected, Inc., in the United States to consolidate and analyze information collected from vehicles and to develop new products, and thereby promoting making ever-better cars through utilizing big data. In addition, Toyota is collaborating with insurance companies on developing insurance services as well as tying up with a sharing service company, thereby actively advancing research for new services and the realization of a mobility society utilizing big data.

### *Enhancing Vehicle Functionality Driving Assistance Functions*

Toyota's driving assistance functions offer functions that assist drivers with an aim to lessen the burden of driving, enhance safety and provide to everyone the pleasure of driving. Toyota has commercialized enhancements to various functions that assist the driver in sensing external information, avoiding danger and making appropriate maneuvers. Examples of driving assistance functions include the following:

VDIM (Vehicle Dynamics Integrated Management) is a system that constantly monitors the driver's operations and the vehicle's situation and centrally manages the engine, steering mechanisms and brakes. By stabilizing the vehicle before the driver loses control of the vehicle, VDIM achieves a high level of active safety and improves driving performance, consisting namely of running, turning and stopping.

Pre-collision System is a system that perceives possibilities of a crash with obstacles, cars in front or crossing pedestrians through a sensor installed in a vehicle. If a collision seems likely, it proceeds to activate warnings as well as brake assistance, which aids the driver's operation of the brake, or the automatic braking system, which aids in avoiding the collision altogether or mitigates any damage.

Radar Cruise Control (with all-speed tracking function) allows the vehicle to keep a constant distance between itself and the preceding vehicle within a speed range from zero to a preset speed, automatically slowing down and stopping if necessary to avoid collision. When the car in front speeds up, it allows the driver to accelerate.

Lane Departure Alert is a system that uses a camera to detect white or yellow lane markers while driving. The system warns the driver with a buzzer and displays if it detects possible deviation in order to assist in avoiding a collision accident resulting from deviation. In addition, Lane Keeping Assist System, a system that assists the driver's operation of the steering wheel with electric power steering in order to help keep the vehicle traveling between lane markers, has been developed.

Automatic High Beam detects the headlights of oncoming vehicles or taillights of vehicles running in front and adjusts the headlight range, automatically switching to low beam or high beam, in order to avoid dazzling the visions of the drivers with bright lights, as well as to secure the drivers' forward visions at night.

Blind Spot Monitor is a system which aims to reduce accidents by alerting the driver to other vehicles in the driver's blind spot diagonally behind the driver's seat with sound and visual display in the side mirrors while changing lanes.

From these driving assistance functions, in 2015 Toyota commercialized the Toyota Safety Sense, a collision avoidance support package that includes the Pre-collision System, the Lane Departure Alert and the Automatic High Beam. By the end of 2017, Toyota plans to install this package on nearly all models sold in Japan, the United States and Europe at an affordable price aimed at widespread adoption.

### *Enhancing Transport Systems*

Enhancing transport systems requires taking a general approach that addresses various factors across a wide scope that are pertinent not only to vehicles but also roads, people and public transport systems in order to ensure



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## **Table of Contents**

smooth and efficient movement of people and vehicles and to build a safe transportation environment. In addition to VICS and ETC (Electronic Toll Collection System), which are already standard in Japan, the Cooperative ITS, which combines cutting edge IT and vehicle technology, is in development and has begun to be partially implemented.

The ITS Spot Service commenced in 2009 and corresponding products are available for purchase. Mainly for use on highways, this service provides drivers with information related to road traffic and safe driving that is transmitted from road infrastructures to car navigation systems through video and voice.

In the summer of 2011, Toyota introduced products corresponding to the driving safety support system, DSSS, which the National Police Agency has started operating. Mainly for use on normal roads, this system supports safe driving, including by preventing the driver from overlooking red lights, by transmitting traffic control information (such as traffic lights and signs) and other local information from road infrastructures to automobiles.

Aiming at further reducing accidents, improving fuel efficiency and reducing CO<sub>2</sub> emissions, ITS Connect, a new driving safety support system that uses a dedicated ITS frequency of 760 MHz, was introduced in the fall of 2015. Through direct and continuous exchange of information between vehicles and the road and among vehicles, this system aims to mitigate accidents near intersections, which have been difficult to mitigate to date. The system also includes Communicating Radar Cruise Control features, which supports fuel efficient driving and smooth acceleration and deceleration when following behind another vehicle. Toyota plans to continue development aimed at the realization of a society in which all drivers can move safely, smoothly and freely.

Toyota is committed to developing new ITS products. Toyota believes that intelligent transport systems will become an integral part of its overall automotive operations and enhance the competitiveness of its vehicles. As familiarity with and demand for ITS products grow, Toyota expects an increasing number of ITS products to become commercially available and achieve greater acceptance each year.

### *Smart Communities*

In April 2010, Toyota City was selected as a Model Region for Next-Generation Energy Systems by the Ministry of Economy, Trade and Industry. Toyota has since joined the Toyota City Low-Carbon Society Verification Council (established in August 2010), and carried out experiments relating to the Optimization of Local Energy Use in Households and Destinations (commercial and public facilities) and Establishment of a System for Low-Carbon Emission Transportation. In addition, starting in October 2014, Toyota launched an experimental ultra-compact electric vehicle sharing program in Grenoble, France, together with the city of Grenoble and local companies, and in Tokyo and Okinawa from April 2015 and January 2016, respectively.

In February 2013, Toyota, together with Toyota affiliated companies, established the F-Grid Ohira, Miyagi Limited Liability Partnership, a smart community business which operates the F-Grid in the Northern Sendai Industrial Park in the village of Ohira, Miyagi. The Partnership began supplying electricity and heat to partners in the industrial park in April 2013. This business aims to contribute to creating a safe and secure community with the community and the industrial park working as one, revitalizing local industry and revitalizing the community. Toyota believes that the elemental technologies developed through these experiments and businesses will help in the creation of new systems for society that meet differing social environments and municipal needs, not just in Japan but around the world, in both developed and emerging countries, and will play a role in the creation of energy and transportation infrastructure to help spread next-generation eco-cars.

### **Financial Services**

Toyota's financial services include loan programs and leasing programs for customers and dealers. Toyota believes that its ability to provide financing to its customers is an important value-added service. In July 2000,

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**Table of Contents**

Toyota established a wholly-owned subsidiary, Toyota Financial Services Corporation ( TFSC ), to oversee the management of Toyota's finance companies worldwide, through which Toyota aims to strengthen the overall competitiveness of its financial business, improve risk management and streamline decision-making processes. Toyota has expanded its network of financial services, in accordance with its strategy of developing auto-related financing businesses in significant markets. Accordingly, Toyota currently operates financial services companies in 36 countries and regions, which support its automotive operations globally.

Toyota's revenues from its financial services operations were ¥1,896.2 billion in fiscal 2016, ¥1,661.1 billion in fiscal 2015 and ¥1,421.0 billion in fiscal 2014. In fiscal 2015, amid a gradual recovery in markets mainly in the United States, Toyota collaborated with dealers in various countries and regions, and the balance of loan receivables increased steadily. In fiscal 2016, although economic weakness was seen in areas such as Asia, including China, recovery in the United States, among other places, continued. In such an environment, as a result of Toyota's continued collaboration with dealers in various countries and regions and efforts to expand products and services that meet customer needs, Toyota's share of financing provided for new car sales of Toyota and Lexus vehicles in regions where TFSC operates remained at a high level of 36% and the balance of loan receivables, mainly in the United States, continued to increase steadily. Meanwhile, Toyota is making efforts to provide both its customers and dealers with stable financial services by diversifying its funding mechanisms with ABCP (Asset Backed Commercial Paper) and ABS (Asset Backed Securities), in addition to mid- to long-term financings, primarily in commercial paper issuances, corporate bonds and bank borrowings. Toyota continued to perform detailed credit appraisals and serve customers by monitoring bad debt and loan payment extensions, and the percentage of credit losses remained low, at 0.36% and 0.31% in fiscal years 2016 and 2015, respectively. Toyota continues to work towards improving its risk management measures in connection with credit and residual value risks.

Toyota Motor Credit Corporation is Toyota's principal financial services subsidiary in the United States. Toyota also provides financial services in 35 other countries and regions through various financial services subsidiaries, including:

Toyota Finance Corporation in Japan;

Toyota Credit Canada Inc. in Canada;

Toyota Finance Australia Ltd. in Australia;

Toyota Kreditbank GmbH in Germany;

Toyota Financial Services (UK) PLC in the United Kingdom;

Toyota Leasing (Thailand) Co., Ltd. in Thailand; and

Toyota Motor Finance (China) Co., Ltd. in China.

Toyota Motor Credit Corporation provides a wide range of financial services, including retail financing, retail leasing, wholesale financing and insurance. Toyota Finance Corporation also provides a range of financial services, including retail financing, retail leasing and credit cards. Toyota's other finance subsidiaries provide services including retail financing, retail leasing and wholesale financing.

In April 2013, Toyota established Toyota Financial Services Kazakhstan MFO LLP, a financial services company, in Kazakhstan, which began operations in January 2014. In addition, in June 2016, Toyota established Toyota Financial Services Portugal Limited, a financial services company, in Portugal as a branch of Toyota Kreditbank GmbH.

Net finance receivables for all of Toyota's dealer and customer financing operations were ¥14,555.6 billion as of March 31, 2016, representing a decrease of 5.9% as compared to the previous year. The majority of Toyota's financial services are provided in North America. As of March 31, 2016, 59.1% of Toyota's finance receivables were derived from financing operations in North America, 11.9% from Asia, 10.3% from

Europe, 8.3% from Japan and 10.4% from other areas.

## **Table of Contents**

Approximately 50% of Toyota's unit sales in the United States during fiscal 2016 included a finance or lease arrangement with Toyota. Because the majority of Toyota's financial services operations are related to the sale of Toyota vehicles, a decrease in vehicle unit sales may lead to a contraction of Toyota's financial services operations.

The worldwide financial services market is highly competitive. Toyota's competitors in retail financing and retail leasing include commercial banks, credit unions and other finance companies. Commercial banks and other automobile finance subsidiary companies serving their parent automobile companies are competitors of Toyota's wholesale financing activities. Competitors in Toyota's insurance operations are primarily national and regional insurance companies.

For information on Toyota's finance receivables and operating leases, please see "Operating and Financial Review and Prospects" "Operating Results" "Financial Services Operations."

### ***Retail Financing***

Toyota's finance subsidiaries acquire new and used vehicle installment contracts primarily from Toyota dealers. Installment contracts acquired must first meet specified credit standards. Thereafter, the finance company retains responsibility for installment payment collections and administration. Toyota's finance subsidiaries acquire security interests in the vehicles financed and can generally repossess vehicles if customers fail to meet their contractual obligations. Almost all retail financings are non-recourse, which relieves the dealers from financial responsibility in the event of repossession. In most cases, Toyota's finance subsidiaries require their retail financing customers to carry automobile insurance on financed vehicles covering the interests of both the finance company and the customer.

Toyota has historically sponsored, and continues to sponsor, special lease and retail programs by subsidizing below market lease and retail contract rates.

### ***Retail Leasing***

In the area of retail leasing, Toyota's finance subsidiaries acquire new vehicle lease contracts originated primarily through Toyota dealers. Lease contracts acquired must first meet specified credit standards after which the finance company assumes ownership of the leased vehicle. The finance company is generally permitted to take possession of the vehicle upon a default by the lessee. Toyota's finance subsidiaries are responsible for contract collection and administration during the lease period. The residual value is normally estimated at the time the vehicle is first leased. Vehicles returned to the finance subsidiaries at the end of their leases are sold by auction. For example, in the United States, vehicles are sold through a network of auction sites as well as through the Internet. In most cases, Toyota's finance subsidiaries require lessees to carry automobile insurance on leased vehicles covering the interests of both the finance company and the lessee.

### ***Wholesale Financing***

Toyota's finance subsidiaries also provide wholesale financing primarily to qualified Toyota vehicle dealers to finance inventories of new Toyota vehicles and used vehicles of Toyota and others. The finance companies acquire security interests in vehicles financed at wholesale. In cases where additional security interests would be required, the finance companies take dealership assets or personal assets, or both, as additional security. If a dealer defaults, the finance companies have the right to liquidate any assets acquired and seek legal remedies.

Toyota's finance subsidiaries also make term loans to dealers for business acquisitions, facilities refurbishment, real estate purchases and working capital requirements. These loans are typically secured with liens on real estate, other dealership assets and/or personal assets of the dealers.

## **Table of Contents**

### ***Insurance***

Toyota provides insurance services in the United States through Toyota Motor Credit Corporation's wholly-owned subsidiary, Toyota Motor Insurance Services, Inc. ( TMIS ) and its wholly-owned insurance company subsidiaries. Their principal activities include marketing, underwriting and claims administration. TMIS also provides coverage related to vehicle service agreements and contractual liability agreements through Toyota dealers to customers. In addition, TMIS also provides coverage and related administrative services to affiliated companies of Toyota Motor Credit Corporation. Toyota dealers in Japan and in other countries and regions also engage in vehicle insurance sales.

### ***Other Financial Services***

Toyota Finance Corporation launched its credit card business in April 2001 and began issuing Lexus credit cards in 2005 when the Lexus brand was introduced in Japan. As of March 31, 2016, Toyota Finance Corporation has 14.2 million card holders (including Lexus credit card holders).

### ***All Other Operations***

In addition to its automotive operations and financial services operations, Toyota is involved in a number of other non-automotive business activities. Net sales for these activities totaled ¥1,177.3 billion in fiscal 2016, ¥1,255.7 billion in fiscal 2015 and ¥1,151.2 billion in fiscal 2014. Sales to external customers of all other operations in fiscal 2016 represented 2.2% of Toyota's net revenues for fiscal 2016. Substantially all of Toyota's revenues from other operations were derived in Japan.

### ***Housing***

Toyota established its subsidiary Toyota Housing Corporation in April 2003 and has transferred to it product planning and sales operations related to the manufacture and sale of housing. Furthermore, in order to quickly and accurately grasp clients' needs and to plan, develop and sell products on a timely basis, in April 2008, Toyota transferred the product development operation to Toyota Housing Corporation. In October 2010, Toyota spun-off its housing operations (project planning, technology development and manufacturing) through a statutory demerger and integrated them into Toyota Housing Corporation. Toyota believes that in the vastly changing housing market environment, the integration of the development, manufacture and sales functions will expedite decision making and lead to flexible business operations that will enable Toyota to better respond to the needs of even more customers. In March 2005, Toyota, together with institutional investors, agreed to jointly invest in Misawa Home Holdings, Inc. ( Misawa ; renamed Misawa Homes Co., Ltd.) pursuant to its request for assistance in its rehabilitation. In April 2010, determining that a stronger collaboration with Misawa would be desirable in order to achieve further growth in the difficult operating environment of the housing industry, Toyota Housing Corporation agreed to purchase Misawa shares from an institutional investor. In addition, Toyota transferred ownership of Misawa to Toyota Housing Corporation in October 2010. Through these activities, Toyota has strengthened the housing business of both companies.

### ***Information Technology***

See [Enhancing Vehicle Functionality and Intelligent Transport Systems](#) for a description of Toyota's information technology.

### ***Governmental Regulation, Environmental and Safety Standards***

Toyota is subject to laws in various jurisdictions regulating the levels of pollutants generated by its plants. In addition, Toyota is subject to regulations relating to the emission levels, fuel economy, noise and safety of its products. Toyota has incurred significant costs in complying with these laws and regulations and expects to incur significant compliance costs in the future. Toyota's management views leadership in environmental protection as an important competitive factor in the marketplace.



**Table of Contents*****Vehicle Emissions****Japanese Standards*

The Air Pollution Control Law of Japan and the Road Vehicle Law and the Law Concerning Special Measures for Total Emission Reduction of Nitrogen Oxides from Automobiles in Specified Areas regulate vehicle emissions in Japan. In addition, both the Noise Regulation Law and the Road Vehicles Law provide for noise reduction standards on automobiles in Japan. Toyota's vehicles manufactured for sale in Japan comply with all Japanese exhaust emission and noise level standards.

*U.S. Federal Standards*

The federal Clean Air Act directs the Environmental Protection Agency ( EPA ) to establish and enforce air quality standards, including emission control standards on passenger vehicles, light-duty trucks and heavy-duty vehicles. The EPA decided in February 2000 to adopt more stringent vehicle emission and fuel economy standards applicable to passenger vehicles and light-duty trucks produced in model years 2004 and beyond. In the standards adopted for model years 2004 and beyond, manufacturers must guarantee that their vehicles meet the requirements for ten years or 120 thousand miles, whichever occurs first. Manufacturers are not permitted to sell vehicles in the United States that do not meet the standards. In April 2007, EPA regulations that further restrict emissions from passenger vehicles and light-duty trucks operating at cold temperatures became effective. The new emission standards set by these regulations were phased in between 2010 and 2013. Similar standards that further restrict emissions from heavy-duty vehicles operating at cold temperatures have been phased in from 2012 to 2015. In March 2014, the EPA finalized new vehicle emission and fuel standards for passenger vehicles and light-duty trucks for model years 2017 and onwards. Under the new standards, emission standards for volatile organic compounds and nitrogen oxides are to be strengthened in phases from 2017 to 2025, bringing the emission standards in line with emission standards in California, resulting in the unification of the differing California and federal emission standards. In addition, the particulate matter standards and fuel vapor emission standards will also be strengthened to be brought in line with California's emission standards. This is expected to lead to reductions in the burden on development, such as a reduction in the number of tests required for certification and standardization of emission reduction systems.

Furthermore, in April 2007 the U.S. Supreme Court ruled that the EPA has the authority to regulate automobile emissions of greenhouse gases. In response to this ruling, on April 1, 2010 the EPA and the federal National Highway Traffic Safety Administration ( NHTSA ) issued a joint final rule to reduce the emission of greenhouse gases from passenger vehicles, light-duty trucks and medium-duty passenger vehicles for model years 2012 through 2016. These vehicles are required to meet an estimated combined average emissions level of 250 grams of carbon dioxide per mile, equivalent to 35.5 miles per gallon if the requirements were met through fuel economy standards. The NHTSA also set Corporate Average Fuel Economy ( CAFE ) standards for passenger vehicles and light-duty trucks that will require manufacturers of those vehicles to meet an estimated combined average fuel economy level of 34.1 miles per gallon in model year 2016. In addition, on August 28, 2012, the EPA and the NHTSA jointly issued the final rule to further reduce greenhouse gas emissions and improve fuel economy for passenger vehicles, light-duty trucks and medium-duty passenger vehicles for model years 2017 through 2025. In the final rule, these vehicles are required to meet an estimated combined average emission level of 163 grams of carbon dioxide per mile in model year 2025, equivalent to 54.5 miles per gallon if these requirements were met through improvements in fuel economy standards. The NHTSA also issued CAFE standards for passenger vehicles and light-duty trucks that would require manufacturers to meet an estimated combined average fuel economy level of 49.6 miles per gallon in model year 2025. According to the final rule, these standards are to be reevaluated by 2018.

In addition, in July 2015, the EPA adopted final rules to limit, in relation to greenhouse gas emissions, the use of various hydrofluorocarbons (HFCs) and HFC-containing refrigerant blends used in motor vehicle air conditioning systems for new vehicles, among other applications. Toyota purchases air conditioning systems from third parties for use in its vehicles. The final rules list HFC-134a, the most dominant refrigerant used in

**Table of Contents**

light-duty vehicles worldwide, as unacceptable for use in motor vehicle air conditioning systems in new light-duty vehicles beginning in model year 2021. The final rules also list additional refrigerant blends as unacceptable for use in new light-duty vehicles beginning in model year 2017. Feasible alternatives to these refrigerants that will be prohibited by the rules may be costly or present other risks, such as flammability or other safety concerns.

As discussed above, the EPA has been granted the authority to set fuel standards in connection with the regulation of automobile emissions. In October 2010, the EPA approved the sale and use of fuel with a 15% ethanol blend ( E15 ) for model years 2007 and later passenger vehicles and light-duty trucks. The use of E15 is not permitted for engines used in lawnmowers, small generators, motorbikes, boats and other vehicles and equipment. Subsequently, in February 2011, the EPA approved the use of E15 for certain 2001 model year or newer vehicles, such as light-duty passenger vehicles and small trucks. However, E15 is prohibited for use in other 2000 model year or older vehicles and general purpose engines. As a result, the EPA promulgated regulations in July 2011, effective August 2011, requiring businesses that sell E15 to put a warning label regarding E15 on gasoline fuel dispensers.

*California Standards*

Under the federal Clean Air Act, the State of California is permitted to establish its own vehicle emission control standards if it receives a waiver from the EPA. As a result, the California Air Resources Board ( CARB ) established the Low Emission Vehicle Program and set emission standards for certain regulated pollutants that were phased in beginning in the 2004 model year. Under these standards, most light-duty trucks and passenger vehicles are required to meet the same emission standards, which were stricter than the federal standards. As part of the original Low Emission Vehicle Program, the CARB also required that a specified percentage of a manufacturer's passenger vehicles and light-duty trucks sold in California for all model years 1998 and after be zero-emission vehicles (vehicles producing no emissions of regulated pollutants). This zero-emission vehicles requirement also permitted certain advanced technology vehicles such as PHV (Plug-in Hybrid Vehicles), hybrid cars and alternative fuel vehicles that meet partial zero-emission vehicles requirements to be granted partial qualification as EV (Electronic Vehicles) or FCV (Fuel Cell Vehicle). The current zero-emission regulations mandate substantial annual increases in the production and sale of battery-electric, fuel cell and plug-in hybrid vehicles such that, by 2025, the state of California has estimated that approximately 15% of the new vehicles sold in the state would be zero-emission or plug-in hybrid vehicles. Toyota's battery-powered RAV4 EV compact sport-utility vehicle and the MIRAI qualify as zero-emission vehicles. The current Prius plug-in hybrid, Prius and the Camry Hybrid qualify as partial zero-emission vehicles under the zero-emission vehicles requirement adopted by the CARB. Toyota intends to continue to develop additional advanced technologies and alternative fuel technologies that will allow other vehicles using such technologies to qualify as zero-emission vehicles or partial-zero-emission vehicles.

In July 2002, the California legislature passed legislation that required the CARB to develop and adopt, by the end of 2004, regulations that achieved the maximum feasible reduction in greenhouse gas emissions from vehicles. In September 2004, the CARB adopted regulations that required a 20 to 30 percent reduction of greenhouse gas emissions from passenger vehicles, light-duty trucks and other noncommercial vehicles to be phased in between the 2009 and 2016 model years.

In December 2007, the EPA denied California's request for a waiver under the Clean Air Act that would have allowed the state to enforce these regulations to control greenhouse gas emissions from motor vehicles. However, the EPA reconsidered its decision pursuant to a direction issued by the U.S. President in January 2009, and in July 2009 decided to allow the state to enforce such regulations.

The CARB has enacted regulations that deem automobile manufacturers that produced vehicles in model years 2012 through 2016 and 2017 through 2025 that are in compliance with the greenhouse gas emissions regulations of the EPA to be in compliance with California's greenhouse gas emissions regulations.

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## **Table of Contents**

In January 2012, the CARB approved a new Low Emission Vehicle program for model years 2015 to 2025 as part of Advanced Clean Cars. The program covers greenhouse gas standards for cars and light-duty trucks, reductions of smog-forming emissions, zero-emission vehicles regulations and clean fuels outlet regulations.

### *Other States Standards*

The states of New York, Massachusetts, Connecticut, Maine, Maryland, New Jersey, Oregon, Rhode Island and Vermont have either adopted, or plan to adopt, regulations substantially similar to California's zero-emission vehicles requirement. With regard to greenhouse gas emissions regulations, in addition to these states, Pennsylvania and Washington have also adopted California's regulations.

### *Canadian Standards*

Canada has established vehicle emission standards equivalent to the federal standards in the United States, including the heightened requirements that became applicable to passenger vehicles and light-duty trucks in model years 2004 and beyond. In addition, in response to the strengthening of the federal greenhouse gas emission standards in the United States applicable to model years 2017 to 2025, Canada finalized equivalent standards in October 2014. Furthermore, certain Canadian provinces are currently considering enacting their own regulations on vehicle emissions of greenhouse gases. Canada also adopted more stringent fuel legislation, which is based on fuel legislation in the United States, that reduces refineries' annual average sulfur concentration of gasoline to 10 mg/kg from 2017 with a new addition of credit system to secure compliance.

### *European Standards*

The European Union adopted a directive that establishes increasingly stringent emission standards for passenger vehicles and light commercial vehicles in October 1998. Under this directive, the standards adopted beginning with year 2000 require manufacturers to recall any vehicles which fail to meet the standards for five years or 80 thousand kilometers, whichever occurs first. Toyota introduced vehicles complying with this directive in 1999. Under standards adopted in 2005, manufacturers are obligated to meet the more stringent standards for five years or total vehicle miles of 100 thousand kilometers, whichever occurs first. In 2007, the European Parliament adopted more stringent emission standards for passenger vehicles and light commercial vehicles. The effective dates for phasing in these stricter standards for passenger vehicles were September 2009 for Euro 5 and September 2014 for Euro 6. For light commercial vehicles, the effective dates are September 2010 for Euro 5 and September 2015 for Euro 6. Euro 5 provides for lower emission levels for gasoline and diesel powered vehicles and also extends the manufacturers' responsibility for emission performance to total vehicle miles of 160 thousand kilometers. The primary focus of Euro 6 is to limit further emissions of diesel powered vehicles and bring them down to a level equivalent to gasoline powered vehicles. In addition, Euro 6 will be implemented in two stages, and beginning with the second stage (September 2017 for passenger vehicles and September 2018 for commercial vehicles), the EU is implementing the Real Driving Emission (RDE) regulations, which regulate emissions under real driving conditions, and the Worldwide harmonized Light vehicles Test Procedure (WLTP). A second RDE package of regulations establishing quantitative limits for emissions in RDE tests was approved by the European Parliament and Council in February 2016.

### *Chinese Standards*

Emissions regulations are being implemented throughout China pursuant to the Chinese National Standards (GB) of the Ministry of Environmental Protection of the People's Republic of China, and the manufacture and sale of models not meeting these regulations are prohibited.

For passenger vehicles, pursuant to GB18352.3-2005, Level 3 Emissions Regulations (corresponding to Euro 3 standards) apply to new models after July 2007 and Level 4 Emissions Regulations (corresponding to Euro 4 standards) apply to new models after July 2010. New models after July 2008 are also required to be

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**Table of Contents**

equipped with on-board diagnostics. With respect to passenger vehicles, pursuant to GB18352.5-2013, Level 5 Emissions Regulations (corresponding to Euro 5 standards) are to be implemented throughout China for all models that are sold and registered after January 2018.

For diesel-powered commercial vehicles, pursuant to GB17691-2005, new Level 3 Emissions Regulations apply to models after January 2007. Although Level 4 Emissions Regulations were to apply to new models after January 2010, and Level 5 Emissions Regulations were to apply to new models after January 2012, because the infrastructure to supply sufficient diesel fuel meeting the Level 4 quality standards had yet to be put in place, the implementation of the Level 4 Emissions Regulations for all models was postponed to July 2013. In connection with such delay, the implementation of the Level 5 Emissions Regulations has been postponed from the original plan and is now scheduled to be implemented from July 2017. For gasoline-powered commercial vehicles, pursuant to GB14762-2008, Level 3 Emissions Regulations apply to new models after July 2009 and Level 4 Emissions Regulations apply to new models after July 2012. After the first day the regulation is implemented to a new model, all new models released during the following one-year period also become subject to the regulation. In addition, in some areas such as Beijing, Shanghai, Guangzhou and the Pearl River Delta region, the above mentioned regulations were implemented several years earlier by regional environmental preservation authorities with the authorization of the Chinese State Council. Cities with serious air pollution are increasingly exhibiting tendencies to similarly implement Level 5 Emissions Regulations in advance of the rest of China.

China will also start implementing stricter diesel and gasoline fuel standards a year earlier than scheduled to reduce vehicle emissions, pursuant to GB19147-2013 and GB17930-2013. The new Level 5 standards (equivalent to Euro 5 standards) will be implemented in 11 provincial capitals in eastern China in January 2016, and are now planned to be implemented nationwide in January 2017, as opposed to the previously announced January 2018 implementation date. In connection with this, the Ministry of Environmental Protection and the Ministry of Industry and Information Technology issued a notification regarding the implementation of the Level 5 standards, which will be implemented for gasoline-powered passenger vehicles in 11 provincial capitals in eastern China from April 2016, for gasoline-powered passenger vehicles nationwide in China from January 2017 and for diesel passenger vehicles nationwide in China from January 2018.

Compliance with new and more stringent emissions and fuel standards will present significant technological challenges to automobile manufacturers and will likely require significant expenditures. Examples of these challenges include the development of advanced technologies, such as high performance batteries and catalytic converters, as well as the development of alternative fuel technologies. Manufacturers that are unable to develop commercially viable technologies within the time frames set by the new standards will lose their market share and will be forced to decrease the number of types of vehicles and engines in their principal markets.

*Standards of Other Countries*

Countries other than Japan, the United States, Europe and China are also proactively introducing emissions regulations. Many countries or regions such as Australia, Mexico, the Middle East, Taiwan and Hong Kong, as well as countries in Eastern Europe and Asia, have considered or implemented emissions regulations.

Especially in India, the government accelerated the effective date of BS-6 (equivalent to EURO6) to 2020 due to the worsening air pollution problem and its Supreme Court suggested imposing a tax on sales of all diesel passenger vehicles in the Delhi metropolitan area. Until the discussion on the new tax is settled, the registration of diesel passenger vehicles larger than 2 liters is temporarily banned in the Delhi metropolitan area.

## **Table of Contents**

### ***Vehicle Fuel Economy***

#### *Japanese Standards*

The Law Concerning the Rational Use, etc. of Energy requires automobile manufacturers to improve their vehicles to meet specified fuel economy standards. Fuel economy standards are established according to the types of vehicles specified below, and are required to be met by either fiscal 2011 (April 2010-March 2011), fiscal 2016 (April 2015-March 2016), fiscal 2021 (April 2020-March 2021) or fiscal 2023 (April 2022-March 2023).

Among qualifying passenger vehicles are:

Vehicles which are designated in Article 75, Paragraph 1 of the Road Vehicles Law as type-designated vehicles ( type-designated vehicles ) with 10 seats or less using gasoline, gas oil or LPG;

Type-designated vehicles with 11 seats or more that are 3.5 tons or less in vehicle weight using gasoline or gas oil; and

Type-designated vehicles with 11 seats or more that are over 3.5 tons in vehicle weight using gas oil, or designated carbon monoxide emission control vehicles ( designated carbon monoxide emission control vehicles ) which are designated in Article 75-3 Paragraph 1 of the Road Vehicles Law.

Among qualifying cargo vehicles are:

Type-designated vehicles that are 3.5 tons or less in vehicle weight using gasoline, gas oil or LPG; and

Type-designated vehicles that are over 3.5 tons in vehicle weight using gas oil or LPG, or designated carbon monoxide emission control vehicles.

Toyota is in compliance with the fuel economy standards that currently apply and is promoting the improvement of its vehicles in order to achieve compliance with the standards that will apply beginning in fiscal 2021.

Japan is a signatory to the Framework Convention on Climate Change and has agreed to take measures to reduce its greenhouse gas emissions. Improved vehicle fuel economy is contributing to the reduction in carbon dioxide emissions.

#### *U.S. Standards*

The Federal Motor Vehicle Information and Cost Savings Act requires automobile manufacturers to comply with CAFE standards. Under this law, limits are imposed on the amount of regulated pollutants that may be emitted by new motor vehicles in the United States. A manufacturer is subject to substantial civil penalties if, in any model year, its vehicles do not meet the CAFE standards. Manufacturers that exceed the CAFE standards earn credits determined by the difference between the average fuel economy performance of their vehicles and the CAFE standards. Credits earned for the five model years preceding the current model year, and credits projected to be earned for the next three model years, can be used to meet CAFE standards in a current model year.

In April 2006, the NHTSA established CAFE standards applicable to light-duty trucks for model year 2008 and beyond. These CAFE standards aimed at shifting the framework from one that used to be advantageous only to compact car manufacturers to one that is fair to full line manufacturers. The requirements were changed so that the CAFE standards are now determined by a sales rate based on vehicle size (measured by the area of the wheel and wheel base) for each manufacturer.

On April 1, 2010, the EPA and the NHTSA issued a joint final rule to reduce the emission of greenhouse gases from passenger vehicles, light-duty trucks and medium-duty passenger vehicles for model years 2012



**Table of Contents**

through 2016. These vehicles are required to meet an estimated combined average emissions level of 250 grams of carbon dioxide per mile, equivalent to 35.5 miles per gallon if the requirements were met through fuel economy standards. The NHTSA also set CAFE standards for passenger vehicles and light-duty trucks that will require manufacturers of those vehicles to meet an estimated combined average fuel economy level of 34.1 miles per gallon in model year 2016. Furthermore, the EPA and the NHTSA joint final rule allows the two agencies and California standards to act in a unified way, and creates a regulatory framework that makes compliance less burdensome for the manufacturers. In addition, in December 2011, the EPA and the NHTSA issued a joint proposed rule to further reduce greenhouse gas emissions and improve fuel economy for passenger vehicles, light-duty trucks and medium-duty passenger vehicles for model years 2017 through 2025. In the rule, which was finalized in August 2012, these vehicles are required to meet an estimated combined average emission level of 163 grams of carbon dioxide per mile in model year 2025, equivalent to 54.5 miles per gallon if these requirements are met through improvements in fuel economy standards. At the same time, the NHTSA also issued CAFE standards for passenger vehicles and light-duty trucks that would require manufacturers to meet an estimated combined average fuel economy level of 49.6 miles per gallon in model year 2025. The standards of fuel economy are stringent, and Toyota strives to meet the fuel economy standards by further developing fuel-efficient technology, alternative fuel technology and other advanced technology.

In addition, the Energy Tax Act of 1978 imposes a gas guzzler tax on automobiles with a fuel economy rating below specified levels.

*European Standards*

In December 2008, the European Parliament approved a new regulation that establishes an average emission standard of 130 grams of carbon dioxide per kilometer by 2012 for passenger vehicles sold in member states, made effective in June 2009. The regulation has been phased in gradually, initially requiring 65% of new cars to comply with the new standards in 2012 and increasing to 100% of new cars in 2015. As a result of the new regulations, different targets will apply to each manufacturer, based on their respective fleets of vehicles and weight. Penalties will apply to those manufacturers who fail to meet their targets from 2012, in amounts corresponding to the degree of shortfall. Manufacturers failing to meet their targets between 2012 and 2018 will incur penalties of between 5 and 95 per each gram of carbon dioxide per kilometer shortfall for each non-compliant vehicle, and such penalties will rise to 95 in 2019 and beyond. Furthermore, in June 2011, a new carbon dioxide emission standard applicable to light commercial vehicles entered into force establishing an average emissions target of 175 grams of carbon dioxide per kilometer. This regulation has the same basic regulatory framework as passenger vehicles, raising the compliance rate from 70% in 2014 to 100% in 2017.

Furthermore, in February 2014, the European Parliament and Council adopted a regulation to reduce the average carbon dioxide emissions target for light commercial vehicles to 147 grams per kilometer beginning in 2020. In March 2014, the European Parliament and Council adopted a regulation to reduce the average carbon dioxide emissions target for passenger vehicles to 95 grams per kilometer beginning in 2021. 95% of each manufacturer's new cars must comply with this new standard by 2020. The relevant legislation requested the European Commission to conduct a review by 2015 and, if appropriate, propose new targets for the period beyond 2020, including possibly setting a 2025 target.

An increasing number of EU member states are introducing vehicle tax laws based on carbon dioxide emission levels pursuant to the directive issued by the European Commission in 2005. This trend is expected to continue in accordance with the recent increases in environmental awareness.

An EU directive on motor vehicle air conditioning units requires manufacturers to replace currently used refrigerants with refrigerants having a lower global warming impact for all newly registered vehicles starting in January 2017.

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## **Table of Contents**

### *Chinese Standards*

Fuel consumption regulations are being implemented pursuant to the Chinese National Standards ( GB ), and the manufacture and sale of vehicle models not meeting these regulations are prohibited. For passenger vehicles, pursuant to GB19578-2004, Level 1 Fuel Consumption Regulations apply to new models after July 2005 and Level 2 Fuel Consumption Regulations apply to new models after January 2008. For small commercial vehicles, pursuant to GB20997-2007, Level 2 Fuel Consumption Regulations apply to new models after February 2008, Level 1 Fuel Consumption Regulations apply to all vehicles as of January 2009 and Level 2 Fuel Consumption Regulations apply to all models as of January 2011. These regulations determine the consumption standards that apply depending on the mass of the applicable vehicle and set forth a method for determining whether each model has met the regulation. With respect to passenger vehicles, GB27999-2011 has been issued to further strengthen fuel consumption regulations from 2012 and beyond. In these Level 3 Fuel Consumption Regulations for passenger vehicles, the regulation framework was substantially revised, such as a change from regulations requiring each model to meet consumption standards to regulations requiring automobile manufacturers to meet standards of average consumption across models. Furthermore, in order to achieve the national target for average fuel efficiency for 2020, the following more stringent fuel consumption regulations have been enacted as Level 4 Fuel Consumption Regulations for passenger vehicles. First, GB19578-2014, which has been enacted to strengthen regulations for each model, is being applied to new models after January 2016. Second, GB27999-2014, which has been enacted to strengthen corporate average regulations, will come into effect in 2016.

### *Standards of Other Countries*

As momentum gathers to increase energy security and prevent global warming, other countries in addition to Japan, the United States, Europe and China are moving to introduce fuel consumption regulations, and Korea, Mexico, Brazil, Taiwan, India, Saudi Arabia and Canada have already decided to introduce or implemented fuel consumption regulations. Australia is also considering the introduction of new regulations to reduce average carbon dioxide emissions by vehicles. Toyota predicts that this trend will spread to other countries, and in the future many nations will consider new regulations related to fuel consumption and carbon dioxide.

### *Vehicle Safety*

#### *Japanese Standards*

In Japan, efforts have been made since 1998 to bring Japanese standards in line with the regulations of the United Nations Economic Commission for Europe ( UN ).

With respect to standards that were previously brought in line with the UN regulations, the Japanese standards regarding steering systems require disabling of automatic steering functions when vehicles travel at more than 10km/h. These standards apply to new model cars beginning in July 2016. As amendments to the requirement to disable automatic steering functions are currently being discussed at the United Nations, and in light of the fact that vehicles equipped with automatic steering functions are already being sold in Japan, the application of the requirement to disable automatic steering functions is expected to be suspended for the time being in Japan.

With respect to standards that were newly brought in line with the UN regulations, standards for fire prevention will apply to new models beginning in September 2018. Standards for protection of passengers from pole side impact will apply to new models beginning in June 2018. Standards for vehicle exterior noise of tires, and friction force and rolling resistance on wet roads will apply in stages to new models beginning in April 2018 and will apply in stages to existing models still in production beginning in April 2022. Standards for illumination of rear registration plates will apply to vehicles to be manufactured on or after June 2020. Standards for filament light bulbs, standards for gas-discharge light sources and standards for LED will apply to vehicles to be manufactured on or after June 2015.



## **Table of Contents**

With respect to standards that are scheduled to be newly brought in line with the UN regulations, safety standards for hydrogen fuel cell vehicles will apply in stages to new models beginning in September 2018. Standards for protection of passengers from full-wrap head-on collision will apply in stages to new models beginning in September 2018. Standards for indirect visibility will apply to new models beginning in June 2019 and to existing models still in production beginning in June 2021.

Furthermore, unique to Japan, technical guidelines for remote-controlled parking assistance systems and guidelines for response systems for driver emergencies have been created. The standardization of measures relating to the quietness of hybrid vehicles, brake override systems, the strengthening of anti-spinal injury measures and anti-drunk driving measures are currently under consideration.

### *U.S. Standards*

The U.S. National Traffic and Motor Vehicle Safety Act of 1966, or Safety Act, requires vehicles and equipment sold in the United States to meet various safety standards issued by the NHTSA. The Safety Act also authorizes the NHTSA to investigate complaints relating to vehicle safety and to order manufacturers to recall and repair vehicles found to have safety-related defects. The cost of these recalls can be substantial depending on the nature of the repair and the number of vehicles affected.

The Transportation Recall Enhancement, Accountability and Documentation Act was enacted in the United States on November 1, 2000. This Act required the NHTSA to regulate the dynamic rollover standards and to upgrade federal motor vehicle safety standards relating to tires. It also required the NHTSA to enhance its authority to gather information potentially relating to motor vehicle defects. This Act substantially increases the maximum civil penalties for violation of regulatory requirements and specifies possible criminal penalties for violations of the federal Fraud and False Statements Act. In 2003, the NHTSA expanded its New Car Assessment Program ( NCAP ) to implement consumer information programs for vehicle rollover resistance and child restraints and, beginning in 2003, adopted extensive early warning defect reporting requirements. Regulations regarding tire-pressure monitoring systems were strengthened in 2005.

Legislation on a transportation budget plan promoting a safe and efficient vehicle safety program for drivers, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was passed in August 2005. The legislation requires the NHTSA to propose and issue safety standards to reduce rollover accidents, to complete the creation of standards for the reduction of vehicle passengers released from cars at the time of rollover accidents, to upgrade door lock standards, to complete the upgrade of roof crash standards, to decide on the side impact protection standards for passengers in all seat locations, to review seat belt wearing technology and complete a study that includes a proposal for improving the rate of seat belt usage, to establish standards to display NCAP ratings on new car labels and to complete the upgrade of the standard for power windows that will require pulling up switches. Some actions have already been taken and completed in response to the above requirements.

In February 2008, legislation to prevent non-traffic related injuries to young children caused by vehicles, the Cameron Gulbransen Kids Transportation Safety Act, was passed. Pursuant to this legislation, the NHTSA finalized standards requiring vehicles to be equipped with rearview camera systems in order to ensure rearward visibility to prevent children from being struck by backing vehicles and mandating the use of brake shift interlock systems.

In January 2011, legislation to improve the safety of the visually impaired and other pedestrians, the Pedestrian Safety Enhancement Act of 2010, was passed. The legislation requires the NHTSA to draft and finalize standards for warning sounds of electric and hybrid vehicles. The NHTSA formally proposed minimum sound standards in January 2013, and the standards are currently in the regulatory review process.

**Table of Contents**

In response to the unintended acceleration issue in 2010, the NHTSA has started to examine and implement measures to strengthen safety standards, such as mandating brake override systems, mandating Event Data Recorders, or EDR, and standardizing push-start switches.

In August 2014, the NHTSA initiated rulemaking that would propose to create a new safety standard to require new passenger and light-duty truck vehicles to have dedicated short-range communication (DSRC) units that enable Vehicle-to-Vehicle (V2V) communication.

In January 2015, the NHTSA proposed to amend safety standards regarding child restraint anchorage systems to improve the ease of use, and in March 2015, the NHTSA proposed to amend a safety standard regarding seat belt assembly anchorages to specify an alternative test procedure.

In March 2016, the NHTSA proposed changes to safety standards to add an alternative requirement for electrical shock protection from electric vehicles and hydrogen fuel cell vehicles. In the same month, the NHTSA and Insurance Institute for Highway Safety announced that they have agreed with twenty major vehicle manufacturers to standardize equipment of automatic emergency brakes on almost all new models by 2022.

*European Standards*

In 2009, the European Union overhauled its safety regulations and enacted a new regulation and a simplified framework, repealing more than 50 existing European Commission directives regarding vehicle safety other than pedestrian protection, and replacing them with a single regulation aimed at incorporating the UN regulations. The new regulation also requires the adoption of advanced safety systems. The EU Regulation directly incorporating the UN Regulations commenced in 2012 and requires advanced safety systems, including requiring new type vehicles to have electronic stability control systems from 2011, to introduce regulations relating to low rolling resistance tires in 2013, to require tire pressure monitoring systems starting in 2012 and to require heavy vehicles to have advanced emergency braking systems and lane departure warning systems from 2013. All of the technical requirements for these advanced safety systems were discussed in the United Nations. Further, application of UN regulation came into force from November 2012 for new vehicle types and from 2014 for all new vehicles sold in the EU market. The new mandatory measures include electric car safety requirements and gear shift indicators.

In October 2010, CARS 21 was resumed in order to proceed with the realization of the 2020 Strategy (CARS 2020) by the European Commission that aims for high-level, sustainable and comprehensive growth, and the CARS 21 final report was issued in June 2012. The final report addresses issues facing the widespread adoption of electric vehicles, including charging infrastructure in the EU, establishing battery requirements, adopting seat belt reminder devices for all seats, connection of alcohol interlock devices to vehicles, adopting speed management devices, establishing safety requirements for micro urban mobility, strengthening safety regulation to protect the vulnerable from collisions and the possibility of regulation in connection with preventative safety technology. In November 2012, CARS 2020: Action Plan for a competitive and sustainable automotive industry in Europe was issued based on the final report. The action plan is built on four core concepts, and within these concepts it discusses enhancement of road safety, improving the market conditions within the EU and the implementation of smart regulations. Each item is given a target date and is to be monitored going forward. A stakeholder hearing on the implementation of the CARS 2020 action plan took place in February 2014 in Brussels in preparation for the Commission's final report, which the Commission published in October 2014. The report indicates the direction for future short and medium term actions.

On the widespread adoption of emergency call systems (eCall), the European Commission concluded that a legislative approach is effective as a result of the impact assessment by the Commission in 2011. Accordingly, eCall will become mandatory from the end of March 2018 for light-duty passenger vehicles and light-duty commercial vehicles using the framework of Whole Vehicle Type Approval. Regulations setting forth the technical standards of eCall were adopted in May 2015. Rulemaking regarding eCall has also been proposed by the United Nations, and is also currently being considered. In addition, in the event the installation of eCall

**Table of Contents**

becomes mandatory in the EU, it will be necessary at the same time to build infrastructure such as communication bases in the different member states of the EU, and rulemaking regarding eCall is expected to also cover the creation of such infrastructure.

The possibility of regulation in connection with ITS and other advanced driver assist systems for 2020 and beyond is also under consideration. In addition, the adoption of Advanced Emergency Breaking systems and lane departure warning systems on light vehicles, Advanced Emergency Breaking systems which detect pedestrians, and the adoption of blind spot monitors, reverse system which detect pedestrians, reverse detection, Evert Data Recorders on trucks and alcohol interlock devices are also expected to be considered. In March 2015, the European Commission published a final report on the benefit and feasibility of a range of new safety technologies. The plan is scheduled to come into effect as an official Communication around June 2016 and the Communication is planned to be sent to the European Council and the European Parliament. At the same time, a process to revise the General Safety Regulation (EC) No 661/2009 and Regulation (EC) No 78/2009 with regards to pedestrian protection are likely for 2016. With respect to individual matters that are to be strengthened through regulations, the European Commission plans to propose amendments to the United Nations rules regarding matters that are already regulated by the United Nations, while other matters are likely to be considered within the EU. In either case, deliberations will be conducted with the goal of application to new vehicle models from 2020, although target date of the regulations vary for each matter.

From April 2009, the applicable scope for Whole Vehicle Type Approval ( WVTA ) was extended to cover all vehicle categories. Furthermore, an amendment was issued in 2011 which clarifies the categories (especially those for passenger and light-duty commercial vehicles). Through this amendment, the criteria for light-duty commercial vehicles was clarified, and there is a possibility that vehicles currently classified as light-duty commercial vehicles become classified as passenger vehicles. In addition, revisions to EU regulations related to vehicle mass and dimensions were issued in 2012. These revisions clarified the mass, criteria and definitions which comprise the base specifications for vehicles. In 2016, the European Commission's proposal regarding major amendments to the WVTA, including a strengthening of type approval process (e.g. enabling access to software algorithm; five year approval limit (type approval validity)) with the market surveillance requirements (addition of auditing authority by the European Commission), strengthening of auditing of technical service and clarification of recall requirements, was submitted. Currently, the bill is under deliberation by the European Council and the European Parliament.

In addition, GEAR2030 (the High Level Group on the Competitiveness and Sustainable Growth of the Automotive Industry in the European Union) was established in January 2016 as a successor body of the CARS2020 and deliberations on recommendations to the European Commission, member states and high-level related stakeholders for strengthening the competitiveness of the automobile value chain in Europe by 2030 commenced. In particular, a roadmap for smooth development of automatic driving vehicles is scheduled to be discussed. The finalization of the recommendation is aimed for the end of 2017.

*United Nations Regulations*

The 1958 Agreement ( Agreement Concerning the Adoption of Uniform Technical Prescriptions for Wheeled Vehicles, Equipment and Parts which can be Fitted and/or be Used on Wheeled Vehicles and the Conditions for Reciprocal Recognition of Approvals Granted on the Basis of These Prescriptions ) was originally based on the European regulations, but the UN Regulations are developing as an established international law, and Japan, Thailand, Malaysia and Egypt as well as other countries outside the EU have become members after the amendment in 1995, and many other countries are expected to join in the future. The countries bound by the 1958 Agreement have incorporated the UN Regulations into their own domestic policies (The EU and Japan have directly included the UN Regulations into their domestic legislations). While automotive parts and vehicle systems are regulated by the UN regulations, there are currently no regulations with respect to International Whole Vehicle Type Approval (IWVTA) such as those in Europe. Japan proposed legislation establishing WVTA under the United Nations in 2016, and the matter is being deliberated by the

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## **Table of Contents**

United Nations. If IWVTA is established, integration of global approval administrative regulations of each country and simplification of vehicle construction regulations are expected but IWVTA, if finalized, would only be partially applicable at the time of its establishment in 2016 and deliberation toward the full application would continue after establishment.

An amendment to the 1958 Agreement is being considered with an aim towards finalization of R0 in 2016. Such amendment will increase the flexibility of the regulations, enabling approvals to be granted for the old series of regulations according to the needs of the signatory countries to the 1958 Agreement. The percentage of required votes for voting in connection with proposed UN regulations will also be considered, and if the percentage of required votes is increased from the current two-thirds, the 1958 Agreement is expected to become fairer. Such amendment is expected to make the 1958 Agreement more attractive to countries that are not currently party to the 1958 Agreement, and aims to increase the number of signatory countries.

The 1998 Agreement ( Agreement Concerning the Establishing of Global Technical Regulations for Wheeled Vehicles, Equipment and Parts which can be Fitted and/or be Used on Wheeled Vehicles ) is a U.S.-led agreement that aims to harmonize technical regulations, and defines each regulation as a Global Technical Regulation ( GTR ). At present, there are 16 GTRs in total. Currently, numerous provisions are under discussion in order to include more regulations. The countries bound by the 1998 agreement are required to incorporate the GTRs into their domestic laws. The parties to the 1998 agreement include the United States, Canada, China and India, which are not parties to the 1958 agreement, so GTRs will also influence those countries.

### *Chinese Standards*

Vehicle safety regulations in China were drafted with reference to the UN regulations and cover almost the same matters as the UN regulations. However, these regulations also include unique provisions which take into account the distinctive characteristics of the Chinese market environment and the rules differ from the latest UN regulations. As for future safety regulations, standards related to airbag technologies and standards related to batteries, motors and the charging of electric vehicles are currently being planned.

### *Standards of Other Countries*

Vehicle safety regulations in Canada are basically similar to those in the United States. In regions outside of North America, adoption and conformity with the UN regulations is widespread, including in those countries without automotive manufacturing industries. The list of signatories to the 1958 agreement of the United Nations continues to grow, and now includes Korea, Thailand and Malaysia in Asia, as well as Russia, South Africa, Egypt and Morocco. In addition, ASEAN, pursuant to its economic community mission, has decided to adopt the UN regulations as its regional agreement. Latin America, India and countries in the Middle East that are not signatories to the 1958 agreement of the United Nations are also moving forward to conform their respective regulations to the UN regulations or to adopt new regulations consistent with the UN regulations.

### *Environmental Matters*

#### *Japanese Standards*

Toyota's automotive operations in Japan are subject to substantial environmental regulation under laws such as the Air Pollution Law, the Water Pollution Control Law, the Noise Regulation Law and the Vibration Control Law. Under these laws, if a business entity establishes or alters any facility that is regulated by these laws, the business entity is required to give prior notice to regulators, and if a business entity discharges, uses or stores substances that are environmental burdens or causes noise or vibration from such facility, the business entity is also required to comply with the applicable standards. Toyota is also subject to local regulations, which in some cases impose more stringent obligations than the Japanese central government requirements. Toyota has complied with these regulations. Under the Waste Disposal and Public Cleaning Law, producers of industrial waste must dispose of industrial waste in the manner prescribed in the Waste Disposal and Public Cleaning Law. Toyota has also complied with the Waste Disposal and Public Cleaning Law.

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## Table of Contents

The Soil Contamination Countermeasures Law of Japan requires that land owners conduct contamination testing and submit a report at the time they cease to use hazardous substances, such as in connection with the sale of a former factory, or if there is a possibility of health hazards due to land contamination. If it is found that land contamination exceeds a certain level, the relevant prefectural authority designates the area considered to be contaminated and orders the land owner to take necessary measures. Toyota is suitably managing its land in accordance with the same law. In addition, under the Law on Recycling of End-of-Life Vehicles, vehicle manufacturers are required to take back and recycle specified materials (automotive shredder residues, air bags and fluorocarbons) of end-of-life vehicles and the provisions concerning such obligations of vehicle manufacturers became effective in January 2005. Toyota has coordinated with relevant parties to establish a vehicle take-back and recycle system throughout Japan. As a result, in fiscal 2016, Toyota achieved a recycling/recovery rate of 97% for automobile shredder residue (the legal requirement being 70%) and 93% for air bags (the legal requirement being 85%) and reached the targets set forth in this law.

### *U.S. Standards*

Toyota's assembly, manufacturing and other operations in the United States are subject to a wide range of environmental regulation under the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Pollution Prevention Act and the Toxic Substances Control Act. Toyota is also subject to a variety of state legislation that parallels, and in some cases imposes more stringent obligations than, federal requirements. These federal and state regulations impose severe restrictions on air- and water-borne discharges of pollution from Toyota facilities, the handling of hazardous materials at Toyota facilities and the disposal of wastes from Toyota operations. Toyota is subject to many similar requirements in its operations in Europe, Canada and other countries.

Pursuant to the Clean Air Act, the EPA has promulgated National Ambient Air Quality Standards ( NAAQS ) for six criteria pollutants, including for ozone and particulate matter. The Clean Air Act requires that the EPA review and possibly revise these NAAQS every five years. On December 14, 2012, the EPA made the annual health-based particulate matter NAAQS more stringent, and the EPA is scheduled to complete its review and possible revision of the ozone NAAQS in 2015. The revised annual health-based particulate matter NAAQS, as well as any future NAAQS revisions, could lead to additional pollution control requirements on the industry, including on Toyota's manufacturing operations.

Toyota expects growing pressure in the next several years to further reduce emissions from motor vehicles and manufacturing facilities.

### *European Standards*

In October 2000, the European Union brought into effect a directive that requires member states to promulgate regulations implementing the following:

automotive manufacturers shall bear all or a significant part of the costs for taking back end-of-life vehicles sold after July 1, 2002 and dismantling and recycling those vehicles. Beginning January 1, 2007, this requirement became applicable to vehicles sold before July 1, 2002 as well;

automotive manufacturers may not use certain hazardous materials in vehicles sold after July 1, 2003;

certified vehicle models sold after December 15, 2008 shall be re-usable and/or recyclable to a minimum of 85% by weight per vehicle and shall be re-usable and/or re-use as material or energy to a minimum of 95% by weight per vehicle; and

end-of-life vehicles must meet actual re-use and/or recycling of 80% and re-use and/or recovery of 85%, respectively, of vehicle weight by 2006, rising respectively to 85% and 95% by 2015.

Laws to implement this directive came into effect in each of the EU member states. Currently, there are uncertainties surrounding the implementation of the applicable regulations in different EU member states, particularly regarding automotive manufacturer responsibilities and resultant expenses that may be incurred.



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## **Table of Contents**

In addition, under this directive, the member states must take measures to ensure that car manufacturers, distributors and other auto-related economic operators establish adequate used vehicle collection and treatment facilities and to ensure that hazardous materials and recyclable parts are removed from vehicles prior to shredding. This directive impacts Toyota's vehicles sold in the EU. Toyota accommodated, in offering its products, any measures the EU member states chose to implement in order to comply with this directive.

The EU has also issued directives and made proposals relating to the following subjects on environmental matters:

emission standards that include a framework permitting member states to introduce fiscal incentives to promote early compliance; and

reform of rules governing automotive distribution and service. The block exemption on distribution has been amended so that dealers may engage in cross-border sales actively within the EU and open additional facilities for sales and services. Additionally, dealers may no longer be required by manufacturers to operate both sales and service facilities side by side.

In December 2011, the European Commission proposed to reduce noise produced by cars, vans, buses, coaches and light and heavy trucks. As proposed, noise limit values would ultimately be lowered by four A-weighted decibels for vehicles other than trucks, and three A-weighted decibels for trucks. Compliance would be achieved in three steps over a 10 to 12 year period. In May 2014, a regulation adopting the proposal was published in final form in the EU Official Journal.

Toyota believes that its operations are materially in compliance with environmental regulatory requirements concerning its facilities and products in each of the markets in which it operates. Toyota continuously monitors these requirements and takes necessary operational measures to ensure that it remains in material compliance with all of these requirements.

Toyota believes that environmental regulatory requirements have not had a material adverse effect on its operations. However, compliance with environmental regulations and standards has increased costs and is expected to lead to higher costs in the future. Therefore, Toyota recognizes that effective environmental cost management will become increasingly important. Moreover, innovation and leadership in the area of environmental protection are becoming increasingly important to remain competitive in the market. As a result, Toyota has proceeded with the development and production of environmentally friendly technologies, such as hybrid vehicles, fuel cell vehicles and high fuel efficiency, low emission engines.

In addressing environmental issues, based on an assessment of the environmental impact of its products through their entire life cycles, from production through sales, disposal and recycling, Toyota, as a manufacturer, strives to take all possible measures from development stage and continues to work toward technological innovations to make efficient use of resources and to reduce the burden on the environment.

### ***Disclosure of Iranian Activities under Section 13(r) of the Securities Exchange Act of 1934***

None.

### **Research and Development**

The overriding goals of Toyota's technology and product development activities are to minimize the negative aspects of cars, such as traffic accidents and impact on the environment, and maximize the positive aspects, such as driving pleasure, comfort and convenience. By achieving these sometimes conflicting goals to a high degree, Toyota seeks to open the door to the automobile society of the future. To ensure efficient progress in research and development activities, Toyota coordinates and integrates all research and development phases, from basic research and advanced research to forward-looking technology and product development. With

**Table of Contents**

respect to long-term basic research in areas such as energy, the environment, information technology, telecommunications and materials, projects are regularly reviewed and evaluated in consultation with outside experts to achieve research and development cost control. With respect to forward-looking, leading-edge technology and product development, Toyota establishes cost-performance benchmarks on a project-by-project basis to ensure efficient development investment.

The chart below provides an overview of Toyota's R&D at each phase.

<b>Phase</b>	<b>Description</b>
<b>Basic research</b>	<b>Phase to discover development theme</b>
	Research on basic vehicle-related technology
<b>Forward-looking and leading-edge technology development</b>	<b>Phase requiring technological breakthroughs such as components and systems</b>
	Development of leading-edge components and systems that are more advanced than those of competitors
<b>Product development</b>	<b>Phase mainly for development of new models</b>
	Development of all-new models and existing-model upgrades

Toyota is promoting research and development into the early commercialization of next generation environmentally friendly, energy-efficient and safe-vehicle technology and is making efforts to produce vehicles that are friendly to people and the environment by focusing on the following areas:

further improvements in hybrid technologies, including in functions and cost, and contributions to the environment through advancements;

improvement in gasoline engine fuel economy technology as well as improvement in technology in connection with more stringent emission standards;

promoting improvements in functions and fuel economy of clean diesel engines;

development of electric vehicles, fuel cell vehicles and other alternative fuel vehicles; and

development of technology designed to promote driving and vehicle safety.

For a detailed discussion of the company's research and development infrastructure, see Operating and Financial Review and Prospects Research and Development, Patents and Licenses.

**Components and Parts, Raw Materials and Sources of Supply**



## Edgar Filing: TOYOTA MOTOR CORP/ - Form 20-F

Toyota purchases parts, components, raw materials, equipment and other supplies from multiple competing suppliers located around the world. Toyota works closely with its suppliers to pursue the most optimal purchasing possible. Toyota believes that this policy encourages technological innovation, cost reduction and other measures to strengthen its vehicle competitiveness. Toyota plans to continue purchases based on the same principle and does not anticipate any difficulty in obtaining stable supplies in the foreseeable future. Although operation of plants were temporarily halted due to the explosion accident at AICHI STEEL CORPORATION in January 2016 and the Kumamoto Earthquakes in April 2016, they were resumed quickly because the supply chain as a whole worked on a quick initial response and recovery.

Because Toyota had more than 50 overseas operations in 28 countries and regions as of December 31, 2015, procurement of parts and components is being carried out not only locally in the country of the production site but also from third countries, and the distribution network has become increasingly more complex. In order to realize timely and efficient distribution at the same time as keeping total costs at a minimum, Toyota is promoting efforts to optimize each stage of the supply-chain. To this end, Toyota has developed a standardized system of global distribution and is supporting the operation of the system at each production base. The use of

## **Table of Contents**

the global distribution system aims at implementing parts procurement that meets changes in vehicle production in a timely manner. These varying efforts, combined together, have led to maximized customer satisfaction, as well as to building a good working relationship with Toyota's suppliers.

Toyota aims to share information and collaborate among the procurement divisions in each of the regions throughout the world in order to procure parts and materials from the most competitive suppliers among Toyota factories located in various areas worldwide. At the same time, Toyota carries out streamlining efforts undertaken together with suppliers in each country in order to achieve sustainable growth. In particular, Toyota has been working on a cost reduction measure referred to as RR-CI activities. RR-CI activities aim to improve competitive power through thorough localization, sharing parts and components and manufacturing reforms together with producing products matching customers needs in each region and vehicle category. Toyota is advancing RR-CI activities in conjunction with the TNGA. Urgent VA (value analysis) Activities began in fiscal 2008 and developed into All-Toyota VA Activities at the beginning of fiscal 2010 as part of Toyota's ongoing unified cost reduction effort with suppliers for the various types of vehicles already on sale. In addition, Toyota has been working on the TNGA to achieve sweeping advances in basic performance and product appeal of parts and units as well as seeking cost reductions by sharing more parts and implementing manufacturing reforms.

In fiscal 2016, market prices of raw materials such as steel generally decreased in comparison to the prior fiscal year due in part to decreased demand in China. The direction of prices is still unforeseeable. Toyota is continually promoting cost reduction efforts, such as reducing the amount of raw materials it uses.

Toyota's ability to continue to obtain supplies in an efficient manner is subject to a number of factors, some of which are not in Toyota's control. These factors include the ability of its suppliers to provide a continued source of supplies and the effect on Toyota of competition by other users in obtaining the supplies.

## **Intellectual Property**

Toyota holds numerous Japanese and foreign patents, trademarks, design patents and some utility model registrations. It also has a number of applications pending for Japanese and foreign patents. While Toyota considers all of its intellectual property to be important, it does not consider any one or group of patents, trademarks, design patents or utility model registrations to be so important that their expiration or termination would materially affect Toyota's business.

**Table of Contents****Capital Expenditures and Divestitures**

Set forth below is a chart of Toyota's principal capital expenditures between April 1, 2013 and March 31, 2016, the approximate total costs of such activity, as well as the location and method of financing of such activity, presented on a subsidiary basis and as reported in Toyota's annual Japanese securities report filed with the director of the Kanto Local Finance Bureau.

Description of Activity	Total Cost (Yen in billions)	Location	Primary Method of Financing
<i>Japan</i>			
Investment primarily in technology and products by Toyota Motor Corporation	827.7	Japan	Internal funds, financing from issuance of bonds, etc.
Investment primarily in technology and products by Hino Motors, Ltd.	120.9	Japan	Internal funds
Investment primarily in technology and products by Daihatsu Motor Co., Ltd.	93.3	Japan	Internal funds
Investment primarily in technology and products by Toyota Auto Body Co., Ltd.	75.9	Japan	Internal funds
Investment primarily in technology and products by Primeearth EV Energy Co., Ltd.	68.2	Japan	Borrowings
<i>Outside of Japan</i>			
Investment primarily to promote localization by Toyota Motor Thailand Co., Ltd.	176.5	Thailand	Internal funds
Investment primarily to promote localization by Toyota Motor Manufacturing, Kentucky, Inc.	115.4	United States	Internal funds
Investment primarily to promote localization by P.T. Toyota Motor Manufacturing Indonesia	105.8	Indonesia	Internal funds
Investment primarily to promote localization by Toyota Argentina S.A.	101.2	Argentina	Internal funds and borrowings
Investment primarily to promote localization by Toyota Motor Manufacturing Canada Inc.	99.7	Canada	Internal funds
Investment primarily to promote localization by Toyota do Brasil Ltda.	68.9	Brazil	Internal funds
Investment primarily to promote localization by Toyota Motor Manufacturing, Indiana, Inc.	65.8	United States	Internal funds
Investment primarily to promote localization by Siam Toyota Manufacturing Co., Ltd.	62.8	Thailand	Internal funds
Investment primarily to promote localization by Toyota Motor Europe NV/SA	62.7	Belgium	Internal funds

Investment primarily in leased automobiles by Toyota Motor Credit Corporation	6,028.2	United States	Internal funds, financing from issuance of bonds, etc.
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**Table of Contents**

Set forth below is information with respect to Toyota's material plans to construct, expand or improve its facilities between April 2016 and March 2017, presented on a subsidiary basis and as reported in Toyota's annual Japanese securities report filed with the director of the Kanto Local Finance Bureau.

Description of Activity	Total Cost (Yen in billions)	Location	Primary Method of Financing
<i>Japan</i>			
Investment primarily in manufacturing facilities by Toyota Motor Corporation	380.0	Japan	Internal funds
Investment primarily in manufacturing facilities by Hino Motors, Ltd.	52.0	Japan	Internal funds
<i>Outside of Japan</i>			
Investment primarily in manufacturing facilities by Toyota Motor Manufacturing, Kentucky, Inc.	98.5	United States	Internal funds
Investment primarily in office facilities by Toyota Motor North America, Inc.	52.1	United States	Internal funds
Investment primarily in vehicles by Toyota Motor Sales, U.S.A., Inc.	38.2	United States	Internal funds
Investment primarily in manufacturing facilities by Toyota Motor Engineering & Manufacturing North America, Inc.	32.0	United States	Internal funds

Set forth below is additional information with respect to Toyota's material plans to construct, expand or improve its facilities.

Toyota completed annual production capacity increase at its Argentina factory from 90 thousand units to 140 thousand units at the end of 2015, and at its Sorocaba Plant in Brazil from 70 thousand units to 110 thousand units in January 2016. Toyota plans to increase annual production capacity in Turkey from 150 thousand units to 280 thousand units beginning at the end of 2016, to build a new plant in Mexico in 2019 and to launch a third plant in Guangzhou in China in 2018. Tianjin FAW Toyota Motor Co., Ltd. also plans to construct a new production line to replace an aging existing line in the middle of 2018. At the beginning of 2019, Toyota plans to launch a new plant in Malaysia dedicated to passenger vehicles with annual production capacity of 50,000 cars.

To enhance production capacity of auto parts, Toyota constructed a plant for hybrid vehicle battery production in China in September 2015 and a plant for passenger vehicle engine production in Indonesia and Brazil in February 2016.

Toyota does not collect information on the amount of expenditures already paid for each plant under construction because Toyota believes that it is difficult and it would require unreasonable effort or expense to identify and categorize each expenditure item with reasonable accuracy as past and future expenditures. Toyota's construction projects consist of numerous expenditures, each of which is continually being adjusted and incurred in variable and constantly changing amounts as part of the overall work-in-progress.

**Seasonality**

Toyota does not consider its seasonality material in the sense of significantly higher sales during any certain period of the year as compared to other periods of the year.

**Legal Proceedings**

From time-to-time, Toyota issues vehicle recalls and takes other safety measures including safety campaigns relating to its vehicles. Since 2009, Toyota issued safety campaigns related to the risk of floor mat entrapment of



**Table of Contents**

accelerator pedals and vehicle recalls related to slow-to-return or sticky accelerator pedals. In March 2014, Toyota entered into a Deferred Prosecution Agreement ( DPA ) to resolve an investigation by the U.S. Attorney for the Southern District of New York ( SDNY ) related to unintended acceleration in certain of its vehicles. The DPA provides for an independent monitor to review and assess policies and procedures relating to Toyota's safety communications process, its process for sharing vehicle accident information internally and its process for preparing and sharing certain technical reports.

In 2010, there was a recall related to the software program that controls the antilock braking system in certain models, including the Prius, which led to putative class action lawsuits on behalf of owners of recalled vehicles and owners of vehicles which were not recalled. The United States District Court for the Central District of California denied the plaintiffs' motions for class certification and granted summary judgment in Toyota's favor denying the plaintiffs' claims related to both the recalled vehicles and the non-recalled vehicles. Proceedings involving the recalled vehicles have concluded; the appeals of the granting of summary judgment and the denial of class certification of the claims for the non-recalled vehicles are still pending.

Personal injury and wrongful death claims involving allegations of unintended acceleration are pending in several consolidated proceedings in federal and state courts, as well as in individual cases in various other states. The judges in the consolidated federal action and the consolidated California state action have approved an Intensive Settlement Process ( ISP ) for such claims in those actions. Under the ISP, all individual claims within the consolidated actions are stayed pending completion of a process to assess whether they can be resolved on terms acceptable to the parties. Cases not resolved after completion of the ISP will then proceed to discovery and toward trial. Toyota has offered the ISP process to plaintiffs in other consolidated actions and in individual cases, as well.

Toyota has been named as a defendant in 33 economic loss class action lawsuits, which, together with similar lawsuits against Takata and other automakers, have been made part of a multi-district litigation proceeding in the United States District Court for the Southern District of Florida, arising out of allegations that airbag inflators manufactured by Takata are defective. These lawsuits are at an early stage.

Toyota has received a request for information from the SDNY related to statements concerning one or more reported injuries sustained in Toyota vehicles following deployments of Takata airbags. Toyota is cooperating with the request.

Toyota self-reported a process gap in fulfilling certain emissions defect information reporting requirements with the U.S. Environmental Protection Agency ( EPA ) and California Air Resources Board, including updates on its repair completion rates for recalled emissions components and certain other reports concerning emissions related defects. Toyota is involved in discussions with these agencies. The SDNY and EPA have requested certain follow-up information regarding this reporting issue, and Toyota is cooperating with the request.

Toyota also has various other pending legal actions and claims, including without limitation personal injury and wrongful death lawsuits and claims in the United States, and is subject to government investigations from-time-to-time.

Beyond the amounts accrued with respect to all aforementioned matters, Toyota is unable to estimate a range of reasonably possible loss, if any, for the pending legal matters because (i) many of the proceedings are in evidence gathering stages, (ii) significant factual issues need to be resolved, (iii) the legal theory or nature of the claims is unclear, (iv) the outcome of future motions or appeals is unknown and/or (v) the outcomes of other matters of these types vary widely and do not appear sufficiently similar to offer meaningful guidance. Based upon information currently available to Toyota, however, Toyota believes that its losses from these matters, if any, beyond the amounts accrued, would not have a material adverse effect on Toyota's financial position, results of operations or cash flows.

**Table of Contents****4.C ORGANIZATIONAL STRUCTURE**

As of March 31, 2016, Toyota Motor Corporation had 257 Japanese subsidiaries and 291 overseas subsidiaries. The following table sets forth for each of Toyota Motor Corporation's principal subsidiaries, the country of incorporation and the percentage ownership interest and the voting interest held by Toyota Motor Corporation.

<b>Name of Subsidiary</b>	<b>Country of Incorporation</b>	<b>Percentage Ownership Interest</b>	<b>Percentage Voting Interest</b>
Toyota Financial Services Corporation	Japan	100.00	100.00
Hino Motors, Ltd.	Japan	50.21	50.35
Toyota Motor Kyushu, Inc.	Japan	100.00	100.00
Daihatsu Motor Co., Ltd.	Japan	51.33	51.50
Toyota Finance Corporation	Japan	100.00	100.00
Toyota Auto Body Co., Ltd.	Japan	100.00	100.00
Toyota Motor East Japan, Inc.	Japan	100.00	100.00
Toyota Motor Engineering & Manufacturing North America, Inc.	United States	100.00	100.00
Toyota Motor Manufacturing, Kentucky, Inc.	United States	100.00	100.00
Toyota Motor North America, Inc.	United States	100.00	100.00
Toyota Motor Credit Corporation	United States	100.00	100.00
Toyota Motor Manufacturing, Indiana, Inc.	United States	100.00	100.00
Toyota Motor Manufacturing, Texas, Inc.	United States	100.00	100.00
Toyota Motor Sales, U.S.A., Inc.	United States	100.00	100.00
Toyota Motor Manufacturing, Mississippi, Inc.	United States	100.00	100.00
Toyota Motor Manufacturing, West Virginia, Inc.	United States	100.00	100.00
Toyota Motor Manufacturing Canada Inc.	Canada	100.00	100.00
Toyota Credit Canada Inc.	Canada	100.00	100.00
Toyota Canada Inc.	Canada	51.00	51.00
Toyota Motor Europe NV/SA	Belgium	100.00	100.00
Toyota Motor Manufacturing France S.A.S.	France	100.00	100.00
Toyota Motor Finance (Netherlands) B.V.	Netherlands	100.00	100.00
Toyota Motor Manufacturing (UK) Ltd.	United Kingdom	100.00	100.00
Toyota Financial Services (UK) PLC	United Kingdom	100.00	100.00
Toyota (GB) PLC	United Kingdom	100.00	100.00
OOO TOYOTA MOTOR	Russia	100.00	100.00
Toyota Motor (China) Investment Co., Ltd.	China	100.00	100.00
Toyota Motor Finance (China) Co., Ltd.	China	100.00	100.00
P.T. Toyota Motor Manufacturing Indonesia	Indonesia	95.00	95.00
Toyota Motor Asia Pacific Pte Ltd.	Singapore	100.00	100.00
Kuozui Motors, Ltd.	Taiwan	70.00	70.00
Toyota Leasing (Thailand) Co., Ltd.	Thailand	86.84	86.84
Toyota Motor Thailand Co., Ltd.	Thailand	86.43	86.43
Toyota Motor Asia Pacific Engineering and Manufacturing Co., Ltd.	Thailand	100.00	100.00
Toyota Motor Corporation Australia Ltd.	Australia	100.00	100.00
Toyota Finance Australia Ltd.	Australia	100.00	100.00
Toyota Argentina S.A.	Argentina	100.00	100.00
Toyota do Brasil Ltda.	Brazil	100.00	100.00
Toyota South Africa Motors (Pty) Ltd.	South Africa	100.00	100.00



**Table of Contents****4.D PROPERTY, PLANTS AND EQUIPMENT**

As of March 31, 2016, Toyota and its affiliated companies produced automobiles and related components through more than 50 overseas manufacturing organizations in 28 countries and regions besides Japan. The facilities are located principally in Japan, the United States, Canada, the United Kingdom, France, Turkey, Thailand, China, Taiwan, India, Indonesia, South Africa, Australia, Argentina and Brazil.

In addition to its manufacturing facilities, Toyota's properties include sales offices and other sales facilities in major cities, repair service facilities and research and development facilities.

The following table sets forth information, as of March 31, 2016, with respect to Toyota's principal facilities and organizations, all of which are owned by Toyota Motor Corporation or its subsidiaries. However, small portions, all under approximately 20%, of some facilities are on leased premises.

Facility or Subsidiary Name	Location	Land Area (thousand square meters)	Number of Employees	Principal Products or Functions
<b>Japan (Toyota Motor Corporation)</b>				
Tahara Plant	Tahara City, Aichi Pref.	4,029	6,756	Automobiles
Higashi-Fuji Technical Center	Susono City, Shizuoka Pref.	2,041	3,082	Research and Development
Toyota Head Office and Technical Center	Toyota City, Aichi Pref.	1,930	23,954	Research and Development
Motomachi Plant	Toyota City, Aichi Pref.	1,593	7,352	Automobiles
Takaoka Plant	Toyota City, Aichi Pref.	1,312	3,989	Automobiles
Tsutsumi Plant	Toyota City, Aichi Pref.	937	5,467	Automobiles
Kamigo Plant	Toyota City, Aichi Pref.	868	2,790	Automobile parts
Kinu-ura Plant	Hekinan City, Aichi Pref.	836	2,854	Automobile parts
Honsha Plant	Toyota City, Aichi Pref.	551	1,967	Automobile parts
Nagoya Office	Nagoya City, Aichi Pref.	3	2,207	Office
<b>Japan (Subsidiaries)</b>				
Daihatsu Motor Co., Ltd.	Ikeda City, Osaka, etc.	7,893	11,154	Automobiles
Hino Motors, Ltd.	Hino City, Tokyo, etc.	6,044	12,253	Automobiles
Toyota Auto Body Co., Ltd.	Kariya City, Aichi Pref., etc.	2,256	11,158	Automobiles
Toyota Motor East Japan, Inc.	Kurokawa-gun, Miyagi Pref., etc.	2,582	7,193	Automobiles
Toyota Motor Kyushu, Inc.	Miyawaka City, Fukuoka Pref., etc.	1,940	7,385	Automobiles
<b>Outside Japan (Subsidiaries)</b>				
Toyota Motor Thailand Co., Ltd.	Samutprakan, Thailand	4,414	10,203	Automobiles
Toyota Motor Manufacturing Canada, Inc.	Ontario, Canada	4,756	7,031	Automobiles
Toyota Motor Sales, U.S.A., Inc.	California, U.S.A.	3,755	6,567	Sales facilities
P.T. Toyota Motor Manufacturing, Indonesia	Jakarta, Indonesia	2,801	5,479	Automobiles
Toyota Motor Manufacturing, Kentucky, Inc.	Kentucky, U.S.A.	5,161	7,507	Automobiles

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## **Table of Contents**

Toyota is constantly engaged in upgrading, modernizing and revamping the operations of its manufacturing facilities based on its assessment of market needs and prospects. To respond flexibly to fluctuations in demand in each of its production operations throughout the world, Toyota continually reviews and implements appropriate production measures such as revising takt time and adjusting days of operation. As a result, Toyota believes it would require unreasonable effort to track the exact productive capacity and the extent of utilization of each of its manufacturing facilities with a reasonable degree of accuracy.

As of March 31, 2016, property, plant and equipment having a net book value of approximately ¥335.3 billion was pledged as collateral securing indebtedness incurred by Toyota Motor Corporation's consolidated subsidiaries. Toyota believes that there does not exist any material environmental issues that may affect the company's utilization of its assets.

Toyota considers all its principal manufacturing facilities and other significant properties to be in good condition and adequate to meet the needs of its operations.

See Business Overview Capital Expenditures and Divestitures for a description of Toyota's material plans to construct, expand or improve facilities.

### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

#### **5.A OPERATING RESULTS**

*Financial information discussed in this section is derived from Toyota's consolidated financial statements that appear elsewhere in this annual report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.*

#### **Overview**

The business segments of Toyota include automotive operations, financial services operations and all other operations. Automotive operations are Toyota's most significant business segment, accounting for 89% of Toyota's total revenues before the elimination of intersegment revenues for fiscal 2016. Toyota's primary markets based on vehicle unit sales for fiscal 2016 were: Japan (24%), North America (33%), Europe (10%) and Asia (15%).

#### ***Automotive Market Environment***

The worldwide automotive market is highly competitive and volatile. The demand for automobiles is affected by a number of factors including social, political and general economic conditions; introduction of new vehicles and technologies; and costs incurred by customers to purchase or operate vehicles. These factors can cause consumer demand to vary substantially in different geographic markets and for different types of automobiles.

During fiscal 2016, although markets have progressed in a steady manner, especially in the U.S., markets in some emerging countries have become stagnant, and the Japanese market has slowed down mainly in the sales of mini-vehicles due to the tax increase. Meanwhile, the development of automated driving technology, as well as efforts toward improvement in environmental friendliness and safety, has made significant progress.

**Table of Contents**

The following table sets forth Toyota's consolidated vehicle unit sales by geographic market based on location of customers for the past three fiscal years.

	Thousands of units		
	Year Ended March 31,		
	2014	2015	2016
Japan	2,365	2,154	2,059
North America	2,529	2,715	2,839
Europe	844	859	844
Asia	1,609	1,489	1,345
Other*	1,769	1,755	1,594
Overseas total	6,751	6,818	6,622
Total	9,116	8,972	8,681

\* Other consists of Central and South America, Oceania, Africa and the Middle East, etc.

In each of fiscal 2015 and fiscal 2016, during which the market in Japan experienced downturns, Toyota's consolidated vehicle unit sales in Japan decreased compared to the previous fiscal year. Through the efforts of dealers nationwide, for fiscal 2015 and fiscal 2016, the Toyota and Lexus brands' market share excluding mini-vehicles was 46.0% and 46.8%, and the market share (including Daihatsu and Hino brands) including mini-vehicles was 41.8% and 43.2%, each remaining at a high level, as was the case in fiscal 2014. Overseas consolidated vehicle unit sales increased as a whole during fiscal 2015, due to increased sales in North America and Europe, while vehicle unit sales decreased as a whole during fiscal 2016, due mainly to decreases in Asia and the Middle East, despite an increase in North America.

Toyota's share of total vehicle unit sales in each market is influenced by the quality, safety, reliability, price, design, performance, economy and utility of Toyota's vehicles compared with those offered by other manufacturers. The timely introduction of new or redesigned vehicles is also an important factor in satisfying customer needs. Toyota's ability to satisfy changing customer preferences can affect its revenues and earnings significantly.

The profitability of Toyota's automotive operations is affected by many factors. These factors include:

vehicle unit sales volumes,

the mix of vehicle models and options sold,

the level of parts and service sales,

the levels of price discounts and other sales incentives and marketing costs,

the cost of customer warranty claims and other customer satisfaction actions,

the cost of research and development and other fixed costs,

the prices of raw materials,

the ability to control costs,

the efficient use of production capacity,

the adverse effect on production due to the reliance on various suppliers for the provision of supplies,

the adverse effect on market, sales and productions of natural calamities and interruptions of social infrastructure, and

changes in the value of the Japanese yen and other currencies in which Toyota conducts business.

## **Table of Contents**

Changes in laws, regulations, policies and other governmental actions can also materially impact the profitability of Toyota's automotive operations. These laws, regulations and policies include those attributed to environmental matters, vehicle safety, fuel economy and emissions that can add significantly to the cost of vehicles.

Many governments also impose local content requirements, impose tariffs and other trade barriers, and enact price or exchange controls that can limit an automaker's operations and can make the repatriation of profits unpredictable. Changes in these laws, regulations, policies and other governmental actions may affect the production, licensing, distribution or sale of Toyota's products, cost of products or applicable tax rates. From time-to-time when potential safety problems arise, Toyota issues vehicle recalls and takes other safety measures including safety campaigns relating to its vehicles. Since 2009, Toyota issued safety campaigns related to the risk of floor mat entrapment of accelerator pedals and vehicle recalls related to slow-to-return or sticky accelerator pedals. In 2010, Toyota announced a recall related to the software program that controls the antilock braking system in certain models including the Prius. The recalls and other safety measures described above have led to a number of claims and lawsuits against Toyota. For a more detailed description of these claims and lawsuits, see "Information on the Company" Business Overview "Legal Proceedings" and note 24 to the consolidated financial statements.

The worldwide automotive industry is in a period of global competition which may continue for the foreseeable future, and in general the competitive environment in which Toyota operates is likely to intensify. Toyota believes it has the resources, strategies and technologies in place to compete effectively in the industry as an independent company for the foreseeable future.

### ***Financial Services Operations***

The competition in the worldwide automobile financial services industry is intensifying. As competition increases, margins on financing transactions may decrease and market share may also decline as customers obtain financing for Toyota vehicles from alternative sources.

Toyota's financial services operations mainly include loans and leasing programs for customers and dealers. Toyota believes that its ability to provide financing to its customers is an important value added service. Therefore, Toyota has expanded its network of finance subsidiaries in order to offer financial services in many countries.

Toyota's competitors for retail financing and retail leasing include commercial banks, credit unions and other finance companies. Meanwhile, commercial banks and other captive automobile finance companies also compete against Toyota's wholesale financing activities.

Toyota's total finance receivables decreased during fiscal 2016 mainly due to the unfavorable impact of fluctuations in foreign currency translation rates. Also, vehicles and equipment on operating leases, net increased during fiscal 2016 mainly due to an increase in the number of operating leases in financial services subsidiaries in North America.

**Table of Contents**

The following table provides information regarding Toyota's finance receivables and operating leases in the past two fiscal years.

	Yen in millions	
	March 31, 2015	2016
<b>Finance Receivables</b>		
Retail	12,015,844	11,156,798
Finance leases	1,158,361	1,144,312
Wholesale and other dealer loans	3,124,079	2,994,171
	16,298,284	15,295,281
Deferred origination costs	179,905	169,467
Unearned income	(837,124)	(754,836)
Allowance for credit losses		
Retail	(109,316)	(98,853)
Finance leases	(29,303)	(24,600)
Wholesale and other dealer loans	(30,053)	(30,828)
	(168,672)	(154,281)
Total finance receivables, net	15,472,393	14,555,631
Less Current portion	(6,269,862)	(5,912,684)
Noncurrent finance receivables, net	9,202,531	8,642,947
<b>Operating Leases</b>		
Vehicles	5,169,524	5,778,463
Equipment	163,195	12,836
Less Deferred income and other	(132,733)	(138,677)
	5,199,986	5,652,622
Less Accumulated depreciation	(1,080,936)	(1,133,785)
Less Allowance for credit losses	(9,366)	(13,049)
Vehicles and equipment on operating leases, net	4,109,684	4,505,788

Toyota's finance receivables are subject to collectability risks. These risks include consumer and dealer insolvencies and insufficient collateral values (less costs to sell) to realize the full carrying values of these receivables. See discussion in *Critical Accounting Estimates* Allowance for Doubtful Accounts and Credit Losses and note 10 to the consolidated financial statements.

Toyota continues to originate leases to finance new Toyota vehicles. These leasing activities are subject to residual value risk. Residual value losses could be incurred when the lessee of a vehicle does not exercise the option to purchase the vehicle at the end of the lease term. See discussion in *Critical Accounting Estimates* Investment in Operating Leases and note 2 to the consolidated financial statements.

Toyota enters into interest rate swap agreements and cross currency interest rate swap agreements to convert its fixed-rate debt to variable-rate functional currency debt. A portion of the derivative instruments are entered into to hedge interest rate risk from an economic perspective and are not designated as a hedge of specific assets or liabilities on Toyota's consolidated balance sheet and accordingly, unrealized gains or losses related to derivatives that are not designated as a hedge are recognized currently in operations. See discussion in *Critical Accounting Estimates* Derivatives and Other Contracts at Fair Value and Quantitative and Qualitative Disclosures about Market Risk and notes 21 and 27 to the consolidated financial statements.

The fluctuations in funding costs can affect the profitability of Toyota's financial services operations. Funding costs are affected by a number of factors, some of which are not in Toyota's control. These factors



## **Table of Contents**

include general economic conditions, prevailing interest rates and Toyota's financial strength. Funding costs decreased during fiscal 2015 and 2016, mainly as a result of lower interest rates.

Toyota launched its credit card business in Japan in April 2001. As of March 31, 2015, Toyota had 13.5 million cardholders, an increase of 0.8 million cardholders compared with March 31, 2014. As of March 31, 2016, Toyota had 14.3 million cardholders, an increase of 0.8 million cardholders compared with March 31, 2015. Credit card receivables as of March 31, 2015 was ¥380.9 billion nearly equal to March 31, 2014, and that as of March 31, 2016 increased by ¥2.7 billion from March 31, 2015 to ¥383.6 billion.

### ***Other Business Operations***

Toyota's other business operations consist of housing (including the manufacture and sale of prefabricated homes), information technology related businesses (including information technology and telecommunications, intelligent transport systems and GAZOO) and other businesses.

Toyota does not expect its other business operations to materially contribute to Toyota's consolidated results of operations.

### ***Currency Fluctuations***

Toyota is affected by fluctuations in foreign currency exchange rates. Toyota is exposed to fluctuations in the value of the Japanese yen against the U.S. dollar and the euro as well as the Australian dollar, the Russian ruble, the Canadian dollar, the British pound, and others. Toyota's consolidated financial statements, which are presented in Japanese yen, are affected by foreign currency exchange fluctuations through both translation risk and transaction risk.

Translation risk is the risk that Toyota's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates of the currencies in those countries in which Toyota does business compared with the Japanese yen. Even though the fluctuations of currency exchange rates to the Japanese yen can be substantial, and, therefore, significantly impact comparisons with prior periods and among the various geographic markets, the translation risk is a reporting consideration and does not reflect Toyota's underlying results of operations. Toyota does not hedge against translation risk.

Transaction risk is the risk that the currency structure of Toyota's costs and liabilities will deviate from the currency structure of sales proceeds and assets. Transaction risk relates primarily to sales proceeds from Toyota's non-domestic operations from vehicles produced in Japan.

Toyota believes that the location of its production facilities in different parts of the world has significantly reduced the level of transaction risk. As part of its globalization strategy, Toyota has continued to localize production by constructing production facilities in the major markets in which it sells its vehicles. In calendar 2014 and 2015, Toyota produced 76.5% and 75.1%, respectively, of its non-domestic sales outside Japan. In North America, 74.4% and 72.2% of vehicles sold in calendar 2014 and 2015, respectively, were produced locally. In Europe, 73.7% and 76.3% of vehicles sold in calendar 2014 and 2015, respectively, were produced locally. Localizing production enables Toyota to locally purchase many of the supplies and resources used in the production process, which allows for a better match of local currency revenues with local currency expenses.

Toyota also enters into foreign currency transactions and other hedging instruments to address a portion of its transaction risk. This has reduced, but not eliminated, the effects of foreign currency exchange rate fluctuations, which in some years can be significant. See notes 21 and 27 to the consolidated financial statements for additional information.



**Table of Contents**

Generally, a weakening of the Japanese yen against other currencies has a positive effect on Toyota's revenues, operating income and net income attributable to Toyota Motor Corporation. A strengthening of the Japanese yen against other currencies has the opposite effect. In each of fiscal 2015 and 2016, the Japanese yen was on average weaker against the U.S. dollar in comparison to the previous fiscal year. The Japanese yen was at the end of fiscal 2015 weaker against the U.S. dollar in comparison to the end of fiscal 2014, but was at the end of fiscal 2016 stronger against the U.S. dollar in comparison to the end of fiscal 2015. In fiscal 2015, the Japanese yen was on average weaker against the euro in comparison to fiscal 2014, but in fiscal 2016, was on average stronger against the euro in comparison to fiscal 2015. At the end of each of fiscal 2015 and 2016, the Japanese yen was stronger against the euro in comparison to the end of the previous fiscal year. See further discussion in [Quantitative and Qualitative Disclosures about Market Risk](#) [Market Risk Disclosures](#) [Foreign Currency Exchange Rate Risk](#) .

During fiscal 2015 and 2016, the average exchange rate of the Japanese yen against the U.S. dollar and the euro compared to the previous fiscal year fluctuated as described above. The operating results excluding the impact of currency fluctuations described in [Results of Operations](#) [Fiscal 2016 Compared with Fiscal 2015](#) and [Results of Operations](#) [Fiscal 2015 Compared with Fiscal 2014](#) show results of net revenues obtained by applying the Japanese yen's average exchange rate in the previous fiscal year to the local currency-denominated net revenues for fiscal 2015 and 2016, respectively, as if the value of the Japanese yen had remained constant for the comparable periods. Results excluding the impact of currency fluctuations year-on-year are not on the same basis as Toyota's consolidated financial statements and do not conform with U.S. GAAP. Furthermore, Toyota does not believe that these measures are a substitute for U.S. GAAP measures. However, Toyota believes that such results excluding the impact of currency fluctuations year-on-year provide additional useful information to investors regarding the operating performance on a local currency basis.

**Segmentation**

Toyota's most significant business segment is its automotive operations. Toyota carries out its automotive operations as a global competitor in the worldwide automotive market. Management allocates resources to, and assesses the performance of, its automotive operations as a single business segment on a worldwide basis. Toyota does not manage any subset of its automotive operations, such as domestic or overseas operations or parts, as separate management units.

The management of the automotive operations is organized by function, with a manager having oversight responsibility for each function within the segment. Management assesses financial and non-financial data such as vehicle unit sales, production volume, market share information, vehicle model plans and plant location costs to allocate resources within the automotive operations.

**Geographic Breakdown**

The following table sets forth Toyota's net revenues in each geographic market based on the country location of the parent company or the subsidiaries that transacted the sale with the external customer for the past three fiscal years.

	Yen in millions		
	Year ended March 31,		
	2014	2015	2016
Japan	8,532,875	8,338,881	8,588,437
North America	7,938,615	9,430,450	10,822,772
Europe	2,614,070	2,690,803	2,507,292
Asia	4,475,382	4,531,178	4,475,623
Other*	2,130,969	2,243,209	2,008,994

\* Other consists of Central and South America, Oceania, Africa and the Middle East.

**Table of Contents****Results of Operations Fiscal 2016 Compared with Fiscal 2015**

	Yen in millions			
	Year ended March 31, 2015	Year ended March 31, 2016	2016 v. 2015 Change Amount	2016 v. 2015 Change Percentage
<b>Net revenues:</b>				
Japan	14,403,867	14,759,488	355,621	2.5%
North America	9,677,596	11,051,970	1,374,374	14.2
Europe	2,848,294	2,661,331	(186,963)	(6.6)
Asia	4,981,240	5,003,859	22,619	0.5
Other*	2,449,238	2,210,214	(239,024)	(9.8)
Intersegment elimination/unallocated amount	(7,125,714)	(7,283,744)	(158,030)	
<b>Total</b>	<b>27,234,521</b>	<b>28,403,118</b>	<b>1,168,597</b>	<b>4.3</b>
<b>Operating income:</b>				
Japan	1,571,476	1,677,522	106,046	6.7
North America	584,519	528,819	(55,700)	(9.5)
Europe	81,118	72,416	(8,702)	(10.7)
Asia	421,782	449,189	27,407	6.5
Other*	111,509	108,909	(2,600)	(2.3)
Intersegment elimination/unallocated amount	(19,840)	17,116	36,956	
<b>Total</b>	<b>2,750,564</b>	<b>2,853,971</b>	<b>103,407</b>	<b>3.8</b>
Operating margin	10.1%	10.0%	(0.1)%	
Income before income taxes and equity in earnings of affiliated companies	2,892,828	2,983,381	90,553	3.1
Net margin from income before income taxes and equity in earnings of affiliated companies	10.6%	10.5%	(0.1)%	
Equity in earnings of affiliated companies	308,545	329,099	20,554	6.7
Net income attributable to Toyota Motor Corporation	2,173,338	2,312,694	139,356	6.4
Net margin attributable to Toyota Motor Corporation	8.0%	8.1%	0.1%	

\* Other consists of Central and South America, Oceania, Africa and the Middle East.

**Net Revenues**

Toyota had net revenues for fiscal 2016 of ¥28,403.1 billion, an increase of ¥1,168.5 billion, or 4.3%, compared with the prior fiscal year. This increase mainly reflected the favorable impact of fluctuations in foreign currency translation rates of ¥386.4 billion and changes in vehicle unit sales and sales mix of ¥330.0 billion. Excluding the impact of changes in the Japanese yen values used for translation purposes of ¥386.4 billion, net revenues would have been ¥28,016.6 billion during fiscal 2016, a 2.9% increase compared with the prior fiscal year. The North America automotive market increased by 6.2% in calendar 2015 compared with the prior calendar year due to the market in the U.S. progressing in a steady manner. However, Toyota's consolidated vehicle unit sales decreased in Japan due mainly to the slowdown of the mini-vehicles market, in Asia due mainly to the heating up of the competitive climate as well as a market downturn, and in the Middle East, Africa and Central and South America due mainly to the fall in demand resulting from the low price of crude oil and currency weakness. Under these automotive market conditions, Toyota's consolidated vehicle unit sales decreased by 3.2% compared with the prior fiscal year to 8,681 thousand vehicles.

**Table of Contents**

The table below shows Toyota's net revenues from external customers by product category and by business.

	Yen in millions			
	Year ended March 31,		2016 v. 2015 Change	
	2015	2016	Amount	Percentage
Vehicles	21,557,684	22,267,136	709,452	3.3%
Parts and components for overseas production	402,864	493,499	90,635	22.5
Parts and components for after service	1,921,764	2,042,623	120,859	6.3
Other	1,123,912	1,120,555	(3,357)	(0.3)
<b>Total Automotive</b>	<b>25,006,224</b>	<b>25,923,813</b>	<b>917,589</b>	<b>3.7</b>
All Other	606,612	625,298	18,686	3.1
<b>Total sales of products</b>	<b>25,612,836</b>	<b>26,549,111</b>	<b>936,275</b>	<b>3.7</b>
Financial services	1,621,685	1,854,007	232,322	14.3
<b>Total</b>	<b>27,234,521</b>	<b>28,403,118</b>	<b>1,168,597</b>	<b>4.3%</b>

Toyota's net revenues include net revenues from sales of products, consisting of net revenues from automotive operations and all other operations, which increased by 3.7% during fiscal 2016 compared with the prior fiscal year to ¥26,549.1 billion, and net revenues from financial services operations which increased by 14.3% during fiscal 2016 compared with the prior fiscal year to ¥1,854.0 billion. Excluding the impact of changes in the Japanese yen values used for translation purposes of ¥311.9 billion, net revenues from sales of products would have been ¥26,237.1 billion during fiscal 2016, a 2.4% increase compared with the prior fiscal year. The increase in net revenues from sales of products is mainly due to changes in vehicle unit sales and sales mix. Excluding the impact of changes in the Japanese yen values used for translation purposes of ¥74.5 billion, net revenues from financial services operations would have been ¥1,779.4 billion during fiscal 2016, a 9.7% increase compared with the prior fiscal year.

The following table shows the number of financing contracts by geographic region at the end of fiscal 2016 and 2015, respectively.

	Number of financing contracts in thousands			
	Year ended March 31,		2016 v. 2015 Change	
	2015	2016	Amount	Percentage
Japan	1,873	1,961	88	4.7%
North America	5,046	5,252	206	4.1
Europe	910	954	44	4.8
Asia	1,382	1,531	149	10.8
Other*	741	767	26	3.4
<b>Total</b>	<b>9,952</b>	<b>10,465</b>	<b>513</b>	<b>5.2%</b>

\* Other consists of Central and South America, Oceania and Africa.

Geographically, net revenues (before the elimination of intersegment revenues) for fiscal 2016 increased by 2.5% in Japan, 14.2% in North America, and 0.5% in Asia, whereas net revenues decreased by 6.6% in Europe, and 9.8% in Other compared with the prior fiscal year. Excluding the impact of changes in the Japanese yen values used for translation purposes of ¥386.4 billion, net revenues in fiscal 2016 would have increased by 2.5% in Japan, 5.6% in North America, 2.8% in Europe and 3.3% in Other, and would have decreased by 2.6% in Asia compared with the prior fiscal year.



**Table of Contents**

The following is a discussion of net revenues in each geographic market (before the elimination of intersegment revenues).

*Japan*

	Thousands of units			
	Year ended March 31, 2015	Year ended March 31, 2016	2016 v. 2015 Change Amount	2016 v. 2015 Change Percentage
Toyota's consolidated vehicle unit sales*	3,938	3,818	(120)	(3.0)%

\* including number of exported vehicle unit sales

	Yen in millions			
	Year ended March 31, 2015	Year ended March 31, 2016	2016 v. 2015 Change Amount	2016 v. 2015 Change Percentage
Net revenues:				
Sales of products	14,283,195	14,638,709	355,514	2.5%
Financial services	120,672	120,779	107	0.1
Total	14,403,867	14,759,488	355,621	2.5%

Net revenues in Japan increased due primarily to the effect of changes in exchange rates related to export transactions, despite Toyota's domestic and exported vehicle unit sales decreasing by 120 thousand vehicles compared with the prior fiscal year. For fiscal 2015 and 2016, exported vehicle unit sales were 1,784 thousand units and 1,759 thousand units, respectively.

*North America*

	Thousands of units			
	Year ended March 31, 2015	Year ended March 31, 2016	2016 v. 2015 Change Amount	2016 v. 2015 Change Percentage
Toyota's consolidated vehicle unit sales	2,715	2,839	124	4.6%

  

	Yen in millions			
	Year ended March 31, 2015	Year ended March 31, 2016	2016 v. 2015 Change Amount	2016 v. 2015 Change Percentage
Net revenues:				
Sales of products	8,601,879	9,741,529	1,139,650	13.2%
Financial services	1,075,717	1,310,441	234,724	21.8
Total	9,677,596	11,051,970	1,374,374	14.2%

Net revenues in North America increased due primarily to the 124 thousand vehicles increase in vehicle unit sales compared with the prior fiscal year. The vehicle unit sales increased due mainly to the market progressing in a steady manner and strong sales of the RAV4, NX and other car models.

**Table of Contents***Europe*

	Thousands of units			
	Year ended March 31, 2015	2016	2016 v. 2015 Change	
			Amount	Percentage
Toyota's consolidated vehicle unit sales	859	844	(15)	(1.7)%

	Yen in millions			
	Year ended March 31, 2015	2016	2016 v. 2015 Change	
			Amount	Percentage
Net revenues:				
Sales of products	2,750,164	2,562,788	(187,376)	(6.8)%
Financial services	98,130	98,543	413	0.4
Total	2,848,294	2,661,331	(186,963)	(6.6)%

Net revenues in Europe decreased due primarily to the 15 thousand vehicles decrease in vehicle unit sales compared with the prior fiscal year. The vehicle unit sales decreased due mainly to decreased sales in Russia, despite the strong sales in Western Europe, especially in France and Spain.

*Asia*

	Thousands of units			
	Year ended March 31, 2015	2016	2016 v. 2015 Change	
			Amount	Percentage
Toyota's consolidated vehicle unit sales	1,489	1,345	(144)	(9.7)%

	Yen in millions			
	Year ended March 31, 2015	2016	2016 v. 2015 Change	
			Amount	Percentage
Net revenues:				
Sales of products	4,833,952	4,850,563	16,611	0.3%
Financial services	147,288	153,296	6,008	4.1
Total	4,981,240	5,003,859	22,619	0.5%

Net revenues in Asia increased due primarily to the favorable impact of fluctuations in foreign currency translation rates despite the vehicle unit sales decreasing by 144 thousand compared with the prior fiscal year. The decrease in vehicle unit sales was due mainly to decreased sales in Indonesia and Thailand, which in turn was attributable mainly to the downturn of the market and intensifying competitive market conditions.

*Other*

	Thousands of units			
	Year ended March 31, 2015	2016	2016 v. 2015 Change	
			Amount	Percentage
Toyota's consolidated vehicle unit sales	1,755	1,594	(161)	(9.2)%

	Yen in millions			
	Year ended March 31, 2015	2016	2016 v. 2015 Change	
			Amount	Percentage

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Net revenues:				
Sales of products	2,255,122	2,023,206	(231,917)	(10.3)%
Financial services	194,115	187,008	(7,107)	(3.7)
Total	2,449,238	2,210,214	(239,024)	(9.8)%

**Table of Contents**

Net revenues in Other decreased due primarily to the 161 thousand vehicles decrease in vehicle unit sales compared with the prior fiscal year. The decrease in vehicle unit sales was due mainly to decreased sales in the Middle East, Africa and Central and South America.

**Operating Costs and Expenses**

	Yen in millions			
	Year ended March 31, 2015	2016	2016 v. 2015 Change Amount	Percentage
Operating costs and expenses				
Cost of products sold	20,916,362	21,456,086	539,724	2.6%
Cost of financing operations	925,314	1,149,379	224,065	24.2
Selling, general and administrative	2,642,281	2,943,682	301,401	11.4
<b>Total</b>	<b>24,483,957</b>	<b>25,549,147</b>	<b>1,065,190</b>	<b>4.4%</b>

	Yen in millions 2016 v. 2015 Change
Changes in operating costs and expenses:	
Effect of changes in vehicle unit sales and sales mix	510,000
Effect of fluctuation in foreign currency translation rates	350,700
Effect of increase of cost of financing operations	161,000
Effect of cost reduction efforts	(390,000)
Effect of increase of miscellaneous costs and others	433,490
<b>Total</b>	<b>1,065,190</b>

Operating costs and expenses increased by ¥1,065.1 billion, or 4.4%, to ¥25,549.1 billion during fiscal 2016 compared with the prior fiscal year. This increase resulted from the ¥510.0 billion impact of changes in vehicle unit sales and sales mix, ¥350.7 billion unfavorable impact of fluctuations in foreign currency translation rates, ¥161.0 billion increase in cost of financing operations (excluding the effect of fluctuation in foreign currency translation rates) and the ¥433.4 billion increase of miscellaneous costs and others, partially offset by the ¥390.0 billion impact of cost reduction efforts.

The increase in miscellaneous costs and others was due mainly to the ¥110.0 billion increase in labor costs, the ¥50.0 billion increase in research and development expenses, the ¥50.0 billion increase in depreciation expenses and the ¥130.0 billion increase in other various costs, partially offset by the ¥62.8 billion decrease in product quality related expenses.

The decrease in product quality related expenses was due mainly to the effect of the strengthening of the Japanese yen against other currencies at the end of fiscal 2016 in comparison to the prior fiscal year end, primarily concerning the translation of liabilities denominated in foreign currencies. See note 13 to the consolidated financial statements for further discussion.

During fiscal 2016 and beyond, Toyota announced recalls and other safety measures including the following:

In October 2015, Toyota announced in Japan and other regions recalls on certain Toyota vehicles in relation to the power window master switch. In November 2015, Toyota announced in Japan and other regions recalls on certain Toyota vehicles in relation to the clutch piston in the continuously variable transmission. In May, June, August, September and November 2015 and in March, May and June 2016, Toyota announced in Japan and other regions recalls on certain Toyota and Lexus vehicles in relation to the driver/front passenger airbag inflator.



**Table of Contents***Cost Reduction Efforts*

During fiscal 2016, continued cost reduction efforts together with suppliers contributed to a reduction of operating costs and expenses by ¥390.0 billion. This was due to ¥340.0 billion in cost reduction efforts concerning design related costs due mainly to ongoing value engineering activities, and ¥50.0 billion in cost reduction efforts at plants and logistics departments.

These cost reduction efforts related to ongoing value engineering and value analysis activities, the use of common parts resulting in a reduction of part types and other manufacturing initiatives designed to reduce the costs of vehicle production. The amount of the effect of cost reduction efforts includes the impact of fluctuation in the price of steel, precious metals, non-ferrous alloys including aluminum, plastic parts and other production materials and parts.

*Cost of Products Sold*

Cost of products sold increased by ¥539.7 billion, or 2.6%, to ¥21,456.0 billion during fiscal 2016 compared with the prior fiscal year. The increase resulted mainly from the ¥450.0 billion impact of changes in vehicle unit sales and sales mix, the ¥252.2 billion unfavorable impact of fluctuations in foreign currency translation rates, the ¥60.0 billion increase in labor costs and the ¥50.0 billion increase in research and development expenses, partially offset by the ¥390.0 billion impact of cost reduction efforts.

*Cost of Financing Operations*

Cost of financing operations increased by ¥224.0 billion, or 24.2%, to ¥1,149.3 billion during fiscal 2016 compared with the prior fiscal year. The increase resulted mainly from the increase in depreciation expenses, which was mostly attributable to an increase in operating leases.

*Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by ¥301.4 billion, or 11.4%, to ¥2,943.6 billion during fiscal 2016 compared with the prior fiscal year. This increase mainly reflected the ¥60.0 billion impact of changes in vehicle unit sales and sales mix, the ¥53.8 billion increase in advertising costs, the ¥50.0 billion increase in labor costs, the ¥35.4 billion unfavorable impact of fluctuations in foreign currency translation rates and the increase in other various costs.

*Operating Income*

	<b>Yen in millions</b>
	<b>2016 v. 2015 Change</b>
Changes in operating income and loss:	
Effect of cost reduction efforts	390,000
Effect of changes in exchange rates	160,000
Effect of marketing activities	(120,000)
Effect of increase of miscellaneous costs and others	(340,000)
Other	13,407
<b>Total</b>	<b>103,407</b>

Toyota's operating income increased by ¥103.4 billion, or 3.8%, to ¥2,853.9 billion during fiscal 2016 compared with the prior fiscal year. This increase was due mainly to the ¥390.0 billion impact of cost reduction efforts and the ¥160.0 billion favorable impact of changes in foreign currency exchange rates, partially offset by the ¥120.0 billion impact of marketing activities, and the ¥340.0 billion increase in miscellaneous costs and

**Table of Contents**

others. The increase in miscellaneous costs and others was due to the ¥110.0 billion increase in labor costs, the ¥50.0 billion increase in research and development expenses, the ¥50.0 billion increase in depreciation expenses and the ¥130.0 billion increase in other various costs.

Marketing activities and marketing efforts include changes in vehicle unit sales and sales mix, sales expenses and other.

During fiscal 2016, operating income (before elimination of intersegment profits) compared with the prior fiscal year increased by ¥106.0 billion, or 6.7%, in Japan, and ¥27.4 billion, or 6.5%, in Asia, whereas it decreased by ¥55.7 billion, or 9.5%, in North America, ¥8.7 billion, or 10.7%, in Europe, and ¥2.6 billion, or 2.3%, in Other.

The following is a description of operating income in each geographic market.

*Japan*

	Yen in millions 2016 v. 2015 Change
Changes in operating income and loss:	
Effect of cost reduction efforts	275,000
Effect of changes in exchange rates	270,000
Effect of marketing activities	(190,000)
Effect of increase of miscellaneous costs and others	(255,000)
Other	6,046
<b>Total</b>	<b>106,046</b>

*North America*

	Yen in millions 2016 v. 2015 Change
Changes in operating income and loss:	
Effect of cost reduction efforts	75,000
Effect of changes in exchange rates	(65,000)
Effect of marketing efforts	5,000
Effect of increase of miscellaneous costs and others	(75,000)
Other	4,300
<b>Total</b>	<b>(55,700)</b>

*Europe*

	Yen in millions 2016 v. 2015 Change
Changes in operating income and loss:	
Effect of cost reduction efforts	15,000
Effect of changes in exchange rates	(30,000)
Effect of marketing efforts	25,000
Effect of increase of miscellaneous costs and others	(5,000)
Other	(13,702)
<b>Total</b>	<b>(8,702)</b>



**Table of Contents***Asia*

	<b>Yen in millions 2016 v. 2015 Change</b>
Changes in operating income and loss:	
Effect of cost reduction efforts	20,000
Effect of changes in exchange rates	30,000
Effect of marketing activities	(5,000)
Effect of increase of miscellaneous costs and others	(35,000)
Other	17,407
<b>Total</b>	<b>27,407</b>

*Other*

	<b>Yen in millions 2016 v. 2015 Change</b>
Changes in operating income and loss:	
Effect of cost reduction efforts	5,000
Effect of changes in exchange rates	(45,000)
Effect of marketing efforts	45,000
Effect of increase of miscellaneous costs and others	(5,000)
Other	(2,600)
<b>Total</b>	<b>(2,600)</b>

**Other Income and Expenses**

Interest and dividend income increased by ¥10.7 billion, or 7.3%, to ¥157.8 billion during fiscal 2016 compared with the prior fiscal year.

Interest expense increased by ¥12.5 billion, or 54.8%, to ¥35.4 billion during fiscal 2016 compared with the prior fiscal year.

Foreign exchange gain (loss), net decreased by ¥93.7 billion to a loss of ¥5.5 billion during fiscal 2016 compared with the prior fiscal year.

Foreign exchange gains and losses include the differences between the value of foreign currency denominated assets and liabilities recognized through transactions in foreign currencies translated at prevailing exchange rates and the value at the date the transaction settled during the fiscal year, including those settled using forward foreign currency exchange contracts, or the value translated by appropriate year-end exchange rates. The ¥93.7 billion decrease in foreign exchange gain (loss), net was due mainly to the gains recorded in fiscal 2015 resulting from the Japanese yen being weaker against foreign currencies at the dates of settlement of the foreign currency trade accounts receivable than at the dates of the transactions.

Other income, net increased by ¥82.6 billion to ¥12.5 billion during fiscal 2016 compared with the prior fiscal year. The increase was due mainly to the effect of the reissuance of treasury stock for Toyota Mobility Foundation, a General Incorporated Foundation, being recorded in the prior fiscal year. See note 17 to the consolidated financial statements for further discussion.

**Income Taxes**

The provision for income taxes decreased by ¥15.2 billion, or 1.7%, to ¥878.2 billion during fiscal 2016 compared with the prior fiscal year due mainly to the reduction of the corporation tax rate resulting from fiscal



**Table of Contents**

2015 Japanese tax reforms. The effective tax rate for fiscal 2016 was 29.4%, which was lower than the statutory tax rate in Japan. This was due mainly to the increase in tax credits and the effect of foreign subsidiaries where statutory tax rates are lower than that of Japan.

***Net Income Attributable to Noncontrolling Interests and Equity in Earnings of Affiliated Companies***

Net income attributable to noncontrolling interests decreased by ¥13.0 billion, or 9.7%, to ¥121.5 billion during fiscal 2016 compared with the prior fiscal year. This was due mainly to a decrease during fiscal 2016 in net income attributable to the shareholders of consolidated subsidiaries.

Equity in earnings of affiliated companies during fiscal 2016 increased by ¥20.5 billion, or 6.7%, to ¥329.0 billion compared with the prior fiscal year. This increase was due mainly to an increase during fiscal 2016 in net income attributable to the shareholders of affiliated companies accounted for by the equity method.

***Net Income Attributable to Toyota Motor Corporation***

Net income attributable to the shareholders of Toyota Motor Corporation increased by ¥139.3 billion, or 6.4%, to ¥2,312.6 billion during fiscal 2016 compared with the prior fiscal year.

Net income attributable to common shareholders during fiscal 2016 is ¥2,306.6 billion, which is derived by deducting dividends and accretion to Model AA Class Shares of ¥6.0 billion from net income attributable to Toyota Motor Corporation.

***Other Comprehensive Income and Loss***

Other comprehensive income and loss decreased by ¥1,816.1 billion to a loss of ¥866.7 billion for fiscal 2016 compared with the prior fiscal year. This decrease resulted from unrealized holding losses on securities in fiscal 2016 of ¥302.6 billion compared with gains of ¥567.0 billion in the prior fiscal year due mainly to a decrease in prices of marketable securities in stock exchange markets in Japan, from unfavorable foreign currency translation adjustment losses of ¥362.9 billion in fiscal 2016 compared with gains of ¥380.4 billion in the prior fiscal year due mainly to appreciation of the yen against the U.S. dollar, and from pension liability adjustment losses in fiscal 2016 of ¥201.1 billion compared with gains of ¥1.9 billion in the prior fiscal year due mainly to an increase in pension obligations resulting from decreasing discount rates in Japan and a decrease in fair value of plan assets.

***Segment Information***

The following is a discussion of the results of operations for each of Toyota's operating segments. The amounts presented are prior to intersegment elimination.

	Yen in millions			
	Year ended March 31, 2015	2016	2016 v. 2015 Change Amount	Percentage
<b>Automotive:</b>				
Net revenues	25,062,129	25,977,416	915,287	3.7%
Operating income	2,325,310	2,448,998	123,688	5.3%
<b>Financial Services:</b>				
Net revenues	1,661,149	1,896,224	235,075	14.2%
Operating income	361,833	339,226	(22,607)	(6.2%)
<b>All Other:</b>				
Net revenues	1,255,791	1,177,387	(78,404)	(6.2%)
Operating income	65,650	66,507	857	1.3%
<b>Intersegment elimination/unallocated amount:</b>				
Net revenues	(744,548)	(647,909)	96,639	
Operating income	(2,229)	(760)	1,469	

## **Table of Contents**

### *Automotive Operations Segment*

The automotive operations segment is Toyota's largest operating segment by net revenues. Net revenues for the automotive segment increased during fiscal 2016 by ¥915.2 billion, or 3.7%, to ¥25,977.4 billion compared with the prior fiscal year. The increase mainly reflects the ¥330.0 billion favorable impact of changes in vehicle unit sales and sales mix and the ¥307.5 billion favorable impact of fluctuations in foreign currency translation rates.

Operating income from the automotive operations increased by ¥123.6 billion, or 5.3%, to ¥2,448.9 billion during fiscal 2016 compared with the prior fiscal year. This increase in operating income was due mainly to the ¥390.0 billion impact of cost reduction efforts and the ¥160.0 billion favorable impact of changes in foreign currency exchange rates, partially offset by the ¥110.0 billion impact of marketing activities and the ¥340.0 billion increase in miscellaneous costs and others.

The impact of marketing activities was due primarily to the decrease in Toyota's vehicle unit sales by 291 thousand vehicles compared with the prior fiscal year. The vehicle unit sales decreased due mainly to the slowdown of the mini-vehicles market in Japan, the heating up of the competitive climate, as well as the market downturn, in Asia, the fall in demand resulting from the low price of crude oil and currency weakness in the Middle East, Africa, and Central and South America despite the increase in sales in the steady North American market. The increase in miscellaneous costs and others was due mainly to the ¥110.0 billion increase in labor costs, the ¥50.0 billion increase in research and development expenses, the ¥50.0 billion increase in depreciation expenses and the ¥110.0 billion increase in other various costs.

### *Financial Services Operations Segment*

Net revenues for the financial services operations increased during fiscal 2016 by ¥235.0 billion, or 14.2%, to ¥1,896.2 billion compared with the prior fiscal year. This increase was primarily due to the ¥74.8 billion favorable impact of fluctuations in foreign currency translation rates.

Operating income from financial services operations decreased by ¥22.6 billion, or 6.2%, to ¥339.2 billion during fiscal 2016 compared with the prior fiscal year. This decrease was due primarily to a ¥19.7 billion worsening overall of valuation gains or losses on interest rate swaps stated at fair value, mainly in North America.

### *All Other Operations Segment*

Net revenues for Toyota's other operations segments decreased by ¥78.4 billion, or 6.2%, to ¥1,177.3 billion during fiscal 2016 compared with the prior fiscal year.

Operating income from Toyota's other operations segments increased by ¥0.8 billion, or 1.3%, to ¥66.5 billion during fiscal 2016 compared with the prior fiscal year.

**Table of Contents****Results of Operations Fiscal 2015 Compared with Fiscal 2014**

	Yen in millions			
	Year ended March 31, 2014	Year ended March 31, 2015	2015 v. 2014 Change Amount	2015 v. 2014 Change Percentage
<b>Net revenues:</b>				
Japan	14,297,470	14,403,867	106,397	0.7%
North America	8,117,099	9,677,596	1,560,497	19.2
Europe	2,724,959	2,848,294	123,335	4.5
Asia	4,877,672	4,981,240	103,568	2.1
Other*	2,336,641	2,449,238	112,597	4.8
Intersegment elimination/unallocated amount	(6,661,930)	(7,125,714)	(463,784)	
<b>Total</b>	<b>25,691,911</b>	<b>27,234,521</b>	<b>1,542,610</b>	<b>6.0</b>
<b>Operating income:</b>				
Japan	1,510,165	1,571,476	61,311	4.1
North America	326,052	584,519	258,467	79.3
Europe	58,228	81,118	22,890	39.3
Asia	395,737	421,782	26,045	6.6
Other*	42,568	111,509	68,941	162.0
Intersegment elimination/unallocated amount	(40,638)	(19,840)	20,798	
<b>Total</b>	<b>2,292,112</b>	<b>2,750,564</b>	<b>458,452</b>	<b>20.0</b>
Operating margin	8.9%	10.1%	1.2%	
Income before income taxes and equity in earnings of affiliated companies	2,441,080	2,892,828	451,748	18.5
Net margin from income before income taxes and equity in earnings of affiliated companies	9.5%	10.6%	1.1%	
Equity in earnings of affiliated companies	318,376	308,545	(9,831)	(3.1)
Net income attributable to Toyota Motor Corporation	1,823,119	2,173,338	350,219	19.2
Net margin attributable to Toyota Motor Corporation	7.1%	8.0%	0.9%	

\* Other consists of Central and South America, Oceania, Africa and the Middle East.

**Net Revenues**

Toyota had net revenues for fiscal 2015 of ¥27,234.5 billion, an increase of ¥1,542.6 billion, or 6.0%, compared with the prior fiscal year. This increase mainly reflected the favorable impact of fluctuations in foreign currency translation rates of ¥962.2 billion and changes in vehicle unit sales and sales mix of ¥360.0 billion. Excluding the impact of changes in the Japanese yen values used for translation purposes of ¥962.2 billion, net revenues would have been ¥26,272.2 billion during fiscal 2015, a 2.3% increase compared with the prior fiscal year. The North America automotive market in calendar year 2014 increased by 5.8% compared with the prior calendar year due to the market in the U.S. progressing in a steady manner. However the Japanese automotive market in fiscal 2015 decreased by 8.9% compared with the prior fiscal year due to the market downturn resulting from the consumption tax increase. Under these automotive market conditions, Toyota's consolidated vehicle unit sales decreased by 1.6% compared with the prior fiscal year to 8,972 thousand vehicles.



**Table of Contents**

The table below shows Toyota's net revenues from external customers by product category and by business.

	Yen in millions			
	Year ended March 31,		2015 v. 2014 Change	
	2014	2015	Amount	Percentage
Vehicles	20,353,340	21,557,684	1,204,344	5.9%
Parts and components for overseas production	431,760	402,864	(28,896)	(6.7)
Parts and components for after service	1,843,478	1,921,764	78,286	4.2
Other	1,105,277	1,123,912	18,635	1.7
<b>Total Automotive</b>	<b>23,733,855</b>	<b>25,006,224</b>	<b>1,272,369</b>	<b>5.4</b>
All Other	578,789	606,612	27,823	4.8
<b>Total sales of products</b>	<b>24,312,644</b>	<b>25,612,836</b>	<b>1,300,192</b>	<b>5.3</b>
Financial services	1,379,267	1,621,685	242,418	17.6
<b>Total</b>	<b>25,691,911</b>	<b>27,234,521</b>	<b>1,542,610</b>	<b>6.0%</b>

Toyota's net revenues include net revenues from sales of products, consisting of net revenues from automotive operations and all other operations, which increased by 5.3% during fiscal 2015 compared with the prior fiscal year to ¥25,612.8 billion, and net revenues from financial services operations which increased by 17.6% during fiscal 2015 compared with the prior fiscal year to ¥1,621.6 billion. Excluding the impact of changes in the Japanese yen values used for translation purposes of ¥864.5 billion, net revenues from sales of products would have been ¥24,748.2 billion during fiscal 2015, a 1.8% increase compared with the prior fiscal year. The increase in net revenues from sales of products is mainly due to changes in vehicle unit sales and sales mix. Excluding the impact of changes in the Japanese yen values used for translation purposes of ¥97.7 billion, net revenues from financial services operations would have been ¥1,523.9 billion during fiscal 2015, a 10.5% increase compared with the prior fiscal year.

The following table shows the number of financing contracts by geographic region at the end of fiscal 2015 and 2014, respectively.

	Number of financing contracts in thousands			
	Year ended March 31,		2015 v. 2014 Change	
	2014	2015	Amount	Percentage
Japan	1,813	1,873	60	3.3%
North America	4,791	5,046	255	5.3
Europe	879	910	31	3.6
Asia	1,167	1,382	215	18.4
Other*	688	741	53	7.7
<b>Total</b>	<b>9,338</b>	<b>9,952</b>	<b>614</b>	<b>6.6%</b>

\* Other consists of Central and South America, Oceania and Africa.

Geographically, net revenues (before the elimination of intersegment revenues) for fiscal 2015 increased by 0.7% in Japan, 19.2% in North America, 4.5% in Europe, 2.1% in Asia, and 4.8% in Other compared with the prior fiscal year. Excluding the impact of changes in the Japanese yen values used for translation purposes of ¥962.2 billion, net revenues in fiscal 2015 would have increased by 0.7% in Japan, 9.5% in North America, 4.4% in Europe and 7.2% in Other compared with the prior fiscal year, and would have decreased by 3.7% in Asia compared with the prior fiscal year.



**Table of Contents**

The following is a discussion of net revenues in each geographic market (before the elimination of intersegment revenues).

*Japan*

	Year ended March 31,		Thousands of units	
	2014	2015	Amount	2015 v. 2014 Change Percentage
Toyota's consolidated vehicle unit sales*	4,220	3,938	(282)	(6.7)%

\* including number of exported vehicle unit sales

	Year ended March 31,		Yen in millions	
	2014	2015	Amount	2015 v. 2014 Change Percentage
Net revenues:				
Sales of products	14,179,710	14,283,195	103,485	0.7%
Financial services	117,760	120,672	2,912	2.5
Total	14,297,470	14,403,867	106,397	0.7%

Net revenues in Japan increased due primarily to the effect of changes in exchange rates related to export transactions, despite Toyota's domestic and exported vehicle unit sales decreasing by 282 thousand vehicles compared with the prior fiscal year. For fiscal 2014 and 2015, exported vehicle unit sales were 1,854 thousand units and 1,784 thousand units, respectively.

*North America*

	Year ended March 31,		Thousands of units	
	2014	2015	Amount	2015 v. 2014 Change Percentage
Toyota's consolidated vehicle unit sales	2,529	2,715	186	7.3%

  

	Year ended March 31,		Yen in millions	
	2014	2015	Amount	2015 v. 2014 Change Percentage
Net revenues:				
Sales of products	7,234,376	8,601,879	1,367,503	18.9%
Financial services	882,723	1,075,717	192,994	21.9
Total	8,117,099	9,677,596	1,560,497	19.2%

Net revenues in North America increased due primarily to the favorable effect of fluctuations of currency translation rates to the Japanese yen, and the 186 thousand vehicles increase in vehicle unit sales compared with the prior fiscal year. The vehicle unit sales increased due mainly to the market progressing in a steady manner and strong sales of the Corolla, RAV4 and other car models.

**Table of Contents***Europe*

	Thousands of units			
	Year ended March 31, 2014	Year ended March 31, 2015	2015 v. 2014 Change Amount	2015 v. 2014 Change Percentage
Toyota's consolidated vehicle unit sales	844	859	15	1.8%

  

	Yen in millions			
	Year ended March 31, 2014	Year ended March 31, 2015	2015 v. 2014 Change Amount	2015 v. 2014 Change Percentage
Net revenues:				
Sales of products	2,630,408	2,750,164	119,756	4.6%
Financial services	94,551	98,130	3,579	3.8
Total	2,724,959	2,848,294	123,335	4.5%

Net revenues in Europe increased due primarily to the 15 thousand vehicles increase in vehicle unit sales compared with the prior fiscal year. The vehicle unit sales increased due mainly to the strong sales in Western Europe, especially in Italy and the United Kingdom.

*Asia*

	Thousands of units			
	Year ended March 31, 2014	Year ended March 31, 2015	2015 v. 2014 Change Amount	2015 v. 2014 Change Percentage
Toyota's consolidated vehicle unit sales	1,609	1,489	(120)	(7.4)%

  

	Yen in millions			
	Year ended March 31, 2014	Year ended March 31, 2015	2015 v. 2014 Change Amount	2015 v. 2014 Change Percentage
Net revenues:				
Sales of products	4,755,114	4,833,952	78,838	1.7%
Financial services	122,558	147,288	24,730	20.2
Total	4,877,672	4,981,240	103,568	2.1%

Net revenues in Asia increased due primarily to the favorable impact of fluctuations in foreign currency translation rates despite the vehicle unit sales decreasing by 120 thousand compared with the prior fiscal year. The decrease in vehicle unit sales was due mainly to decreased sales in Thailand and Indonesia, which in turn was attributable mainly to the shrinking of the market and competitive market conditions.

**Table of Contents***Other*

	Thousands of units			
	Year ended March 31, 2014	Year ended March 31, 2015	2015 v. 2014 Change Amount	2015 v. 2014 Change Percentage
Toyota's consolidated vehicle unit sales	1,769	1,755	(14)	(0.8)%

	Yen in millions			
	Year ended March 31, 2014	Year ended March 31, 2015	2015 v. 2014 Change Amount	2015 v. 2014 Change Percentage
Net revenues:				
Sales of products	2,162,505	2,255,122	92,617	4.3%
Financial services	174,136	194,115	19,979	11.5
Total	2,336,641	2,449,238	112,597	4.8%

Net revenues in Other increased due primarily to the changes in vehicle sales mix despite vehicle unit sales decreasing by 14 thousand vehicles compared with the prior fiscal year.

*Operating Costs and Expenses*

	Yen in millions			
	Year ended March 31, 2014	Year ended March 31, 2015	2015 v. 2014 Change Amount	2015 v. 2014 Change Percentage
Operating costs and expenses				
Cost of products sold	19,988,245	20,916,362	928,117	4.6%
Cost of financing operations	812,894	925,314	112,420	13.8
Selling, general and administrative	2,598,660	2,642,281	43,621	1.7
Total	23,399,799	24,483,957	1,084,158	4.6%

	Yen in millions
	2015 v. 2014 Change
Changes in operating costs and expenses:	
Effect of changes in vehicle unit sales and sales mix	470,000
Effect of fluctuation in foreign currency translation rates	895,500
Effect of cost reduction efforts	(280,000)
Other	(1,342)
Total	1,084,158

Operating costs and expenses increased by ¥1,084.1 billion, or 4.6%, to ¥24,483.9 billion during fiscal 2015 compared with the prior fiscal year. This increase resulted mainly from the ¥895.5 billion unfavorable impact of fluctuations in foreign currency translation rates and the ¥470.0 billion impact of changes in vehicle unit sales and sales mix, partially offset by the ¥280.0 billion impact of cost reduction efforts and the ¥1.3 billion decrease in other.

The decrease in other was due mainly to the ¥125.0 billion payment to the U.S. government based on the agreement with the U.S. Attorney's Office for the Southern District of New York to resolve its investigation and the ¥83.0 billion costs related to ending the vehicle and engine production in Australia, both being recorded in the prior fiscal year, partially offset by the ¥140.0 billion increase in product quality related expenses and the ¥100.0 billion increase in research and development expenses as compared to the prior fiscal year. See note 24 to



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**Table of Contents**

the consolidated financial statements for further discussion on the payment to the U.S. government based on the agreement with the U.S. Attorney's Office for the Southern District of New York to resolve its investigation, and see note 28 to the consolidated financial statements for further discussion on the costs related to ending the vehicle and engine production in Australia.

The increase in product quality related expenses was due mainly to the increase in provisions for recalls and other safety measures resulting from increase in actual payments during fiscal 2015 and the weakening of the Japanese yen against other currencies at the end of fiscal 2015 in comparison to the prior fiscal year. See note 13 to the consolidated financial statements for further discussion.

During fiscal 2015 and beyond, Toyota announced recalls and other safety measures including the following:

In April 2014, Toyota announced in Japan and other regions recall on certain Toyota vehicles in relation to the electrical wiring (spiral cable) assembled in the steering column. In April 2014, Toyota announced in Japan and other regions recall on certain Toyota vehicles in relation to the slide and lock mechanism of the driver's seat, the windshield wiper motor and the steering column mounting bracket beneath the instrument panel. In June, October, November and December 2014 and in May and June 2015, Toyota announced in Japan and other regions recall on certain Toyota and Lexus vehicles in relation to the driver/front passenger airbag inflator.

The increase in research and development expenses was due mainly to active investments in advanced technology development to support Toyota's future growth.

*Cost Reduction Efforts*

During fiscal 2015, continued cost reduction efforts together with suppliers contributed to a reduction of operating costs and expenses by ¥280.0 billion. This was due to ¥220.0 billion in cost reduction efforts concerning design related costs due mainly to ongoing value engineering activities, and ¥60.0 billion in cost reduction efforts at plants and logistics department.

These cost reduction efforts related to ongoing value engineering and value analysis activities, the use of common parts resulting in a reduction of part types and other manufacturing initiatives designed to reduce the costs of vehicle production. The amount of the effect of cost reduction efforts includes the impact of fluctuation in the price of steel, precious metals, non-ferrous alloys including aluminum, plastic parts and other production materials and parts.

*Cost of Products Sold*

Cost of products sold increased by ¥928.1 billion, or 4.6%, to ¥20,916.3 billion during fiscal 2015 compared with the prior fiscal year. The increase resulted mainly from the ¥691.0 billion unfavorable impact of fluctuations in foreign currency translation rates, the ¥420.0 billion impact of changes in vehicle unit sales and sales mix, and the ¥140.0 billion increase in product quality related expenses, partially offset by the ¥280.0 billion impact of cost reduction efforts and the ¥80.0 billion costs related to ending the vehicle and engine production in Australia recorded in the prior fiscal year.

*Cost of Financing Operations*

Cost of financing operations increased by ¥112.4 billion, or 13.8%, to ¥925.3 billion during fiscal 2015 compared with the prior fiscal year. The increase resulted mainly from the ¥90.7 billion unfavorable impact of fluctuations in foreign currency translation rates.

**Table of Contents***Selling, General and Administrative Expenses*

Selling, general and administrative expenses increased by ¥43.6 billion, or 1.7%, to ¥2,642.2 billion during fiscal 2015 compared with the prior fiscal year. This increase mainly reflected the ¥113.6 billion unfavorable impact of fluctuations in foreign currency translation rates, partially offset by the ¥125.0 billion payment to the U.S. government based on the agreement with the U.S. Attorney's Office for the Southern District of New York to resolve its investigation recorded in the prior fiscal year.

*Operating Income*

	Yen in millions 2015 v. 2014 Change
Changes in operating income and loss:	
Effect of changes in exchange rates	280,000
Effect of cost reduction efforts	280,000
Effect of marketing activities	(70,000)
Effect of increase of miscellaneous costs and others	(160,000)
Other	128,452
<b>Total</b>	<b>458,452</b>

Toyota's operating income increased by ¥458.4 billion, or 20.0%, to ¥2,750.5 billion during fiscal 2015 compared with the prior fiscal year. This increase was due mainly to the ¥280.0 billion favorable impact of changes in foreign currency exchange rates, and ¥280.0 billion impact of cost reduction efforts, partially offset by the ¥70.0 billion impact of marketing activities, and ¥160.0 billion increase in miscellaneous costs and others. The increase in miscellaneous costs and others was due mainly to the ¥140.0 billion increase in product quality related expenses, the ¥100.0 billion increase in research and development expenses, and ¥80.0 billion increase in labor costs, partially offset by the ¥125.0 billion payment to the U.S. government based on the agreement with the U.S. Attorney's Office for the Southern District of New York to resolve its investigation and the ¥83.0 billion costs related to ending the vehicle and engine production in Australia, both being recorded in the prior fiscal year.

Marketing efforts and marketing activities include changes in vehicle unit sales and sales mix, sales expenses and other.

During fiscal 2015, operating income (before elimination of intersegment profits), compared with the prior fiscal year increased by ¥61.3 billion, or 4.1%, in Japan, ¥258.4 billion, or 79.3%, in North America, ¥22.8 billion, or 39.3%, in Europe, ¥26.0 billion, or 6.6%, in Asia, and ¥68.9 billion, or 162.0%, in Other.

The following is a description of operating income in each geographic market.

*Japan*

	Yen in millions 2015 v. 2014 Change
Changes in operating income and loss:	
Effect of changes in exchange rates	360,000
Effect of cost reduction efforts	195,000
Effect of marketing activities	(270,000)
Effect of increase of miscellaneous costs and others	(225,000)
Other	1,311
<b>Total</b>	<b>61,311</b>





**Table of Contents***North America*

	<b>Yen in millions 2015 v. 2014 Change</b>
Changes in operating income and loss:	
Effect of changes in exchange rates	(40,000)
Effect of cost reduction efforts	70,000
Effect of marketing efforts	105,000
Other	123,467
Total	258,467

*Europe*

	<b>Yen in millions 2015 v. 2014 Change</b>
Changes in operating income and loss:	
Effect of changes in exchange rates	(10,000)
Effect of cost reduction efforts	20,000
Effect of marketing efforts	10,000
Other	2,890
Total	22,890

*Asia*

	<b>Yen in millions 2015 v. 2014 Change</b>
Changes in operating income and loss:	
Effect of changes in exchange rates	10,000
Effect of cost reduction efforts	25,000
Effect of marketing activities	(15,000)
Other	6,045
Total	26,045

*Other*

	<b>Yen in millions 2015 v. 2014 Change</b>
Changes in operating income and loss:	
Effect of changes in exchange rates	(40,000)
Effect of marketing efforts	100,000
Effect of decrease of miscellaneous costs and others	35,000
Other	(26,059)
Total	68,941

*Other Income and Expenses*

Interest and dividend income increased by ¥31.7 billion, or 27.5%, to ¥147.1 billion during fiscal 2015 compared with the prior fiscal year.

**Table of Contents**

Interest expense increased by ¥3.2 billion, or 16.5%, to ¥22.8 billion during fiscal 2015 compared with the prior fiscal year.

Foreign exchange gain, net increased by ¥37.8 billion, or 75.4%, to ¥88.1 billion during fiscal 2015 compared with the prior fiscal year. Foreign exchange gains and losses include the differences between the value of foreign currency denominated assets and liabilities recognized through transactions in foreign currencies translated at prevailing exchange rates and the value at the date the transaction settled during the fiscal year, including those settled using forward foreign currency exchange contracts, or the value translated by appropriate year-end exchange rates. The ¥37.8 billion increase in foreign exchange gain, net was due mainly to the gains recorded in fiscal 2015 resulting from the Japanese yen being weaker against foreign currencies at the dates of settlement of the foreign currency trade accounts receivable than at the dates of the transactions.

Other income (loss), net decreased by ¥73.0 billion to a loss of ¥70.1 billion during fiscal 2015 compared with the prior fiscal year. The decrease was due mainly to the effect of the reissuance of treasury stock for Toyota Mobility Foundation, a General Incorporated Foundation. See note 17 to the consolidated financial statements for further discussion.

***Income Taxes***

The provision for income taxes increased by ¥125.6 billion, or 16.4%, to ¥893.4 billion during fiscal 2015 compared with the prior fiscal year due mainly to the increase in income before income taxes and equity in earnings of affiliated companies. The effective tax rate for fiscal 2015 was 30.9%, which was lower than the statutory tax rate in Japan. This was due mainly to the increase in tax credits and the effect of foreign subsidiaries where statutory tax rates are lower than that of Japan.

***Net Income Attributable to Noncontrolling Interests and Equity in Earnings of Affiliated Companies***

Net income attributable to noncontrolling interests decreased by ¥33.9 billion, or 20.2%, to ¥134.5 billion during fiscal 2015 compared with the prior fiscal year. This was due mainly to a decrease during fiscal 2015 in net income attributable to the shareholders of consolidated subsidiaries.

Equity in earnings of affiliated companies during fiscal 2015 decreased by ¥9.8 billion, or 3.1%, to ¥308.5 billion compared with the prior fiscal year. This decrease was due mainly to a decrease during fiscal 2015 in net income attributable to the shareholders of affiliated companies accounted for by the equity method.

***Net Income Attributable to Toyota Motor Corporation***

Net income attributable to the shareholders of Toyota Motor Corporation increased by ¥350.2 billion, or 19.2%, to ¥2,173.3 billion during fiscal 2015 compared with the prior fiscal year.

***Other Comprehensive Income and Loss***

Other comprehensive income increased by ¥65.1 billion, or 7.4%, to ¥949.3 billion for fiscal 2015 compared with the prior fiscal year. This increase resulted from unrealized holding gains on securities in fiscal 2015 of ¥567.0 billion compared with gains of ¥493.7 billion in the prior fiscal year due mainly to an increase in prices of marketable securities in stock exchange markets in Japan, and from favorable foreign currency translation adjustments gains of ¥380.4 billion in fiscal 2015 compared with gains of ¥296.9 billion in the prior fiscal year due mainly to depreciation of the yen against the U.S. dollar, partially offset by pension liability adjustments in fiscal 2015 of ¥1.9 billion compared with gains of ¥93.5 billion in the prior fiscal year.

**Table of Contents****Segment Information**

The following is a discussion of the results of operations for each of Toyota's operating segments. The amounts presented are prior to intersegment elimination.

	Yen in millions			
	Year ended March 31, 2014	2015	2015 v. 2014 Change	
			Amount	Percentage
<b>Automotive:</b>				
Net revenues	23,781,404	25,062,129	1,280,725	5.4%
Operating income	1,938,778	2,325,310	386,532	19.9
<b>Financial Services:</b>				
Net revenues	1,421,047	1,661,149	240,102	16.9
Operating income	294,891	361,833	66,942	22.7
<b>All Other:</b>				
Net revenues	1,151,280	1,255,791	104,511	9.1
Operating income	64,270	65,650	1,380	2.1
<b>Intersegment elimination/unallocated amount:</b>				
Net revenues	(661,820)	(744,548)	(82,728)	
Operating income	(5,827)	(2,229)	3,598	

*Automotive Operations Segment*

The automotive operations segment is Toyota's largest operating segment by net revenues. Net revenues for the automotive segment increased during fiscal 2015 by ¥1,280.7 billion, or 5.4%, to ¥25,062.1 billion compared with the prior fiscal year. The increase mainly reflects the ¥860.1 billion favorable impact of fluctuations in foreign currency translation rates and the ¥360.0 billion favorable impact of changes in vehicle unit sales and sales mix.

Operating income from the automotive operations increased by ¥386.5 billion, or 19.9%, to ¥2,325.3 billion during fiscal 2015 compared with the prior fiscal year. This increase in operating income was due mainly to the ¥280.0 billion favorable impact of changes in foreign currency exchange rates and the ¥280.0 billion impact of cost reduction efforts, partially offset by the ¥70.0 billion impact of marketing activities and the ¥160.0 billion increase in miscellaneous costs and others.

The impact of marketing activities was due primarily to the decrease in Toyota's vehicle unit sales by 144 thousand vehicles compared with the prior fiscal year. Although the vehicle unit sales in North America increased due mainly to the market progressing in a steady manner, the vehicle unit sales overall decreased due mainly to the market downturn in Japan resulting from the consumption tax increase and the market downturn in major Asian countries. The increase in miscellaneous costs and others was due mainly to the ¥140.0 billion increase in product quality related expenses, the ¥100.0 billion increase in research and development expenses and the ¥80.0 billion increase in labor costs, partially offset by the ¥125.0 billion payment to the U.S. government based on the agreement with the U.S. Attorney's Office for the Southern District of New York to resolve its investigation recorded in the prior fiscal year.

*Financial Services Operations Segment*

Net revenues for the financial services operations increased during fiscal 2015 by ¥240.1 billion, or 16.9%, to ¥1,661.1 billion compared with the prior fiscal year. This increase was primarily due to the ¥98.2 billion favorable impact of fluctuations in foreign currency translation rates.

Operating income from financial services operations increased by ¥66.9 billion, or 22.7%, to ¥361.8 billion during fiscal 2015 compared with the prior fiscal year. This increase was due primarily to the recording of ¥61.9 billion of valuation gains on interest rate swaps stated at fair value, mainly in North America.

## **Table of Contents**

### *All Other Operations Segment*

Net revenues for Toyota's other operations segments increased by ¥104.5 billion, or 9.1%, to ¥1,255.7 billion during fiscal 2015 compared with the prior fiscal year.

Operating income from Toyota's other operations segments increased by ¥1.3 billion, or 2.1%, to ¥65.6 billion during fiscal 2015 compared with the prior fiscal year.

### **Related Party Transactions**

Toyota does not have any significant related party transactions other than transactions with affiliated companies in the ordinary course of business. See note 11 to the consolidated financial statements for further discussion.

### **Recent Accounting Pronouncements in the United States**

In May 2014, the Financial Accounting Standards Board (FASB) issued updated guidance on the recognition of revenue from contracts with customers. This guidance will supersede the current revenue recognition guidance. In August 2015, the FASB issued updated guidance on the deferral of the effective date. As a result, this guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In February 2015, the FASB issued updated guidance that amends the analysis a reporting entity must perform to determine whether it should consolidate certain legal entities. This guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In April 2015, the FASB issued updated guidance that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. In August 2015, the FASB issued an additional update which clarifies that debt issuance costs for line of credit agreements may continue to be deferred and amortized. This guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Management does not expect this guidance to have a material impact on Toyota's consolidated financial statements.

In April 2015, the FASB issued updated guidance to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. This guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In May 2015, the FASB issued updated guidance on disclosures for investments in certain entities that calculate net asset value per share. This guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. This guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In July 2015, the FASB issued updated guidance to simplify the measurement of inventory. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

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## **Table of Contents**

In November 2015, the FASB issued updated guidance to simplify the balance sheet classification of deferred taxes. This guidance will require that deferred tax assets and liabilities be classified as noncurrent on the balance sheet. This guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Current deferred tax assets were ¥967.6 billion and current deferred tax liabilities were ¥28.1 billion, as of March 31, 2016.

In January 2016, the FASB issued updated guidance for financial instruments. This guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments and will require entities to measure equity investments at fair value and recognize any changes in fair value in net income. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In February 2016, the FASB issued updated guidance for leases. This guidance will require lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In March 2016, the FASB issued updated guidance for effect of derivative contract novations on existing hedge accounting relationships. This guidance clarifies that a change in the counterparty to a designated derivative hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In March 2016, the FASB issued updated guidance for contingent put and call options in debt instruments. This guidance clarifies whether embedded contingent put and call options are clearly and closely related to the debt host when bifurcating embedded derivatives. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In June 2016, the FASB issued updated guidance for measurement of credit losses on financial instruments. This guidance introduces an approach to estimate credit losses on certain types of financial instruments based on expected losses. It also modifies the impairment model for available-for-sale debt securities. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

### **Critical Accounting Estimates**

The consolidated financial statements of Toyota are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Toyota believes that of its significant accounting policies, the following may involve a higher degree of judgments, estimates and assumptions:

#### ***Product Warranties and Recalls and Other Safety Measures***

Toyota generally warrants its products against certain manufacturing and other defects. Provisions for product warranties are provided for specific periods of time and/or usage of the product and vary depending upon the nature of the product, the geographic location of the sale and other factors. All product warranties are consistent with commercial practices. Toyota includes a provision for estimated product warranty costs as a

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**Table of Contents**

component of cost of sales at the time the related sale is recognized. The accrued warranty costs represent management's best estimate at the time of sale of the total costs that Toyota will incur to repair or replace product parts that fail while still under warranty. The amount of accrued estimated warranty costs is primarily based on historical experience of product failures as well as current information on repair costs. The amount of warranty costs accrued also contains an estimate of warranty claim recoveries to be received from suppliers. The foregoing evaluations are inherently uncertain, as they require material estimates and some products' warranties extend for several years. Consequently, actual warranty costs may differ from the estimated amounts and could require additional warranty provisions. If these factors require a significant increase in Toyota's accrued estimated warranty costs, it would negatively affect future operating results of the automotive operations.

An estimate of warranty claim accrued for each fiscal year is calculated based on the estimate of warranty claim per unit. The estimate of warranty claim per unit is calculated by dividing the actual amounts of warranty claim, net of claim recovery cost received from suppliers, by the number of sales units for the fiscal year.

As the historical recovery amounts received from suppliers is used as a factor in Toyota's calculation of estimated accrued warranty cost, the estimated accrued warranty cost may change depending on the average recovery amounts received from suppliers in the past. However, Toyota believes that there is not a significant uncertainty of estimated amounts based on historical experience regarding recoveries received from suppliers. Toyota may seek recovery to suppliers over the life of the warranty, and there are no other significant special terms and conditions including cap on amounts that can be recovered.

Toyota accrues for costs of recalls and other safety measures, as well as product warranty cost described above, included as a component of cost of sales at the time of vehicle sale. Toyota provides for such liabilities for recalls and other safety measures at the time of vehicle sales comprehensively by aggregate sales of various models in a certain period by geographical regions instead of by individual models. While there is no difference in the calculation method among geographical regions, Toyota believes it is reasonable to calculate the liabilities by geographical regions because of factors such as varying labor costs among geographical regions.

The liabilities for the costs of recalls and other safety measures recorded in the balance sheet is calculated by deducting the accumulated amount of repair cost paid from the expected liability for the cost of recalls and other safety measures. As such, this liability is evaluated every period based on new data and are adjusted as appropriate. Toyota calculates these liabilities for units sold in the current period and each of the past 10 fiscal years, and aggregates such liabilities in determining the final liability amount.

The expected liability for the cost of recalls and other safety measures are calculated by multiplying the sales unit by the expected average repair cost per unit. The expected average repair cost per unit is calculated based on dividing the accumulated amount of repair cost paid per unit by the pattern of payment occurrences. The pattern of payment occurrence represents a ratio that shows the measure of payment occurrence over 10 years based on actual payments with regard to units sold within 10 years.

Factors that may cause a difference between the amount accrued at the time of vehicle sale and actual payment on individual recalls and other safety measures mainly include actual cost of recalls and safety measures during the period being significantly different from the accumulated amount of repair cost paid per unit (generally comprised of parts and labor) and the actual pattern of payment occurrence during the period being significantly different from the pattern of the payment occurrence in the past, which is considered as part of our estimation process for future recalls and other safety measures.

As described above, in estimating the comprehensive provision, the actual cost of individual recalls and other safety measures is included as a component of the calculation such as the accumulated amount of repair cost paid per unit. Thus, an individual recall announcement generally does not directly impact the financial statements when it occurs.



**Table of Contents*****Allowance for Doubtful Accounts and Credit Losses****Natures of estimates and assumptions*

Retail receivables and finance lease receivables consist of retail installment sales contracts secured by passenger cars and commercial vehicles. Collectability risks include consumer and dealer insolvencies and insufficient collateral values (less costs to sell) to realize the full carrying values of these receivables. As a matter of policy, Toyota maintains an allowance for doubtful accounts and credit losses representing management's estimate of the amount of asset impairment in the portfolios of finance, trade and other receivables. Toyota determines the allowance for doubtful accounts and credit losses based on a systematic, ongoing review and evaluation performed as part of the credit-risk evaluation process, historical loss experience, the size and composition of the portfolios, current economic events and conditions, the estimated fair value and adequacy of collateral, and other pertinent factors. This evaluation is inherently judgmental and requires material estimates, including the amounts and timing of future cash flows expected to be received, which may be susceptible to significant change. Although management considers the allowance for doubtful accounts and credit losses to be adequate based on information currently available, additional provisions may be necessary due to (i) changes in management estimates and assumptions about asset impairments, (ii) information that indicates changes in expected future cash flows, or (iii) changes in economic and other events and conditions. To the extent that sales incentives remain an integral part of sales promotion with the effect of reducing new vehicle prices, resale prices of used vehicles and, correspondingly, the collateral value of Toyota's retail receivables and finance lease receivables could experience further downward pressure. If these factors require a significant increase in Toyota's allowance for doubtful accounts and credit losses, it could negatively affect future operating results of the financial services operations. The level of credit losses, which has a greater impact on Toyota's results of operations, is influenced by two factors: frequency of occurrence and expected severity of loss. For evaluation purposes, exposures to credit losses are segmented into the two primary categories of consumer and dealer.

Toyota's consumer category consists of smaller balances that are homogenous retail receivables and finance lease receivables. The dealer category consists of wholesale and other dealer loan receivables. The overall allowance for credit losses is evaluated at least quarterly, considering a variety of assumptions and factors to determine whether reserves are considered adequate to cover probable losses.

*Sensitivity analysis*

The level of credit losses, which could significantly impact Toyota's results of operations, is influenced by two factors: frequency of occurrence and expected severity of loss. The overall allowance for credit losses is evaluated at least quarterly, considering a variety of assumptions and factors to determine whether reserves are considered adequate to cover probable losses. The following table illustrates the effect of an assumed change in frequency of occurrence or expected severity of loss mainly in the United States, assuming all other assumptions are held consistent. The table below represents the impact on the allowance for credit losses in Toyota's financial services operations of the change in frequency of occurrence or expected severity of loss as any change impacts most significantly on the financial services operations.

	<b>Yen in millions</b>
	<b>Effect on the allowance</b>
	<b>for credit losses</b>
	<b>as of March 31, 2016</b>
10 percent change in frequency of occurrence or expected severity of loss	4,507

***Investment in Operating Leases****Natures of estimates and assumptions*

Vehicles on operating leases, where Toyota is the lessor, are valued at cost and depreciated over their estimated useful lives using the straight-line method to their estimated residual values. Toyota utilizes industry published information and its own historical experience to determine estimated residual values for these vehicles.

**Table of Contents**

Toyota evaluates the recoverability of the carrying values of its leased vehicles for impairment when there are indications of declines in residual values, and if impaired, Toyota recognizes an allowance for losses on its residual values.

Throughout the life of the lease, management performs periodic evaluations of estimated end-of-term fair values to determine whether estimates used in the determination of the contractual residual value are still considered reasonable. Factors affecting the estimated residual value at lease maturity include, but are not limited to, new vehicle incentive programs, new vehicle pricing, used vehicle supply, projected vehicle return rates, and projected loss severity. The vehicle return rate represents the number of leased vehicles actually returned at contract maturity as a percentage of the number of lease contracts originally scheduled to mature in the same period less lease contracts subject to early terminations. A higher rate of vehicle returns exposes Toyota to higher potential losses incurred at lease termination. Severity of loss is the extent to which the end-of-term fair value of a lease is less than its carrying value at lease end.

To the extent that sales incentives remain an integral part of sales promotion, resale prices of used vehicles and, correspondingly, the fair value of Toyota's leased vehicles could be subject to downward pressure. The extent of the impact this will have on the end of term residual value depends on the significance of the incentive programs and whether they are sustained over a number of periods. This in turn can impact the projection of future used vehicle values, adversely impacting the expected residual value of the current operating lease portfolio and increasing the provision for residual value losses. However, various other factors impact used vehicle values and the projection of future residual values, including the supply of and demand for used vehicles, interest rates, inflation, the actual or perceived quality, safety and reliability of vehicles, the general economic outlook, new vehicle pricing, projected vehicle return rates and projected loss severity, which may offset this effect. Such factors may adversely affect the results of operations for financial services due to significant charges reducing the estimated residual value.

*Sensitivity analysis*

The following table illustrates the effect of an assumed change in the vehicle return rate and end-of-term market values mainly in the United States, which Toyota believes are the critical estimates, in determining the residual value losses, holding all other assumptions constant. The following table represents the impact on the residual value losses in Toyota's financial services operations of the change in vehicle return rate and end-of-term market values as those changes have a significant impact on financial services operations.

	<b>Yen in millions</b>
	<b>Effect on the residual value losses over the remaining terms of the operating leases on and after April 1, 2016</b>
1 percent increase in vehicle return rate	2,592
1 percent increase in end-of-term market values	10,592

***Impairment of Long-Lived Assets***

Toyota periodically reviews the carrying value of its long-lived assets held and used and assets to be disposed of, including intangible assets, when events and circumstances warrant such a review. This review is performed using estimates of future cash flows. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Management believes that the estimates of future cash flows and fair values are reasonable. However, changes in estimates of such cash flows and fair values would affect the evaluations and negatively affect future operating results of the automotive operations. In fiscal 2014, Toyota recorded long-lived assets impairment charges relating to the end of production in Australia and recorded additional charges in fiscal 2015. See note 28 to the consolidated financial statements for further discussion.

**Table of Contents*****Pension Costs and Obligations****Natures of estimates and assumptions*

Pension costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest costs, expected rate of return on plan assets, mortality rates and other factors. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Toyota's pension costs and obligations.

The two most critical assumptions impacting the calculation of pension costs and obligations are the discount rates and the expected rates of returns on plan assets. Toyota determines the discount rates mainly based on the rates of high quality fixed income bonds or fixed income governmental bonds currently available and expected to be available during the period to maturity of the defined benefit pension plans. Toyota determines the expected rates of return for pension assets after considering several applicable factors including, the composition of plan assets held, assumed risks of asset management, historical results of the returns on plan assets, Toyota's principal policy for plan asset management, and forecasted market conditions. A weighted-average discount rate of 1.1% domestically and 4.0% overseas and a weighted-average expected rate of return on plan assets of 2.5% domestically and 6.3% overseas were used in calculating Toyota's consolidated pension costs for fiscal 2016. Also, a weighted-average discount rate of 0.5% domestically and 4.2% overseas were used in calculating Toyota's consolidated pension obligations for fiscal 2016.

*Sensitivity analysis*

The following table illustrates the effects of assumed changes in weighted-average discount rates and the weighted-average expected rate of return on plan assets, which Toyota believes are critical estimates in determining pension costs and obligations, assuming all other assumptions are consistent.

	Yen in millions			
	Domestic		Overseas	
	Effect on		Effect on	
	Effect on pre-tax income obligations for the year ended March 31, 2017	Effect on pre-tax income obligations for the year ended March 31, 2016	Effect on pre-tax income obligations for the year ended March 31, 2017	Effect on pre-tax income obligations for the year ended March 31, 2016
Discount rates				
0.5% decrease	(8,628)	155,478	(8,152)	97,746
0.5% increase	8,314	(142,830)	7,658	(72,537)
Expected rate of return on plan assets				
0.5% decrease	(6,846)		(3,464)	
0.5% increase	6,846		3,464	

***Derivatives and Other Contracts at Fair Value***

Toyota uses derivatives in the normal course of business to manage its exposure to foreign currency exchange rates and interest rates. The accounting for derivatives is complex and continues to evolve. Toyota estimates the fair value of derivative financial instruments using industry-standard valuation models that require observable inputs including interest rates and foreign exchange rates, and the contractual terms. In other certain cases when market data is not available, key inputs to the fair value measurement include quotes from counterparties, and other market data. These estimates are based upon valuation methodologies deemed appropriate under the circumstances. However, the use of different assumptions may have a material effect on the estimated fair value amounts.

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**Table of Contents**

***Marketable Securities and Investments in Affiliated Companies***

Toyota's accounting policy is to record a write-down of such investments to net realizable value when a decline in fair value below the carrying value is other-than-temporary. In determining if a decline in value is other-than-temporary, Toyota considers the length of time and the extent to which the fair value has been less than the carrying value, the financial condition and prospects of the company and Toyota's ability and intent to retain its investment in the company for a period of time sufficient to allow for any anticipated recovery in fair value.

***Reissuance of treasury stock for Toyota Mobility Foundation, a General Incorporated Foundation***

In fiscal 2015, Toyota Motor Corporation reissued treasury stock for Toyota Mobility Foundation, a General Incorporated Foundation (the Foundation), and the difference between amount of proceeds and fair value of treasury stock on reissuance was included in Other income (expense). The fair value of treasury stock was measured using a dividend discount model due to the restrictions on transfer in the reissued stock for the Foundation. These estimates were based upon valuation methodologies deemed appropriate under the circumstances. See note 17 to the consolidated financial statements for further discussion.

***Deferred Tax Assets***

The factors used to assess the likelihood of realization of the deferred tax assets are the future reversal of existing taxable temporary differences, the future taxable income and available tax planning strategies that are prudent and feasible. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for deferred tax assets which are not more-likely-than-not to be realized.

The accounting for deferred tax assets represents Toyota's current best estimate based on all available evidence. Unanticipated events or changes could result in re-evaluating the realizability of deferred tax assets.

**Outlook**

As for the future business environment, the U.S. is expected to continue recovering and Europe, chiefly in the eurozone, is expected to continue its moderate recovery. Meanwhile, China and other emerging countries are showing a risk of a slowdown. With regards to the Japanese economy, attention needs to be paid to an economic decline caused by a slowdown in emerging countries. The automotive market is expected to progress steadily in developed countries, though concerns over slowdowns in emerging countries continue. In addition, measures to respond to environmental and fuel consumption regulations in various countries and to reinforce efforts toward the development of safety technologies are required, while companies in other businesses are newly venturing into the development of automated driving technology. Fierce competition is thus intensifying on a global scale. Taking the foregoing external factors into account, Toyota expects that net revenues for fiscal 2017 will decrease compared with fiscal 2016 due to an unfavorable impact of fluctuations in foreign currency translation rates, partially offset by an increase in vehicle unit sales and other factors. Toyota expects that operating income will decrease in fiscal 2017 compared with fiscal 2016 due mainly to the unfavorable impact of fluctuations in foreign currency translation rates and an increase in miscellaneous costs, partially offset by a favorable impact of cost reduction efforts and an increase in vehicle unit sales. Toyota expects that income before income taxes and equity in earnings of affiliated companies and net income attributable to Toyota Motor Corporation will also decrease in fiscal 2017.

For the purposes of this outlook discussion, Toyota is assuming an average exchange rate of ¥105 to the U.S. dollar and ¥120 to the euro. Exchange rate fluctuations can materially affect Toyota's operating results. In particular, a strengthening of the Japanese yen against the U.S. dollar can have a material adverse effect on Toyota's operating results. See Operating and Financial Review and Prospects Operating Results Overview Currency Fluctuations for further discussion.

**Table of Contents**

The foregoing statements are forward-looking statements based upon Toyota's management's assumptions and beliefs regarding exchange rates, market demand for Toyota's products, economic conditions and others. See [Cautionary Statement Concerning Forward-Looking Statements](#). Toyota's actual results of operations could vary significantly from those described above as a result of unanticipated changes in the factors described above or other factors, including those described in [Risk Factors](#).

**5.B LIQUIDITY AND CAPITAL RESOURCES**

Historically, Toyota has funded its capital expenditures and research and development activities through cash generated by operations.

In fiscal 2017, Toyota expects to sufficiently fund its capital expenditures and research and development activities through cash and cash equivalents on hand, and cash generated by operations. Toyota will use its funds for the development of environment technologies, maintenance and replacement of manufacturing facilities, and the introduction of new products. See [Information on the Company Business Overview Capital Expenditures and Divestitures](#) for information regarding Toyota's material capital expenditures and divestitures for fiscal 2014, 2015 and 2016, and information concerning Toyota's principal capital expenditures and divestitures currently in progress.

Toyota funds its financing programs for customers and dealers, including loans and leasing programs, from both cash generated by operations and borrowings by its sales finance subsidiaries. Toyota seeks to expand its ability to raise funds locally in markets throughout the world by expanding its network of finance subsidiaries.

Net cash provided by operating activities increased by ¥775.1 billion to ¥4,460.8 billion for fiscal 2016, compared with ¥3,685.7 billion for fiscal 2015.

The increase was primarily attributable to the ¥103.4 billion increase in operating income and the ¥216.7 billion increase in depreciation expenses, i.e. noncash expenses, resulting from an increase in capital expenditures. Results of operations are recorded on an accrual basis and are therefore different from cash provided or used in operating activities. Other than the operating income increase, net cash provided by operating activities increased primarily due to the ¥240.5 billion decrease in cash payments for income taxes for fiscal 2016 resulting mainly from a decrease in provisional tax payment.

Net cash provided by operating activities increased by ¥39.7 billion to ¥3,685.7 billion for fiscal 2015, compared with ¥3,646.0 billion for fiscal 2014.

The increase was primarily attributable to the ¥458.4 billion increase in operating income and the ¥158.2 billion increase in depreciation expenses, i.e. noncash expenses, resulting from an increase in capital expenditures. Results of operations are recorded on an accrual basis and are therefore different from cash provided or used in operating activities. Accordingly the ¥52.4 billion decrease in accrued trade receivables resulting from a decrease in vehicle unit sales in March in Japan and ¥84.7 billion increase in accrued accounts payables resulting from the consumption tax increase in Japan are attributed to the increase in net cash provided by operating activities. On the other hand the ¥734.6 billion increase in cash payments for income taxes for fiscal 2015 resulting from an increase of provisional tax payment partially offset the increase.

Net cash used in investing activities decreased by ¥630.9 billion to ¥3,182.5 billion for fiscal 2016, compared with ¥3,813.4 billion for fiscal 2015. The decrease was primarily attributable to the ¥1,729.6 billion decrease in purchases of marketable securities and security investments, partially offset by the ¥565.4 billion increase in purchases of equipment leased to others and the ¥948.7 billion increase in investments and other assets.

**Table of Contents**

Net cash used in investing activities decreased by ¥522.7 billion to ¥3,813.4 billion for fiscal 2015, compared with ¥4,336.2 billion for fiscal 2014. The decrease was primarily attributable to the ¥907.6 billion decrease in purchases of marketable securities and security investments, partially offset by the ¥502.5 billion increase in purchases of equipment leased to others.

Net cash used in financing activities was ¥423.5 billion for fiscal 2016, compared with net cash provided by financing activities of ¥306.0 billion for fiscal 2015, a ¥729.6 billion change. The change was primarily attributable to the ¥713.9 billion increase in payments of long-term debt and a ¥430.3 billion increase in repurchase and reissuance of treasury stock, partially offset by the ¥474.9 billion proceeds from the issuance of Model AA Class Shares.

Net cash provided by financing activities decreased by ¥613.4 billion to ¥306.0 billion for fiscal 2015, compared with ¥919.4 billion for fiscal 2014. The decrease was primarily attributable to the ¥158.9 billion increase in dividends paid and the ¥356.9 billion increase in repurchase and reissuance of treasury stock. In addition, the increase in payments of debt exceeded the increase in proceeds from issuance of debt.

Total capital expenditures for property, plant and equipment, excluding vehicles and equipment on operating leases, were ¥1,282.5 billion during fiscal 2016, an increase of 11.9% from the ¥1,146.3 billion in total capital expenditures during the prior fiscal year. This increase was due primarily to an increase in investments in Japan and Asia.

Total capital expenditures for vehicles and equipment on operating leases were ¥2,776.6 billion during fiscal 2016, an increase of 25.6% from the ¥2,211.2 billion in total capital expenditures during the prior fiscal year. This increase was due primarily to an increase in investments in the financial services operations.

Toyota expects investments in property, plant and equipment, excluding vehicles and equipment on operating leases, to be approximately ¥1,350.0 billion during fiscal 2017.

Cash and cash equivalents were ¥2,939.4 billion as of March 31, 2016. Most of Toyota's cash and cash equivalents are held in Japanese yen or in U.S. dollars. In addition, time deposits were ¥1,032.0 billion and marketable securities were ¥1,511.3 billion as of March 31, 2016.

Liquid assets, which Toyota defines as cash and cash equivalents, time deposits, marketable debt securities and its investment in monetary trust funds, increased during fiscal 2016 by ¥634.1 billion, or 6.4%, to ¥10,570.2 billion.

Trade accounts and notes receivable, less allowance for doubtful accounts decreased during fiscal 2016 by ¥108.5 billion, or 5.1%, to ¥2,000.1 billion. This decrease was due mainly to the fluctuations in foreign currency translation rates.

Inventories decreased during fiscal 2016 by ¥76.1 billion, or 3.6%, to ¥2,061.5 billion. This decrease was due mainly to the fluctuations in foreign currency translation rates.

Total finance receivables, net decreased during fiscal 2016 by ¥916.7 billion, or 5.9%, to ¥14,555.6 billion. This decrease was due mainly to the fluctuations in foreign currency translation rates. As of March 31, 2016, finance receivables were geographically distributed as follows: in North America 59.1%, in Asia 11.9%, in Europe 10.3%, in Japan 8.3% and in Other 10.4%.

Marketable securities and other securities investments, including those included in current assets, decreased during fiscal 2016 by ¥1,463.0 billion, or 14.0%, reflecting the redemptions of marketable securities and security investments, and the fluctuations in foreign currency translation rates.

**Table of Contents**

Property, plant and equipment increased during fiscal 2016 by ¥444.6 billion, or 4.8%, primarily reflecting the increase in the capital expenditures.

Accounts and notes payable decreased during fiscal 2016 by ¥21.0 billion, or 0.9%. This decrease was due mainly to the fluctuations in foreign currency translation rates.

Accrued expenses increased during fiscal 2016 by ¥57.4 billion, or 2.2%. This increase was due mainly to the increase in accrued product quality related expenses.

Income taxes payable decreased during fiscal 2016 by ¥5.4 billion, or 1.6%.

Toyota's total borrowings decreased during fiscal 2016 by ¥684.7 billion, or 3.6%. Toyota's short-term borrowings consist of loans with a weighted-average interest rate of 2.05% and commercial paper with a weighted-average interest rate of 0.71%. Short-term borrowings decreased during fiscal 2016 by ¥350.0 billion, or 6.9%, to ¥4,698.1 billion. Toyota's long-term debt consists of unsecured and secured loans, medium-term notes, unsecured and secured notes etc. with weighted-average interest rates ranging from 1.11% to 8.58%, and maturity dates ranging from 2016 to 2047. The current portion of long-term debt decreased during fiscal 2016 by ¥92.3 billion, or 2.4%, to ¥3,822.9 billion and the non-current portion decreased by ¥242.3 billion, or 2.4%, to ¥9,772.0 billion. The decrease in total borrowings resulted mainly from the fluctuations in foreign currency translation rates. As of March 31, 2016, approximately 49% of long-term debt was denominated in U.S. dollars, 12% in Japanese yen, 9% in Australian dollars, and 30% in other currencies. Toyota hedges interest rate risk exposure of fixed-rate borrowings by entering into interest rate swaps. There are no material seasonal variations in Toyota's borrowings requirements.

As of March 31, 2016, Toyota's total interest bearing debt was 109.2% of Toyota Motor Corporation shareholders' equity, compared with 113.0% as of March 31, 2015.

The following table provides information for credit rating of Toyota's short-term borrowing and long-term debt from rating agencies, Standard & Poor's Ratings Group (S&P), Moody's Investors Services (Moody's), and Rating and Investment Information, Inc. (R&I), as of May 31, 2016. A credit rating is not a recommendation to buy, sell or hold securities. A credit rating may be subject to withdrawal or revision at any time. Each rating should be evaluated separately of any other rating.

	<b>S&amp;P</b>	<b>Moody's</b>	<b>R&amp;I</b>
Short-term borrowing	A-1+	P-1	
Long-term debt	AA-	Aa3	AA+

Toyota's unfunded pension liabilities of Japanese plans increased during fiscal 2016 by ¥269.4 billion, or 98.6%, to ¥542.9 billion. The liabilities of foreign plans increased during fiscal 2016 by ¥7.0 billion, or 2.7%, to ¥270.4 billion. The unfunded amounts will be funded through future cash contributions by Toyota or in some cases will be settled on the retirement date of each covered employee. The increase in unfunded pension liabilities of the Japanese plans reflects mainly an increase in pension benefit obligations that resulted from a decline in discount rate. See note 20 to the consolidated financial statements for further discussion.

Toyota's treasury policy is to maintain controls on all exposures, to adhere to stringent counterparty credit standards, and to actively monitor marketplace exposures. Toyota remains centralized, and is pursuing global efficiency of its financial services operations through Toyota Financial Services Corporation.

The key element of Toyota's financial strategy is maintaining a strong financial position that will allow Toyota to fund its research and development initiatives, capital expenditures and financial services operations efficiently even if earnings are subject to short-term fluctuations. Toyota believes that it maintains sufficient

**Table of Contents**

liquidity for its present requirements and that by maintaining its high credit ratings, it will continue to be able to access funds from external sources in large amounts and at relatively low costs. Toyota's ability to maintain its high credit ratings is subject to a number of factors, some of which are not within Toyota's control. These factors include general economic conditions in Japan and the other major markets in which Toyota does business, as well as Toyota's successful implementation of its business strategy.

**5.C RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES**

Toyota's research and development is dedicated to capturing the increasingly diverse and sophisticated market through the development of attractive, affordable, high-quality products for customers worldwide. The intellectual property that R&D generates is a vital management resource that Toyota utilizes and protects to maximize its corporate value. For a more detailed discussion of the company's research and development objectives and policies, see "Information on the Company" Business Overview Research and Development.

Toyota's research and development expenditures were approximately ¥1,055.6 billion in fiscal 2016, ¥1,004.5 billion in fiscal 2015 and ¥910.5 billion in fiscal 2014.

Toyota operates a global research and development organization with the primary goal of building automobiles that meet the needs of customers in every region of the world. In Japan, research and development operations are led by Toyota and Toyota Central Research & Development Laboratories, Inc., which works closely with Daihatsu Motor Co., Ltd., Hino Motors, Ltd., Toyota Auto Body Co., Ltd., Toyota Motor East Japan, Inc., and many other Toyota group companies. Overseas, Toyota has a worldwide network of technical centers as well as design and motorsports research and development centers.

Toyota established Toyota Research Institute, Inc. in January 2016 to accelerate research and development of artificial intelligence technology, which has significant potential to support future industrial technologies.



**Table of Contents**

The following table provides information on Toyota's principal research and development facilities.

<b>Facility</b>	<b>Principal Activity</b>
<i>Japan</i>	
Toyota Technical Center	Product planning, style, design and evaluation
Higashi-Fuji Technical Center	Advanced research and development
Tokyo Design Research & Laboratory	Research of advanced styling designs
Shibetsu Proving Ground	Vehicle testing and evaluation
Toyota Central R&D Labs., Inc.	Basic research
<i>United States</i>	
Toyota Motor Engineering and Manufacturing North America, Inc.	North American production and product planning, upper body planning, evaluation
Caltly Design Research, Inc.	Design
Toyota Research Institute of North America (TRI-NA)	Advanced research relating to energy and environment, safety and mobility infrastructure
Toyota Research Institute, Inc.	Research and development of artificial intelligence technology
<i>Europe</i>	
Toyota Motor Europe NV/SA	Upper body planning for European production, evaluation and advanced research
Toyota Europe Design Development S.A.R.L.	Design
Toyota Motorsport GmbH	Development of motor sports vehicles
<i>Asia Pacific</i>	
Toyota Motor Asia Pacific Engineering and Manufacturing Co., Ltd.	Upper body planning for Australian and Asian production and evaluation
Toyota Technical Center Asia Pacific Australia Pty, Ltd.*	Upper body planning for Australian and Asian production and evaluation
<i>China</i>	
Toyota Motor Engineering and Manufacturing (China) Co., Ltd.	Research of new, low-energy vehicle technology, vehicle evaluation and quality assurance in China
FAW Toyota Research & Development Co., Ltd	Design and evaluation of vehicles manufactured in China
GAC Toyota Motor Co., Ltd. R&D Center	Design and evaluation of vehicles manufactured in China

\* Toyota Technical Center Asia Pacific Australia Pty, Ltd. is scheduled to be dissolved in September 2016.

Toyota reorganized its subsidiary and vehicle development partner Toyota Technical Development Corporation, integrating its vehicle development functions into Toyota in January 2016.

Toyota carefully analyzes patents and the need for patents in each area of research to formulate more effective research and development strategies. Toyota identifies research and development projects in which it should acquire patents, and files relevant applications as necessary to help build a strong global patent portfolio.

In addition, Toyota wishes to contribute to sustainable mobility by promoting the spread of technologies with environmental and safety benefits. This is why Toyota takes an open stance to patent licensing and grants



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**Table of Contents**

licenses when appropriate terms are met. For example, in March 2004, Toyota and Ford Motor Company entered into licensing agreements for patents related to hybrid systems and emissions purification. In addition, in March 2010, Toyota and Mazda Motor Corporation entered into a licensing agreement regarding the supply of hybrid system technology.

Toyota does not consider any one group of patents or licenses to be so important that their expiration or termination would materially affect Toyota's business. For a further discussion of Toyota's intellectual property, see [Information on the Company](#) [Business Overview](#) [Intellectual Property](#).

**5.D TREND INFORMATION**

For a discussion of the trends that affect Toyota's business and operating results, see [Operating Results](#) and [Liquidity and Capital Resources](#).

**5.E OFF-BALANCE SHEET ARRANGEMENTS**

Toyota uses its securitization program as part of its funding through special purpose entities for its financial services operations. Toyota is considered as the primary beneficiary of these special purpose entities and therefore consolidates them. Toyota has not entered into any off-balance sheet securitization transactions during fiscal 2016.

**Lending Commitments**

*Credit Facilities with Credit Card Holders*

Toyota's financial services operations issue credit cards to customers. As customary for credit card businesses, Toyota maintains credit facilities with holders of credit cards issued by Toyota. These facilities are used upon each holder's requests up to the limits established on an individual holder's basis. Although loans made to customers through these facilities are not secured, for the purposes of minimizing credit risks and of appropriately establishing credit limits for each individual credit card holder, Toyota employs its own risk management policy which includes an analysis of information provided by financial institutions in alliance with Toyota. Toyota periodically reviews and revises, as appropriate, these credit limits. Outstanding credit facilities with credit card holders were ¥218.5 billion as of March 31, 2016.

*Credit Facilities with Dealers*

Toyota's financial services operations maintain credit facilities with dealers. These credit facilities may be used for business acquisitions, facilities refurbishment, real estate purchases, and working capital requirements. These loans are typically collateralized with liens on real estate, vehicle inventory, and/or other dealership assets, as appropriate. Toyota obtains a personal guarantee from the dealer or corporate guarantee from the dealership when deemed prudent. Although the loans are typically collateralized or guaranteed, the value of the underlying collateral or guarantees may not be sufficient to cover Toyota's exposure under such agreements. Toyota evaluates the credit facilities according to the risks assumed in entering into the credit facility. Toyota's financial services operations also provide financing to various multi-franchise dealer organizations, referred to as dealer groups, often as part of a lending consortium, for wholesale inventory financing, business acquisitions, facilities refurbishment, real estate purchases, and working capital requirements. Toyota's outstanding credit facilities with dealers totaled ¥2,259.3 billion as of March 31, 2016.

*Guarantees*

Toyota enters into certain guarantee contracts with its dealers to guarantee customers' payments of their installment payables that arise from installment contracts between customers and Toyota dealers, as and when

**Table of Contents**

requested by Toyota dealers. Guarantee periods are set to match the maturity of installment payments, and as of March 31, 2016, ranged from one month to 35 years. However, they are generally shorter than the useful lives of products sold. Toyota is required to execute its guarantee primarily when customers are unable to make required payments.

The maximum potential amount of future payments as of March 31, 2016 is ¥2,349.6 billion. Liabilities for these guarantees of ¥5.5 billion have been provided as of March 31, 2016. Under these guarantee contracts, Toyota is entitled to recover any amounts paid by it from the customers whose obligations it guaranteed.

**5.F TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS****Contractual Obligations and Commitments**

For information regarding debt obligations, capital lease obligations, operating lease obligations and other obligations, including amounts maturing in each of the next five years, see notes 12, 23 and 24 to the consolidated financial statements. In addition, as part of Toyota's normal business practices, Toyota enters into long-term arrangements with suppliers for purchases of certain raw materials, components and services. These arrangements may contain fixed/minimum quantity purchase requirements. Toyota enters into such arrangements to facilitate an adequate supply of these materials and services.

The following tables summarize Toyota's contractual obligations and commercial commitments as of March 31, 2016.

	Total	Yen in millions			
		Less than 1 year	1 to 3 years	3 to 5 years	5 years and after
<b>Contractual Obligations:</b>					
Short-term borrowings (note 12)					
Loans	1,068,417	1,068,417			
Commercial paper	3,629,717	3,629,717			
Long-term debt* (note 12)	13,573,517	3,818,703	5,404,255	3,140,602	1,209,957
Estimated amount of interest expense on long-term debt	846,397	254,270	312,303	125,257	154,567
Capital lease obligations (note 23)	21,502	4,251	5,009	2,963	9,279
Non-cancelable operating lease obligations (note 23)	69,407	13,747	19,818	11,076	24,766
Commitments for the purchase of property, plant, other assets and services (note 24)	331,054	140,506	51,409	56,236	82,903
Total	19,540,011	8,929,611	5,792,794	3,336,134	1,481,472

\* Long-term debt represents future principal payments.

Toyota is unable to make reasonable estimates of the period of cash settlement with respect to liabilities recognized for uncertain tax benefits, and accordingly such liabilities are excluded from the table above. See note 15 to the consolidated financial statements for further discussion.

**Table of Contents**

Toyota expects to contribute ¥40,190 million domestically and ¥24,238 million overseas to its pension plans in fiscal 2017.

	Total Amounts Committed	Yen in millions			
		Amount of Commitment Expiration Per Period			
		Less than 1 year	1 to 3 years	3 to 5 years	5 years and after
Commercial Commitments (note 24):					
Maximum potential exposure to guarantees given in the ordinary course of business	2,349,624	577,994	986,287	551,405	233,938
<b>Total Commercial Commitments</b>	<b>2,349,624</b>	<b>577,994</b>	<b>986,287</b>	<b>551,405</b>	<b>233,938</b>

**5.G SAFE HARBOR**

All information that is not historical in nature disclosed under Off-Balance Sheet Arrangements and Tabular Disclosure of Contractual Obligations is deemed to be a forward-looking statement. See Cautionary Statement Concerning Forward-Looking Statements for additional information.

**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****6.A DIRECTORS AND SENIOR MANAGEMENT**

In March 2011, Toyota unveiled its Toyota Global Vision. In order to realize the Toyota Global Vision, Toyota implemented a new management organization highlighted by a more streamlined board of directors and a reduced number of layers in the executive decision-making structure.

In April 2013, Toyota implemented organizational changes in order to further increase the speed of decision-making through clarification of operations and earnings responsibility. Specifically, Toyota's automotive business was split into four business units. These business units are Lexus International, which covers the Lexus business, Toyota No. 1, which covers North America, Europe and Japan, Toyota No. 2, which covers China, Asia & Middle East, East Asia & Oceania, Africa and Latin America & Caribbean and Unit Center, which covers all unit-related operations. Toyota's executive vice presidents are assigned to each operation and each is responsible for the operations and earnings of the respective business unit. Furthermore, in order to achieve sustainable growth through the continuous development of even-better cars that exceed customer expectations around the world, and to realize the Toyota Global Vision, the TNGA Planning Division, an organization directly under Toyota's top management, was established in order to rapidly promote the implementation of the TNGA. In April 2014, the Strategic Top Executive Meeting Office was established to set policies concerning medium to long term strategies and business direction, the fundamentals of corporate strategy. In April 2015, as a result of a review of the geographic oversight of operations, the Africa region was transferred from Business Unit Toyota No. 2 to Business Unit Toyota No. 1.

Toyota believes it is crucial for it to be led by members of the board of directors and senior management who deeply understand, and can effectively implement, Toyota's strengths—the *monozukuri* spirit of conscientious manufacturing and the *genchi genbutsu* principle of placing emphasis on on-site operations with a go-and-see attitude for continued improvement and problem solving. At the 109th Ordinary General Shareholders Meeting held in June 2013, three outside members of the board of directors were appointed in order to further reflect the opinions of those from outside the company in management's decision-making process. Toyota has six audit & supervisory board members, three of whom are outside audit & supervisory board members. At the 111th Ordinary General Shareholders Meeting held in June 2015, in order to be prepared in the event Toyota lacks the number of audit & supervisory board members required by law, one substitute audit & supervisory board member was appointed pursuant to Article 329, Paragraph 3 of the Companies Act, as

**Table of Contents**

was the case at the Ordinary General Shareholders Meeting held in 2014. In April 2015, with the aim of enhancing operational oversight and further increasing the speed of decision-making and execution of operations, the responsibility for executive vice presidents was changed to making decisions regarding management from a medium to long-term perspective and supervising execution of operations, with executives at senior managing officer level and below now responsible for execution of operations, such as business units, regional operations and key functions. Furthermore, in April 2016, Toyota established seven product-based in-house companies to transition to a corporate organization that promotes the development of ever-better cars through the integration of processes from R&D to manufacturing. In addition, at the 111th Ordinary General Meeting of Shareholders held in June 2015, the first non-Japanese executive vice president was appointed in order to promote diversity.

Set forth below are brief summaries of Toyota's members of board of directors and audit & supervisory board members.

Name			Number and kind of shares
(Date of birth)	Position	Brief career summary and important concurrent duties	
Takeshi Uchiyamada (August 17, 1946)	Chairman of the Board of Directors	1969 Joined Toyota Motor Corporation ( TMC )  1998 Member of the Board of Directors of TMC  2001 Managing Director of TMC  2003 Senior Managing Director of TMC  2005 Executive Vice President of TMC  2012 Vice Chairman of TMC  2013 Chairman of TMC (to present)  (important concurrent duties)  Senior Executive of TOYOTA CENTRAL R&D LABS., INC.	47,539 common shares
Akio Toyoda (May 3, 1956)	President,  Member of the Board of Directors	1984 Joined TMC  2000 Member of the Board of Directors of TMC  2002 Managing Director of TMC  2003 Senior Managing Director of TMC  2005 Executive Vice President of TMC  2009 President of TMC (to present)  (important concurrent duties)  Chairman and CEO of Toyota Motor North America, Inc.	4,650,275 common shares

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Chairman of Nagoya Grampus Eight Inc.

Chairman of TOWA REAL ESTATE Co., Ltd.

**Table of Contents**

Name			
(Date of birth)	Position	Brief career summary and important concurrent duties	Number and kind of shares
Mitsuhiisa Kato  (March 2, 1953)	Executive Vice President,  Member of the Board of Directors	1975 Joined TMC  2004 Managing Officer of TMC  2006 Toyota Technocraft Co., Ltd. President  2006 Advisor of TMC  2007 Retired from Advisor of TMC  2010 Retired from Toyota Technocraft Co., Ltd. President  2010 Senior Managing Director of TMC  2011 Senior Managing Officer of TMC  2012 Executive Vice President of TMC (to present)    (important concurrent duties)  Director of Toyota Boshoku Corporation  Audit & Supervisory Board Member of Aisin Seiki Co., Ltd.  Director of Daihatsu Motor Co., Ltd  Director of Toyota Industries Corporation  Representative Director of GENESIS RESEARCH INSTITUTE, INC.  Senior Executive Chairman of TOYOTA CENTRAL R&D LABS., INC.	13,750 common shares
Takahiko Ijichi  (July 15, 1952)	Executive Vice President,  Member of the Board of Directors	1976 Joined TMC  2004 Managing Officer of TMC  2008 Senior Managing Director of TMC  2011 Member of the Board of Directors and Senior Managing Officer of TMC  2013 Advisor of TMC  2013 Director and President of TOWA REAL ESTATE Co., Ltd.  2015 Retired from Advisor of TMC	30,800 common shares



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2015 Executive Vice President, Member of the Board of Directors (to present)

2015 Retired from Director and President of TOWA REAL ESTATE Co., Ltd.

(important concurrent duties)

Audit & Supervisory Board Member of Tokai Rika Co., Ltd.

Audit & Supervisory Board Member of Toyota Industries Corporation

**Table of Contents**

Name			
(Date of birth)	Position	Brief career summary and important concurrent duties	Number and kind of shares
Didier Leroy	Executive Vice President,	1982 Joined Renault S.A.	4,000
(December 26, 1957)	Member of the Board of Directors	1998 Retired from Renault S.A.	common shares
		1998 Joined Toyota Motor Manufacturing France S.A.S.	
		1998 Toyota Motor Manufacturing France S.A.S. Vice President	
		2005 Toyota Motor Manufacturing France S.A.S. President	
		2007 Managing Officer of TMC	
		2007 Toyota Motor Europe NV/SA Executive Vice President	
		2009 Toyota Motor Manufacturing France S.A.S. Chairman	
		2010 Toyota Motor Europe NV/SA President	
		2010 Retired from Toyota Motor Manufacturing France S.A.S. Chairman	
		2011 Toyota Motor Europe NV/SA President and CEO	
		2012 Senior Managing Officer of TMC	
		2015 Toyota Motor Europe NV/SA Chairman (to present)	
		2015 Executive Vice President, Member of the Board of Directors of TMC (to present)	
		(important concurrent duties)	
		Chairman of Toyota Motor Europe NV/SA	
		Chairman of Toyota Motor Engineering & Manufacturing North America, Inc.	
		Vice Chairman of Toyota Motor North America, Inc.	
Shigeki Terashi	Executive Vice President,	1980 Joined TMC	20,700
(February 16, 1955)	Member of the Board of Directors	2008 Managing Officer of TMC	common shares
		2008 Executive Vice President of Toyota Motor Engineering & Manufacturing North America, Inc.	
		2011 President and COO of Toyota Motor Engineering & Manufacturing North America, Inc.	

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2012 President and CEO of Toyota Motor Engineering & Manufacturing North America, Inc.

2012 President and COO of Toyota Motor North America, Inc.

2013 Retired from Toyota Motor Engineering & Manufacturing North America, Inc. President and CEO

2013 Retired from Toyota Motor North America, Inc. President and COO

2013 Senior Managing Officer of TMC

2013 Member of the Board of Directors and Senior Managing Officer of TMC

2015 Executive Vice President, Member of the Board of Directors of TMC (to present)

(important concurrent duties)

Director of Hino Motors, Ltd.

**Table of Contents**

Name			
(Date of birth)	Position	Brief career summary and important concurrent duties	Number and kind of shares
Nobuyori Kodaira  (March 18, 1949)	Member of the Board of Directors	1972 Joined Ministry of International Trade and Industry  2004 Director-General, Agency for Natural Resources and Energy  2006 Retired from Director-General, Agency for Natural Resources and Energy  2008 Advisor of TMC  2009 Managing Officer of TMC  2010 Senior Managing Director of TMC  2011 Member of the Board of Directors and Senior Managing Officer of TMC  2012 Executive Vice President of TMC  2016 Director of TMC (to present)  (important concurrent duties)  Director of KDDI CORPORATION  Audit & Supervisory Board Member of Aichi Steel Corporation	26,800  common shares
Shigeru Hayakawa  (September 15, 1953)		1977 Joined Toyota Motor Sales Co., Ltd.  2007 Managing Officer of TMC  2007 Toyota Motor North America, Inc. President  2009 Retired from Toyota Motor North America, Inc. President  2012 Senior Managing Officer of TMC  2015 Member of the Board of Directors and Senior Managing Officer of TMC (to present)  (important concurrent duties)  Representative Director of Institute for International Economic Studies	18,000 common shares

**Table of Contents**

Name	Position	Brief career summary and important concurrent duties	Number and kind of shares
(Date of birth) Ikuo Uno  (January 4, 1935)	Member of the Board of Directors	1959 Joined Nippon Life Insurance Company  1986 Director of Nippon Life Insurance Company  1989 Managing Director of Nippon Life Insurance Company  1992 Senior Managing Director of Nippon Life Insurance Company  1994 Vice President and Representative Director of Nippon Life Insurance Company  1997 President and Representative Director of Nippon Life Insurance Company  2005 Chairman and Representative Director of Nippon Life Insurance Company  2011 Advisor and Director of Nippon Life Insurance Company  2011 Advisor of Nippon Life Insurance Company  2013 Member of the Board of Directors of TMC (to present)  2015 Honorary Advisor of Nippon Life Insurance Company (to present)  (important concurrent duties)  Honorary Advisor of Nippon Life Insurance Company  Outside Director of Fuji Kyuko Co., Ltd.  Outside Corporate Auditor of Odakyu Electric Railway Co., Ltd.  Outside Corporate Auditor of Tohoku Electric Power Co., Inc.  Outside Corporate Auditor of Sumitomo Mitsui Financial Group, Inc.	
Haruhiko Kato  (July 21, 1952)	Member of the Board of Directors	1975 Joined Ministry of Finance (Japan)  2007 Director of Taxation Bureau, Ministry of Finance (Japan)  2009 Director-General of National Tax Administration Agency  2010 Retired from National Tax Administration Agency Director-General	

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2011 Senior Managing Director of Japan Securities Depository Center, Inc.

2011 President and CEO of Japan Securities Depository Center, Inc.

2013 Member of the Board of Directors of TMC (to present)

2015 President and CEO of Japan Securities Depository Center, Inc. (to present)

(important concurrent duties)

President and CEO of Japan Securities Depository Center, Inc.

Outside Director of Canon Inc.

**Table of Contents**

Name			
(Date of birth)	Position	Brief career summary and important concurrent duties	Number and kind of shares
Mark. T. Hogan (May 15, 1951)	Member of the Board of Directors	1973 Joined General Motors Corporation  2002 Vice President of General Motors Group  2004 Retired from General Motors Group Vice President  2004 President of Magna International Inc.  2007 Retired from Magna International Inc. President  2008 President and CEO of Vehicle Production Group LLC  2010 Retired from Vehicle Production Group LLC President and CEO  2010 President of Dewey Investments LLC (to present)  2013 Member of the Board of Directors of TMC (to present)	
		(important concurrent duties)  President of Dewey Investments LLC	
Masaki Nakatsugawa (January 29, 1953)	Full-time Audit & Supervisory Board Member	1976 Joined Toyota Motor Sales Co., Ltd.  2000 Dispatched to Toyota Motor Thailand Co., Ltd.  2004 General Manager for Accounting Div. of TMC  2006 Audit & Supervisory Board Member of TMC (to present)	5,800 common shares
Masahiro Kato (September 17, 1952)	Full-time Audit & Supervisory Board Member	1975 Joined TMC  2009 Toyota Motor (China) Investment Co., Ltd. President  2009 Managing Officer of TMC  2011 Retired from Toyota Motor (China) Investment Co., Ltd. President  2011 Audit & Supervisory Board Member of TMC (to present)	7,200 common shares,  1,000 First Series Model AA Class Shares
Yoshiyuki Kagawa (December 18, 1960)	Full-time Audit & Supervisory Board Member	1983 Joined TMC  2010 General Manager of Prototype Production Division of TMC  2015 Project General Manager of Secretary Division of TMC  2015 Audit & Supervisory Board Member of TMC (to present)	2,800 common shares,  200  First Series Model AA Class Shares

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Yoko Wake	Outside Audit & Supervisory Board Member	1970 Joined the Fuji Bank, Limited
(November 18, 1947)		1973 Retired from the same
		1977 Assistant Lecturer of Faculty of Business and Commerce of Keio University
		1982 Associate Professor of the same
		1993 Professor of the same
		2011 Outside Audit & Supervisory Board Member of TMC (to present)
		2013 Professor Emeritus of Keio University (to present)
		(important concurrent duties)
		Professor Emeritus of Keio University



**Table of Contents**

Name	Position	Brief career summary and important concurrent duties	Number and kind of shares
(Date of birth) Teisuke Kitayama  (October 26, 1946)	Outside Audit & Supervisory Board Member	1969 Joined Mitsui Bank  1997 Director of The Sakura Bank, Limited  1999 Executive Officer of the same  2000 Managing Executive Officer of the same  2000 Managing Director and Managing Executive Officer of the same  2001 Managing Director and Managing Executive Officer of Sumitomo Mitsui Banking Corporation  2003 Senior Managing Director and Senior Executive Officer of the same  2003 Senior Executive Officer of Sumitomo Mitsui Financial Group, Inc.  2004 Vice President and Executive Officer of the same  2004 Retired from Director of Sumitomo Mitsui Banking Corporation  2004 Vice President and Director of Sumitomo Mitsui Financial Group, Inc.  2005 President and Director of the same  2005 Chairman and Director of Sumitomo Mitsui Banking Corporation  2011 Retired from Director of Sumitomo Mitsui Financial Group, Inc.  2014 Outside Audit & Supervisory Board Member of TMC (to present)	
		(important concurrent duties)  Chairman of the Board of Sumitomo Mitsui Banking Corporation  Outside Director of FUJIFILM Holdings Corporation	
Hiroshi Ozu  (July 21, 1949)	Outside Audit & Supervisory Board Member	2012 Prosecutor-General  2014 Retired from Prosecutor-General	

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2014 Registered as Attorney

2015 Outside Audit & Supervisory Board Member of TMC (to present)

(important concurrent duties)

Attorney

Outside Corporate Auditor of Mitsui & Co., Ltd.

None of the persons listed above was selected as member of board of directors, audit & supervisory board member or member of senior management pursuant to an arrangement or understanding with Toyota's major shareholders, customers, suppliers or others.

**Table of Contents**

Set forth below is a brief summary of Toyota's substitute audit & supervisory board member.

Name	Position	Brief career summary and important concurrent duties	Number and kind of shares
(Date of birth) Ryuji Sakai		1985 Registered as attorney and joined Nagashima & Ohno	
(August 7, 1957)		1990 Wilson Sonsini Goodrich & Rosati	
		1995 Partner of Nagashima & Ohno	
		2000 Partner of Nagashima Ohno & Tsunematsu (to present)	
		(important concurrent duties)	
		Attorney	
		Outside Audit & Supervisory Board Member of Kobayashi Pharmaceutical Co., Ltd.	
		Outside Audit & Supervisory Board Member of Tokyo Electron Limited	

**6.B COMPENSATION**

The aggregate amount of remuneration, including bonuses but excluding stock options, accrued for all members of the board of directors and audit & supervisory board members as a group by Toyota for services in all capacities during fiscal 2016 was approximately ¥2,333 million. Members of the Board of Directors of Toyota Motor Corporation receive year-end bonuses, the aggregate amount of which is approved at Toyota Motor Corporation's ordinary general shareholders' meeting and is based on Toyota Motor Corporation's financial performance for the fiscal year. The amounts of the bonuses paid to individual members of the board of directors and audit & supervisory board members are then determined based upon discussions at a meeting of Toyota Motor Corporation's board of directors and the meeting of audit & supervisory board members.

In addition to the above form of compensation, Toyota enacted stock option plans every year from 2008 until 2010. Under the 2008 plan, Toyota issued to its members of the board of directors and audit & supervisory board members stock acquisition rights to purchase 335,000 shares of common stock at an exercise price of ¥4,726 and with an expiration date of July 31, 2016. Under the 2009 plan, Toyota issued to its members of the board of directors and audit & supervisory board members stock acquisition rights to purchase 440,000 shares of common stock at an exercise price of ¥4,193 and with an expiration date of July 31, 2017. Under the 2010 plan, Toyota issued to its members of the board of directors stock acquisition rights to purchase 400,000 shares of common stock at an exercise price of ¥3,183 and with an expiration date of July 31, 2018. See "Share Ownership - Stock Options" for a more detailed discussion of Toyota's stock option plans.

Toyota's Annual Securities Report filed with the Kanto Local Bureau of Finance on June 24, 2016, contained the following information concerning compensation in fiscal 2016 on a consolidated basis for members of the board of directors and audit & supervisory board members whose total compensation exceeded ¥100 million during such period:

- Takeshi Uchiyamada, Member of the Board of Directors: ¥201 million (¥102 million in base compensation and ¥98 million in bonus)
- Akio Toyoda, Member of the Board of Directors: ¥351 million (¥102 million in base compensation and ¥248 million in bonus)
- Nobuyori Kodaira, Member of the Board of Directors: ¥125 million (¥64 million in base compensation and ¥61 million in bonus)



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**Table of Contents**

- Mitsuhsa Kato, Member of the Board of Directors: ¥144 million (¥83 million in base compensation and ¥61 million in bonus)
- Seiichi Sudo, Member of the Board of Directors: ¥125 million (¥64 million in base compensation and ¥61 million in bonus)
- Takahiko Ijichi, Member of the Board of Directors: ¥100 million (¥48 million in base compensation and ¥52 million in bonus)
- Didier Leroy, Member of the Board of Directors: ¥696 million (¥163 million in base compensation and ¥533 million in bonus)
- Shigeki Terashi, Member of the Board of Directors: ¥117 million (¥60 million in base compensation and ¥57 million in bonus)

The amounts above were recorded as expenses in fiscal 2016.

**6.C BOARD PRACTICES**

Toyota's articles of incorporation provide for a board of directors of not more than 20 members and for not more than seven audit & supervisory board members. Shareholders elect the members of the board of directors and audit & supervisory board members at the general shareholders meeting. The normal term of office of a member of the board of directors is one year and of an audit & supervisory board member is four years. Members of the board of directors and audit & supervisory board members may serve any number of consecutive terms.

The board of directors may appoint one Chairman of the Board of Directors and one President, as well as one or more Vice Chairmen of the Board and Executive Vice Presidents. The board of directors elects, pursuant to its resolutions, one or more Representative Directors. Each Representative Director represents Toyota generally in the conduct of its affairs. The board of directors has the ultimate responsibility for the administration of Toyota's affairs. None of Toyota's members of the board of directors is party to a service contract with Toyota or any of its subsidiaries that provides for benefits upon termination of employment.

Under the Companies Act and Toyota's articles of incorporation, Toyota may, by a resolution of its board of directors, exempt members of the board of directors (including former members of the board of directors) from their liabilities to Toyota arising in connection with their failure to execute their duties within the limits stipulated by laws and regulations. In addition, Toyota may enter into a liability limitation agreement with each member of the board of directors (excluding executive members of the board of directors, among others) which limits the maximum amount of their liabilities owed to Toyota arising in connection with their failure to execute their duties to an amount equal to the minimum liability limit amount prescribed in the laws and regulations.

Under the Companies Act, Toyota must have at least three audit & supervisory board members. At least half of the audit & supervisory board members are required to be an outside audit & supervisory board member, which is any person who satisfies all of the following requirements:

- (a) the person has never been a member of the board of directors, accounting counselor (in the case that an accounting counselor is a legal entity, an employee of such entity who is in charge of its affairs), executive officer, manager or employee of Toyota or its subsidiaries during the 10 year period before becoming an outside audit & supervisory board member;
- (b) if the person was an audit & supervisory board member of Toyota or any of its subsidiaries at any time during the 10 year period before becoming an outside audit & supervisory board member, such person has not been a member of the board of directors, accounting counselor (in the case that an accounting counselor is a legal

**Table of Contents**

entity, an employee of such entity who is in charge of its affairs), executive officer, manager or employee of Toyota or any of its subsidiaries during the 10 year period before becoming an audit & supervisory board member of Toyota or any of its subsidiaries; and

(c) the person is not a spouse or relative within the second degree of kinship of any member of the board of directors or manager or other key employee of Toyota.

The audit & supervisory board members may not at the same time be a member of the board of directors, accounting counselor (in case that an accounting counselor is a judicial person, a member of such judicial person who is in charge of its affairs), executive officers, general managers or employees of Toyota or any of its subsidiaries. Together, these audit & supervisory board members form the audit & supervisory board. The audit & supervisory board members have the duty to examine the financial statements and business reports which are submitted by the board of directors to the general shareholders' meeting. The audit & supervisory board members also monitor the administration of Toyota's affairs by the members of the board of directors. Audit & supervisory board members are not required to be, and Toyota's audit & supervisory board members are not, certified public accountants. They are required to participate in meetings of the board of directors but are not entitled to vote.

Under the Companies Act and Toyota's articles of incorporation, Toyota may, by a resolution of its board of directors, exempt audit & supervisory board members (including former audit & supervisory board members) from their liabilities to Toyota arising in connection with their failure to execute their duties within the limits stipulated by laws and regulations. In addition, Toyota may enter into a liability limitation agreement with each audit & supervisory board member which limits the maximum amount of their liabilities owed to Toyota arising in connection with their failure to execute their duties to an amount equal to the minimum liability limit amount prescribed in the laws and regulations.

Toyota does not have a remuneration committee. However, members of Toyota's Executive Compensation Meeting, consisting of the Chairman, President, Executive Vice President in charge of human resources and an outside director, discuss recommendations to the board of directors concerning remuneration for members of the board of directors.

**6.D EMPLOYEES**

The total number of Toyota employees, on a consolidated basis, was 348,877 as of March 31, 2016, 344,109 as of March 31, 2015 and 338,875 as of March 31, 2014. The following tables set forth a breakdown of persons employed by business segment and by geographic location as of March 31, 2016.

Segment	Number of		Number of
	Employees	Location	
Automotive	310,944	Japan	198,745
Financial services	9,777	North America	45,475
All other	23,075	Europe	18,866
Unallocated	5,081	Asia	62,424
		Other*	23,367
Total	348,877	Total	348,877

\* Other consists of Central and South America, Oceania, Africa and the Middle East.

Most regular employees of Toyota Motor Corporation and its consolidated subsidiaries in Japan, other than management, are required to become members of the labor unions that comprise the Federation of All Toyota Workers' Unions. Approximately 86% of Toyota Motor Corporation's regular employees in Japan are members of this union.

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## **Table of Contents**

In Japan, basic wages and other working conditions are negotiated annually. In addition, in accordance with Japanese national custom, each employee is also paid a semi-annual bonus. Bonuses are negotiated at the time of wage negotiations and are based on Toyota's financial results, prospects and other factors. The average wage increases per employee, excluding bonuses, in Japan have been approximately 2.5% per year for the past five fiscal years.

In general, Toyota considers its labor relations with all of its workers to be good. However, Toyota is currently a party to, and otherwise from time to time experiences, labor disputes in some of the countries in which it operates. Toyota does not expect any disputes to which it is currently a party to materially affect Toyota's consolidated financial position.

Toyota's average number of temporary employees on a consolidated basis was 86,843 during fiscal 2016.

### **6.E SHARE OWNERSHIP**

For information on the number of shares of Toyota's common stock held by each member of the board of directors and audit & supervisory board member as of June 2016, see Directors and Senior Management. Each such member of the board of directors and audit & supervisory board member owns less than one percent of the issued and outstanding shares of common stock of Toyota. The shares held by each member of the board of directors and audit & supervisory board member do not include options that are exercisable for shares of Toyota's common stock. For a description of these options, see Stock Options below.

None of Toyota's shares of common stock entitles the holder to any preferential voting rights.

#### **Stock Options**

Toyota enacted stock option plans every year from 2008 until 2010. Toyota will not enact any such plan after 2011. The plans for which stock options or stock acquisition rights are currently exercisable or will become exercisable in the future were approved by Toyota's shareholders in June of 2008, 2009 and 2010. Under the 2008 plan, Toyota issued stock acquisition rights to purchase 3,494,000 shares of common stock to its members of the board of directors and 597 officers and employees, including directors, officers and employees of its subsidiaries and one Toyota affiliated company. Under the 2009 plan, Toyota issued stock acquisition rights to purchase 3,492,000 shares of common stock to its members of the board of directors and 615 officers and employees, including directors, officers and employees of its subsidiaries and one Toyota affiliated company. Under the 2010 plan, Toyota issued stock acquisition rights to purchase 3,600,000 shares of common stock to its members of the board of directors and officers and employees, including directors, officers and employees of its subsidiaries and one Toyota affiliated company.

Pursuant to the provisions of the 2008, 2009 and 2010 plans, stock acquisition rights may be exercised during a six-year period that starts two years from the date of grant. The exercise price of each stock acquisition right is 1.025 times the closing price of Toyota's common stock on the Tokyo Stock Exchange on the date of grant. The 2008, 2009 and 2010 plans provide that each member of the board of directors will be granted no more than 400 and no less than 300 stock acquisition rights, and each eligible officer or employee will be granted no more than 200 and no less than 20 stock acquisition rights. For each of the 2008, 2009 and 2010 plans, 100 shares will be issued or delivered upon the exercise of each stock acquisition right. The options are granted as of early August of each year for each plan.

An option holder who retires while one's options are still exercisable retains the right to exercise one's options until the expiration of the exercise period described above. However, an option holder's right to purchase common stock under each plan lapses automatically upon one's death or upon taking position such as in the management with a competitor.

**Table of Contents**

The following table summarizes information for options and the incentive plan outstanding and exercisable at March 31, 2016:

Exercise price range (Yen)	Number of shares	Outstanding	Weighted- average remaining life (Years)	Exercisable
		Weighted- average exercise price (Yen)		Number of shares
3,153 - 4,682	2,093,500	3,858	1.56	2,093,500

Toyota also has an employee stock ownership association in Japan for employees and full time and part time company advisors. Members of the employee stock ownership association set aside certain amounts from their monthly salary and bonuses to purchase Toyota's common stock through the employee stock ownership association. As of March 31, 2016, the employee stock ownership association held 13,701,472 shares of Toyota's common stock.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****7.A MAJOR SHAREHOLDERS**

As of March 31, 2016, 3,337,997,492 shares of Toyota's common stock (out of which 300,321,622 shares were treasury stock and 3,037,675,870 shares were outstanding) and 47,100,000 First Series Model AA Class Shares of Toyota were issued. Beneficial ownership of Toyota's common stock in the table below was prepared from information known to Toyota or that could be ascertained from public filings, including filings made by Toyota's shareholders regarding their ownership of Toyota's common stock under the Financial Instruments and Exchange Law of Japan.

Under the Financial Instruments and Exchange Law, any person who becomes, beneficially and solely or jointly, a holder, including, but not limited to, a deemed holder who manages shares for another holder pursuant to a discretionary investment agreement, of more than 5% of the total issued shares of a company listed on a Japanese stock exchange (including ADSs representing such shares) must file a report concerning the shareholding with the director of the relevant local finance bureau. A similar report must be filed, with certain exceptions, if the percentage of shares held by a holder, solely or jointly, of more than 5% of the total issued shares of a company increases or decreases by 1% or more, or if any change to a material matter set forth in any previously filed reports occurs.

Based on information known to Toyota or can be ascertained from public filings, the following table sets forth the beneficial ownership of holders of more than 5% of Toyota's common stock as of the most recent practicable date.

Name of Beneficial Owner	Number of Shares of Common Stock (in thousands)	Percentage of Voting Shares Issued*
Toyota Industries Corporation	224,515	6.63

\* Percentage of Voting Shares Issued is calculated by dividing the number of shares of common stock held by the sum of the number of issued shares of Toyota common stock and the number of issued First Series Model AA Class Shares, holders of which have voting rights exercisable at a general shareholders' meeting.

According to The Bank of New York Mellon, depository for Toyota's ADSs (the Depository), as of March 31, 2016, 66,933,269 shares of Toyota's common stock were held in the form of ADRs and there were 2,015 ADR holders of record and 253,658 beneficial owners in the United States. According to Toyota's register of shareholders, as of March 31, 2016, there were 682,802 holders of common stock and First Series Model AA Class Shares of record worldwide. As of March 31, 2016, there were 515 record holders of Toyota's common



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## **Table of Contents**

stock with addresses in the United States, whose shareholdings represented approximately 15.5% of the issued common stock on that date. Because some of these shares were held by brokers or other nominees, the number of record holders with addresses in the United States might not fully show the number of beneficial owners in the United States.

None of Toyota's shares of common stock entitles the holder to any preferential voting rights.

To the extent known to Toyota, Toyota is not owned or controlled, directly or indirectly, by another corporation, any foreign government or any natural or legal person.

Toyota knows of no arrangements the operation of which may at a later time result in a change of control.

## **7.B RELATED PARTY TRANSACTIONS**

### **Business Relationships**

Toyota purchases materials, supplies and services from numerous suppliers throughout the world in the ordinary course of business, including Toyota's affiliated companies accounted for by the equity method and those firms with which certain members of Toyota's board of directors are affiliated. Toyota purchased materials, supplies and services from these affiliated entities in the amount of ¥43,598 billion in fiscal 2016. Toyota also sells its products and services to Toyota's affiliated companies accounted for by the equity method and firms with which certain members of Toyota's board of directors are affiliated. Toyota sold products and services to these affiliated entities in the amount of ¥18,044 billion in fiscal 2016. See note 11 of Toyota's consolidated financial statements for additional information regarding Toyota's investments in and transactions with affiliated companies.

### **Loans**

Toyota regularly has trade accounts and other receivables by, and accounts payable to, Toyota's affiliated companies accounted for by the equity method and firms with which certain members of Toyota's board of directors are affiliated. Toyota had outstanding trade accounts and other receivables by these affiliated entities in the amount of ¥256.7 billion as of March 31, 2016. Toyota had outstanding trade accounts and other payables to these affiliated entities in the amount of ¥676.4 billion as of March 31, 2016.

Toyota, from time to time, provides short- to medium-term loans to its affiliated companies, as well as loans under a loan program established by certain subsidiaries to assist their executives and members of the board of directors with the purchase of homes. As of March 31, 2016, an aggregate amount of ¥1.2 billion in loans was outstanding to its affiliated companies accounted for by the equity method. As of March 31, 2016, an aggregate amount of ¥29.8 billion in loans was outstanding to those of its affiliated companies not accounted for by the equity method, which are 20% to 50% owned by Toyota. As of March 31, 2016, the largest loan outstanding to any such affiliated company accounted for by the equity method was a loan of ¥1.0 billion at a fixed rate of 0.46%. Toyota believes that each of these loans was entered into in the ordinary course of business.

## **7.C INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **8.A CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

1-3. Consolidated Financial Statements. Toyota's audited consolidated financial statements are included under Item 18 Financial Statements. Except for Toyota's consolidated financial statements included under Item 18, no other information in this annual report has been audited by Toyota's auditors.

4. Not applicable.



**Table of Contents**

5. Not applicable.
6. Export Sales. See [Operating and Financial Review and Prospects](#) [Operating Results](#) [Overview](#) [Geographic Breakdown](#).
7. Legal and Arbitration Proceedings. See [Information on the Company](#) [Business Overview](#) [Legal Proceedings](#).
8. Dividend Policy. See [Key Information](#) [Selected Financial Data](#) [Dividend Information](#).

**8.B SIGNIFICANT CHANGES**

Except as disclosed in this annual report, there have been no significant changes since the date of Toyota's latest annual financial statements.

**ITEM 9. THE OFFER AND LISTING****9.A LISTING DETAILS**

The following table sets forth for the periods shown the reported high and low sales prices of the common stock on the Tokyo Stock Exchange and the ADSs on the New York Stock Exchange.

	Tokyo Stock Exchange Price per Share		New York Stock Exchange Price per ADS	
	High	Low	High	Low
<b>Fiscal Year Ended March 31,</b>				
2012	¥ 3,635	¥ 2,330	\$ 87.15	\$ 60.37
2013	5,050	2,795	106.00	72.04
2014	6,760	4,610	134.94	99.70
2015	8,783	5,205	145.80	103.38
2016	8,700	5,703	142.84	102.54
<b>Financial Quarter Ended:</b>				
June 30, 2014	6,090	5,205	119.88	103.38
September 30, 2014	6,550	5,850	122.35	113.92
December 31, 2014	7,873	5,710	129.30	108.40
March 31, 2015	8,783	7,255	145.80	121.21
June 30, 2015	8,700	8,095	142.84	131.91
September 30, 2015	8,444	6,650	136.39	105.00
December 31, 2015	7,862	6,961	127.28	117.23
March 31, 2016	7,495	5,703	122.26	102.54
<b>Month Ended:</b>				
December 31, 2015	7,862	7,324	127.28	121.67
January 31, 2016	7,495	6,392	122.26	108.94
February 29, 2016	7,355	5,703	120.77	102.54
March 31, 2016	6,244	5,824	110.29	104.89
April 30, 2016	6,027	5,256	107.91	97.80
May 31, 2016	5,839	5,375	104.82	98.02

**9.B PLAN OF DISTRIBUTION**

Not applicable.



## **Table of Contents**

### **9.C MARKETS**

The primary trading market for Toyota's common stock is the Tokyo Stock Exchange. The common stock is also listed on the Nagoya Stock Exchange and two other regional stock exchanges in Japan.

Since September 29, 1999, American Depositary Shares, each equal to two shares of Toyota's common stock and evidenced by American Depositary Receipts, have been traded and listed on the New York Stock Exchange through a sponsored ADR facility operated by The Bank of New York Mellon, as Depositary. Prior to that time, Toyota's ADSs were listed on the Nasdaq SmallCap Market through five unsponsored ADR facilities.

Toyota's common stock is also listed on the London Stock Exchange.

### **9.D SELLING SHAREHOLDERS**

Not applicable.

### **9.E DILUTION**

Not applicable.

### **9.F EXPENSES OF THE ISSUE**

Not applicable.

## **ITEM 10. ADDITIONAL INFORMATION**

### **10.A SHARE CAPITAL**

Not applicable.

### **10.B MEMORANDUM AND ARTICLES OF ASSOCIATION**

Except as otherwise stated, set forth below is information relating to Toyota's common stock and Model AA Class Shares, including brief summaries of the relevant provisions of Toyota's articles of incorporation and share handling regulations, as currently in effect, and of the Companies Act, Act Concerning Book-Entry Transfer of Corporate Bonds, Shares and Other Securities (the Book-Entry Transfer Act) and related legislation.

#### **General**

Toyota's authorized number of shares as of March 31, 2016 was 10,000,000,000 common shares, of which 3,337,997,492 shares were issued. The articles of incorporation was amended at the 111th Ordinary General Shareholders' Meeting held in June 2015 and Toyota's authorized number of shares was changed to 10,000,000,000 shares, with the total number of authorized shares per class, of 10,000,000,000 for common shares, 50,000,000 for First Series Model AA Class Shares, 50,000,000 for Second Series Model AA Class Shares, 50,000,000 for Third Series Model AA Class Shares, 50,000,000 for Fourth Series Model AA Class Shares and 50,000,000 for Fifth Series Model AA Class Shares, and the total number of shares authorized to be issued with respect to First Series Model AA Class Shares through the Fifth Series Model AA Class Shares not to exceed 150,000,000 shares. As of June 24, 2015, there were 47,100,000 shares of First Series Model AA Class Shares issued and outstanding.

Toyota does not issue share certificates for its shares. In accordance with the Companies Act, the Book-Entry Transfer Act and Toyota's articles of incorporation, Toyota's common shares are recorded or registered on (i) Toyota's register of shareholders and (ii) transfer account books of the Japan Securities Depository Center, Inc. ( JASDEC ) which is a book-entry transfer institution and securities firms, banks or other account



## **Table of Contents**

management institutions. The transfer of common shares will generally become effective once the transfer is recorded in the transferee's account. In order to assert shareholders' rights against Toyota, a shareholder must generally have his or her name and address recorded or registered on Toyota's register of shareholders. A holder of common shares can assert minority shareholders' rights (shareholders' rights for which Toyota has not set a record date) against Toyota if JASDEC provides an individual shareholder notice to Toyota upon the shareholder's request. The shareholder of deposited shares underlying the ADSs is the Depository for the ADSs. Accordingly, holders of ADSs will not be able directly to assert shareholders' rights.

A holder of common shares must have a transfer account to transfer shares. Holders of common shares who do not have a transfer account with JASDEC must have an account with an account management institution that directly or indirectly has a transfer account with JASDEC. Once Toyota decides on the record date for its shareholders' meeting or makes a request to JASDEC based on justifiable grounds, JASDEC will promptly provide to Toyota names, addresses and other information with respect to the holders of Toyota's common shares who are recorded on the transfer account books of JASDEC or account management institutions. Upon receiving such information, Toyota will record or register such information received from JASDEC on its register of shareholders. Accordingly, holders of common shares recorded or registered on Toyota's register of shareholders will be treated as holders of common shares of Toyota and may exercise rights, such as voting rights, and will receive dividends (if any) and notices to holders of common shares directly from Toyota. Holders of common shares wishing to assert minority shareholders' rights against Toyota must request an individual shareholder notice to JASDEC or the account management institution at which the shareholder has opened a transfer account. In response to such request, JASDEC will provide the individual shareholders notice to Toyota. A holder of common shares may assert his or her minority shareholders' rights against Toyota for a period of four weeks after the date the individual shareholder notice is provided to Toyota. The shares held by a person who is deemed to hold additional shares according to the transfer account books are aggregated for these purposes.

Model AA Class Shares, once issued, will be recorded or registered on Toyota's register of shareholders. The transfer of Model AA Class Shares, once issued, will be effective upon an agreement between the transferor and the transferee, but entry or record of a change of holder in the register of shareholders will require an approval from the board of directors.

## **Corporate Purpose**

Article 2 of Toyota's articles of incorporation states that its purpose is to engage in the following businesses:

the manufacture, sale, leasing and repair of:

motor vehicles, industrial vehicles, ships, aircraft, other transportation machinery and apparatus, spacecraft and space machinery and apparatus, and parts thereof;

industrial machinery and apparatus, other general machinery and apparatus, and parts thereof;

electrical machinery and apparatus, and parts thereof; and

measuring machinery and apparatus, medical machinery and apparatus, and parts thereof.

the manufacture and sale of ceramics and products of synthetic resins, and materials thereof;

the manufacture, sale and repair of construction materials and equipment, furnishings and fixtures for residential buildings;

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the planning, designing, supervision, execution and undertaking of construction works, civil engineering works, land development, urban development and regional development;

the sale, purchase, leasing, brokerage and management of real estate;

the service of information processing, information communications and information supply and the development, sale and leasing of software;



**Table of Contents**

the design and development of product sales systems that utilize networks such as the Internet, sale, leasing and maintenance of computers included within such systems, and sale of products by utilizing such systems;

the inland transportation, marine transportation, air transportation, stevedoring, warehousing and tourism businesses;

the printing, publishing, advertising and publicity, general leasing, security and workers dispatch businesses;

the credit card operations, purchase and sale of securities, investment consulting, investment trust operation, and other financial services;

the operation and management of such facilities as parking lots, showrooms, educational facilities, medical care facilities, sports facilities, marinas, airfields, food and drink stands and restaurants, lodging facilities, retail stores and others;

the non-life insurance agency business and the life insurance agency business;

the production and processing by using biotechnology of agricultural products including trees, and the sale of such products;

the sale of goods related to each of the preceding items and mineral oil;

the conducting of engineering, consulting, invention and research relating to each of the preceding items and the utilization of such invention and research; and

any businesses incidental to or related to any of the preceding items.

**Dividends**

***Dividends General***

Toyota normally pays dividends twice per year, including an interim dividend and a year-end dividend. Toyota's articles of incorporation provide that retained earnings can be distributed as dividends pursuant to a resolution of its board of directors. Toyota's board of directors resolves to pay year-end dividends to holders of common shares and registered pledgees of common shares of record as of March 31, the record date, in each year. In addition, the articles of incorporation provide that in the event that Toyota pays a year-end dividend to holders of common shares, it will pay AA Dividends in cash from surplus to any holders of Model AA Class Shares or registered pledgees of Model AA Class Shares entered or recorded in the final register of shareholders as of the record date for the year-end dividend, in preference to holders of common shares or registered pledgees of common shares. The amount of annual AA Dividends per Model AA Class Share is calculated by multiplying the amount per Model AA Class Share paid to Toyota as consideration by a rate determined by the board of directors prior to the issuance of such Model AA Class Share, which rate is not to exceed 5%.

In addition to these year-end dividends, Toyota may pay an interim dividend in the form of cash distributions from its distributable surplus to holders of common shares and pledgees of common shares of record as of September 30, the record date, in each year by a resolution of its board of directors. The articles of incorporation provide that in the event that Toyota pays such interim dividends, Toyota will pay AA Interim Dividends in cash as interim dividend to any holders of Model AA Class Shares or registered pledgees of Model AA Class Shares entered or recorded in the final register of shareholders as of the record date for the interim dividend, in preference to holders of common shares or registered pledgees of common shares. If AA Interim Dividends are paid during the fiscal year in which the record date for the year-end dividend falls, the amount of AA Interim Dividends is deducted from AA Dividends to be paid per the above paragraph.

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If the amount of the dividends from surplus paid in cash to holders of Model AA Class Shares or registered pledgees of Model AA Class Shares is less than the prescribed amount of AA Dividends in any fiscal year, the amount of the shortfall will be carried forward to and accumulate in the following fiscal year and thereafter.

## **Table of Contents**

Dividends from surplus will be paid in cash to holders of Model AA Class Shares or registered pledgees of Model AA Class Shares in preference to the payment of interim and year-end dividends until such payment reaches the amount of the accumulated unpaid dividends.

In addition, under the Companies Act, dividends may be paid to holders of common shares and pledgees of record of common shares as of any record date, other than those specified above, as set forth by Toyota's articles of incorporation or as determined by its board of directors from time to time. Under the Companies Act, dividends may be distributed in cash or (except in the case of interim dividends mentioned in the second preceding paragraph) in kind, subject to limitations on distributable surplus and to certain other conditions.

### ***Dividends Distributable amount***

Under the Companies Act, Toyota is permitted to make distributions of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the distributable amount provided for by the Companies Act and the ordinance of the Ministry of Justice as at the effective date of such distribution of surplus.

The amount of surplus at any given time shall be the amount of Toyota's assets and the book value of Toyota's treasury stock after subtracting and adding the amounts of items provided for by the Companies Act and the ordinance of the Ministry of Justice, and the amount of surplus distributable for dividends is calculated by adding to and subtracting from this amount the amounts of items provided for by the Companies Act and the ordinance of the Ministry of Justice.

### ***Dividends Prescription***

Under its articles of incorporation, Toyota is not obligated to pay any dividends in cash which are left unclaimed for a period of three years after the date on which they first became payable.

### **Capital Accounts**

The amount of the cash or assets paid or contributed by subscribers for new shares (with certain exceptions) is required to be accounted for as stated capital, although Toyota may account for an amount not exceeding one-half of such cash or assets as additional paid-in capital.

Under the Companies Act, Toyota may reduce its additional paid-in capital and legal reserve without limitation on the amount to be reduced, generally, by a resolution of a general shareholders' meeting and if so decided by the same resolution, may account for the whole or any part of the amount of the reduction of additional paid-in capital as stated capital. The whole or any part of surplus which may be distributed as dividends may also be transferred to stated capital by a resolution of a general shareholders' meeting.

### **Stock Splits**

Toyota may at any time split the outstanding shares into a greater number of shares by a resolution of the board of directors. Toyota must give public notice of the stock split, specifying a record date for the stock split, not less than two weeks prior to the record date. Toyota shall conduct any stock split simultaneously and in the same proportion with respect to the common shares and the Model AA Class Shares.

### **Consolidation of Shares**

Toyota may at any time consolidate shares in issue into a smaller number of shares by a special shareholders resolution (as defined in "Voting Rights"). When a consolidation of shares is to be made, Toyota must give public notice of certain matters two weeks prior to the effective date of the consolidation. Toyota must disclose the reason for the consolidation of shares at a general shareholders' meeting. Toyota shall conduct any consolidation of shares simultaneously and in the same proportion with respect to the common shares and the Model AA Class Shares.

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## **Table of Contents**

### **Japanese Unit Share System**

**General.** Consistent with the requirements of the Companies Act, Toyota's articles of incorporation provide that 100 common shares or Model AA Class Shares each constitute one unit. Although the number of shares constituting a unit is included in the articles of incorporation, any amendment to the articles of incorporation reducing (but not increasing) the number of shares constituting a unit or eliminating the provisions for the unit of shares may be made by a resolution of the board of directors rather than by a special shareholders resolution, which is otherwise required for amending the articles of incorporation.

**Voting Rights under the Unit Share System.** Under the unit share system, shareholders have one voting right for each unit of shares that they hold. Any number of common shares or Model AA Class Shares less than a full unit will carry no voting rights.

**Purchase by Toyota of Shares Constituting Less Than a Unit.** A holder of shares constituting less than a full unit may require Toyota to purchase those shares at their market value in the case of common shares and at fair price in the case of Model AA Class Shares in accordance with the provisions of Toyota's share handling regulations and the Companies Act.

**Surrender of American Depositary Receipts.** ADR holders will only be permitted to surrender ADRs and withdraw underlying common shares constituting an integral number of a whole unit. If a holder surrenders an ADR including ADRs representing common shares that do not constitute an integral number of whole units, the Depositary will deliver to that holder only those common shares which constitute a whole unit. The Depositary will then issue to the holder a new ADR representing the remaining shares. Holders of an ADR that represents less than a whole unit of underlying shares will be unable to withdraw the underlying shares. As a result, those holders will be unable to require Toyota to purchase their common shares to the extent those common shares constitute less than one whole unit.

### **Voting Rights**

Toyota holds its ordinary general shareholders' meeting each year. In addition, Toyota may hold an extraordinary general shareholders' meeting whenever necessary by giving at least two weeks' advance notice. Under the Companies Act, notice of any shareholders' meeting must be given to each shareholder having voting rights or, in the case of a non-resident shareholder, to his or her resident proxy or mailing address in Japan in accordance with Toyota's share handling regulations, at least two weeks prior to the date of the meeting.

Holders of common shares and holders of Model AA Class Shares shall have voting rights exercisable at a general shareholders' meeting. A holder of shares constituting one or more whole units is entitled to one vote per unit of shares subject to the limitations on voting rights set forth in this paragraph. In general, under the Companies Act, a resolution can be adopted at a general shareholders' meeting by a majority of the shares having voting rights represented at the meeting. The Companies Act and Toyota's articles of incorporation require a quorum for the election of members of the board of directors and audit & supervisory board members of not less than one-third of the total number of outstanding shares having voting rights. Toyota's shareholders are not entitled to cumulative voting in the election of members of the board of directors. A corporate shareholder, the management of which is substantially under Toyota's control as provided by an ordinance of the Ministry of Justice, either through the holding of voting rights or for any other reason, does not have voting rights.

Shareholders may exercise their voting rights by attending the general shareholders' meeting or in writing by mail. Shareholders who choose to exercise their voting rights by mail must fill out and return to Toyota the voting right exercise form enclosed with the convocation notice of the general shareholders' meeting by the date specified in such convocation notice. In addition, from the general shareholders' meeting for fiscal 2009, shareholders may exercise their voting rights through the internet. Shareholders electing to exercise their voting rights through the internet must log on to the Website to Exercise Voting Rights using the login ID and temporary password provided in the voting right exercise form enclosed with the convocation notice and submit

**Table of Contents**

their votes by a date specified in the convocation notice, following instructions appearing on the website. Institutional investors may also use the Electronic Proxy Voting Platform operated by Investor Communications Japan ( ICJ ) to exercise their voting rights through the use of the Internet, if such institutional investor applies to use the platform in advance. Shareholders may also exercise their voting rights through proxies, provided that those proxies are also shareholders who have voting rights. Toyota may refuse a shareholder having two or more proxies attend a general shareholders meeting.

The Companies Act provides that a quorum of at least one-third of outstanding shares with voting rights must be present at a shareholders meeting to approve any material corporate actions such as:

- (1) any amendment of the articles of incorporation with certain exceptions in which a shareholders resolution is not required;
- (2) acquisition of its own shares from a specific party;
- (3) consolidation of shares;
- (4) any issue or transfer of its shares at a specially favorable price (or any issue of stock acquisition rights or bonds with stock acquisition rights at specially favorable conditions by Toyota) to any persons other than shareholders;
- (5) the removal of an audit & supervisory board member;
- (6) the exemption of liability of a director or audit & supervisory board member with certain exceptions;
- (7) a reduction of stated capital which meets certain requirements with certain exceptions;
- (8) a distribution of in-kind dividends which meets certain requirements;
- (9) dissolution, merger, or consolidation with certain exceptions in which a shareholders resolution is not required;
- (10) the transfer of the whole or a material part of the business;
- (11) the transfer in entirety or in part of shares or equity interest of a subsidiary under certain conditions;
- (12) the taking over of the entire business of any other corporation with certain exceptions in which a shareholders resolution is not required;
- (13) share exchange or share transfer for the purpose of establishing 100% parent-subsidary relationships with certain exceptions in which a shareholders resolution is not required; or

(14) company split with certain exceptions in which a shareholders' resolution is not required. At least two-thirds of the shares having voting rights represented at the meeting must approve these actions.

The voting rights of holders of ADSs are exercised by the Depositary based on instructions from those holders.

**Rights to be Allotted Shares**

Holders of common shares and Model AA Class Shares have no preemptive rights under Toyota's articles of incorporation. Under the Companies Act, the board of directors may, however, determine that shareholders shall be given rights to be allotted shares or stock acquisition rights on request in connection with a particular issue or transfer of shares, or issue of stock acquisition rights, respectively. In this case, such rights must be given on uniform terms to all shareholders as of a specified record date by at least two weeks' prior public notice to shareholders of the record date.

## **Table of Contents**

Rights to be allotted shares are nontransferable. However, a shareholder may be allotted stock acquisition rights without consideration thereto, and may transfer such rights.

## **Liquidation Rights**

In the event of a liquidation of Toyota, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed as follows. First, an amount per First Series Model AA Class Share through Fifth Series Model AA Class Share, determined by resolution of the board of directors or calculated using a formula determined by a resolution of the board of directors prior to the issuance of such Model AA Class Shares based on the amount per Model AA Class Shares paid to Toyota as consideration (the Base Amount), shall be paid in cash to holders of Model AA Class Shares or registered pledgees of Model AA Class Shares. No other distribution of residual assets shall be made to holders of Model AA Class Shares or registered pledgees of Model AA Class Shares. The remaining residual assets shall be distributed among the holders of common shares or registered pledgees of common shares in proportion to the respective number of shares they own.

## **Liability to Further Calls or Assessments**

All of Toyota's currently outstanding shares, including shares represented by the ADSs, are fully paid and nonassessable.

## **Transfer Agent**

Mitsubishi UFJ Trust and Banking Corporation is the transfer agent for all shares. Mitsubishi UFJ Trust and Banking Corporation's office is located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-8212 Japan. Mitsubishi UFJ Trust and Banking Corporation maintains Toyota's register of shareholders and records transfers of record ownership (in the case of common shares, upon receiving notification from JASDEC).

## **Record Date**

The close of business on March 31 is the record date for Toyota's year-end dividends, if paid. A holder of common shares or Model AA Class Shares constituting one or more whole units who is recorded or registered as a holder on Toyota's register at the close of business as of March 31 is also entitled to exercise shareholders' voting rights at the ordinary general shareholders' meeting with respect to the business year ending on March 31. The close of business on September 30 of each year is the record date for interim dividends, if paid. In addition, Toyota may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks' prior public notice.

The shares generally trade ex-dividend or ex-rights in the Japanese stock exchanges on the second business day before a record date (or if the record date is not a business day, the third business day prior thereto), for the purpose of dividends or rights offerings.

## **Acquisition by Toyota of Shares**

Toyota may acquire its own common shares (i) through a stock exchange on which such shares are listed or by way of tender offer (pursuant to an ordinary resolution of a general shareholders' meeting or a resolution of the board of directors), (ii) by purchase from a specific party (pursuant to a special resolution of a general shareholders' meeting) or (iii) from a subsidiary of Toyota (pursuant to a resolution of the board of directors). In addition, Toyota may acquire its own Model AA Class Shares (i) by purchase from all holders of the relevant series of Model AA Class Shares who make an offer to transfer the shares to Toyota upon notice from Toyota to acquire the shares (pursuant to an ordinary resolution of a general shareholders' meeting), (ii) by purchase from a specific party (pursuant to a special resolution of a general shareholders' meeting) or (iii) from a subsidiary of Toyota (pursuant to a resolution of the board of directors). When such acquisition of common shares is made by Toyota from a specific party other than a subsidiary of Toyota, any other holder of common shares may make a

## **Table of Contents**

demand to a representative director, more than five calendar days prior to the relevant shareholders' meeting, that Toyota also purchase the common shares held by such holder. However, the acquisition of its own common shares at a price not exceeding the market price to be provided under an ordinance of the Ministry of Justice will not trigger the right of any shareholder to include him/her as the seller of his/her shares in such proposed purchase.

Any acquisition of shares must satisfy certain requirements that the total amount of the acquisition price may not exceed the amount of the distributable dividends. See Dividends.

Shares acquired by Toyota may be held by it for any period or may be cancelled by resolution of the board of directors. Toyota may also transfer to any person the shares held by it, subject to a resolution of the board of directors, and subject also to other requirements applicable to the issuance of new shares. Toyota may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

The Companies Act generally prohibits any subsidiary of Toyota from acquiring shares of Toyota.

### **Model AA Class Shareholders' Conversion Right into Common Shares**

Holders of Model AA Class Shares may, at certain times specified in resolution of the board of directors as the conversion period at the time of the issuance of First Series Model AA Class Shares to Fifth Series Model AA Class Shares, demand that Toyota acquire some or all of such Model AA Class Shares held by such holder of Model AA Class shares in exchange for common shares in a number determined by a formula specified in such board resolution. Any fractions of less than one common share to be delivered in exchange for such Model AA Class Shares shall be disregarded, in which case payment of money as provided in the Companies Act shall not be made.

### **Model AA Class Shareholders' Cash Put Option**

Holders of Model AA Class Shares may, at certain times specified in resolution of the board of directors as the cash put option period at the time of the issuance of First Series Model AA Class Shares to Fifth Series Model AA Class Shares, demand that Toyota acquire some or all of such Model AA Class Shares in exchange for cash in an amount equivalent to the Base Amount. If demand for acquisition exceeds the amount available under the Companies Act for distribution as of the date of demand for such acquisition, Model AA Class Shares to be acquired by Toyota shall be determined by a resolution of the board of directors, and the cash put option in respect of Model AA Class Shares not so acquired shall be deemed not to have been exercised.

### **Toyota's Cash Call Option**

After the lapse of period specified in resolution of its board of directors at the time of the issuance of First Series Model AA Class Shares to Fifth Series Model AA Class Shares, on an acquisition date separately determined by a resolution of the board of directors, Toyota may acquire all of such Model AA Class Shares in exchange for cash in an amount equivalent to the Base Amount.

### **Acquisition or Disposition of Shares or ADS**

Under the Foreign Exchange and Foreign Trade Law and the cabinet orders and ministerial ordinances thereunder (collectively, the Foreign Exchange Regulations), all aspects of regulations on foreign exchange and foreign trade transactions are, with minor exceptions (which are not generally applicable to the purchase and sale of Toyota's shares), only subject to post transaction reporting requirements. Acquisitions and dispositions of shares of common stock or ADS by non-residents of Japan (including foreign corporations not resident in Japan) are generally not subject to this reporting requirement. However, the Minister of Finance has the power to impose a licensing requirement for transactions in limited circumstances.



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**Table of Contents**

**Report of Substantial Shareholdings**

The Financial Instruments and Exchange Law of Japan and regulations under the Law require any person who has become a holder (together with its related persons) of more than 5% of the total issued shares of a company listed on any Japanese stock exchange (including ADSs representing such shares) to file with the Director of a competent Local Finance Bureau, within five business days, a report concerning those shareholdings. A similar report must also be filed to reflect any change of 1% or more in any shareholding or any change in material matters set out in reports previously filed. Any such report shall be filed with the Director of a competent Local Finance Bureau through the Electronic Disclosure for Investor's Network ( EDINET ) system. For this purpose, shares issuable to a shareholder upon exercise of stock acquisition rights are taken into account in determining both the number of shares held by that stock acquisition rights holder and the company's total issued shares.

**10.C MATERIAL CONTRACTS**

All contracts concluded by Toyota during the two years preceding this filing were entered into in the ordinary course of business.

**10.D EXCHANGE CONTROLS**

The Foreign Exchange Regulations govern the acquisition and holding of shares of capital stock of Toyota by exchange non-residents and by foreign investors. The Foreign Exchange Regulations currently in effect do not, however, affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange non-residents are:

individuals who do not reside in Japan; and

corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as residents of Japan. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are:

individuals who are exchange non-residents;

corporations or other organizations that are organized under the laws of foreign countries or whose principal offices are located outside of Japan; and

corporations (1) of which 50% or more of their voting rights are held directly or indirectly by individuals who are exchange non-residents and/or corporations or other organizations (a) that are organized under the laws of foreign countries or (b) whose principal offices are located outside of Japan or (2) a majority of whose officers, or officers having the power of representation, are individuals who are exchange non-residents.

In general, the acquisition of shares of a Japanese company (such as the shares of capital stock of Toyota) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type. While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of capital stock of Toyota) for consideration exceeding ¥100 million to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer or the date of receipt of payment, whichever comes later, unless the transfer was made through a bank or financial instruments business operator licensed or registered under Japanese law.



**Table of Contents**

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of capital stock of Toyota) and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10% or more of the issued shares of the relevant company, the foreign investor, with certain exceptions, must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company by the 15th day of the month following the month in which the date of the acquisition falls. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds of sales in Japan of, shares held by non-residents of Japan may in general be converted into any foreign currency and repatriated abroad. Under the terms of the deposit agreement pursuant to which Toyota's ADSs are issued, the Depositary is required, to the extent that in its judgment it can convert yen on a reasonable basis into dollars and transfer the resulting dollars to the United States, to convert all cash dividends that it receives in respect of deposited shares into dollars and to distribute the amount received (after deduction of applicable withholding taxes) to the holders of ADSs.

**10.E TAXATION**

The following discussion is a general summary of the principal U.S. federal income and Japanese national tax consequences of the acquisition, ownership and disposition of shares of common stock or ADSs. This summary does not purport to address all material tax consequences that may be relevant to holders of shares of common stock or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, partnerships and other pass-through entities, investors liable for the U.S. alternative minimum tax, investors that own or are treated as owning 10% or more of Toyota's voting stock, investors that hold shares of common stock or ADSs as part of a straddle, hedge, conversion transaction or other integrated transaction and U.S. Holders (as defined below) whose functional currency is not the U.S. dollar) may be subject to special tax rules. This summary is based on the tax laws and regulations of the United States and Japan, judicial decisions, published rulings and administrative pronouncements all as in effect on the date hereof, as well as on the current income tax convention between the United States and Japan (the Treaty), as described below, all of which are subject to change (possibly with retroactive effect), and to differing interpretations.

For purposes of this discussion, a U.S. Holder is any beneficial owner of shares of common stock or ADSs that, for U.S. federal income tax purposes, is:

1. an individual who is a citizen or resident of the United States;
2. a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States, any state thereof, or the District of Columbia;
3. an estate the income of which is subject to U.S. federal income tax without regard to its source; or
4. a trust that is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons, or that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

An Eligible U.S. Holder is a U.S. Holder that:

1. is a resident of the United States for purposes of the Treaty;

**Table of Contents**

2. does not maintain a permanent establishment in Japan (a) with which the shares of common stock or ADSs are effectively connected and through which the U.S. holder carries on or has carried on business, or (b) of which the shares of common stock or ADSs form part of the business property; and
3. is eligible for benefits under the Treaty with respect to income and gain derived in connection with the shares of common stock or ADSs.

This summary does not address any aspects of U.S. federal tax law other than income taxation and does not discuss any aspects of Japanese tax law other than income taxation, as limited to national taxes, inheritance and gift taxation. This summary also does not cover any state or local, or non-U.S., non-Japanese tax considerations. Investors are urged to consult their tax advisors regarding the U.S. federal, state and local and Japanese and other tax consequences of acquiring, owning and disposing of shares of common stock or ADSs. In particular, where relevant, investors are urged to confirm their status as Eligible U.S. Holders with their tax advisors and to discuss with their tax advisors any possible consequences of their failure to qualify as Eligible U.S. Holders. In addition, this summary is based in part upon the representations of the Depositary and the assumption that each obligation in the deposit agreement, and in any related agreement, will be performed in accordance with its terms.

In general, for purposes of the Treaty and for U.S. federal income and Japanese income tax purposes, owners of ADRs evidencing ADSs will be treated as the owners of the shares of common stock represented by those ADSs, and exchanges of shares of common stock for ADSs, and exchanges of ADSs for shares of common stock, will not be subject to U.S. federal income or Japanese income tax.

*The discussion below is intended for general information only and does not constitute a complete analysis of all tax consequences relating to ownership of shares of common stock or ADSs. Prospective purchasers of shares of common stock or ADSs should consult their own tax advisors concerning the tax consequences of their particular situations.*

**Japanese Taxation**

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to non-residents of Japan or non-Japanese corporations without permanent establishments in Japan ( non-resident Holders ) who are holders of shares of common stock or of ADSs of Toyota. The following information regarding taxation in Japan is based on the tax treaties and tax laws in force and their interpretation by Japan tax authorities as of the date of this annual report. Tax laws and treaties and their interpretations may change (including with retroactive effect). Toyota will not revise this summary on the basis of any such change occurring after the date of this annual report.

Generally, non-resident Holders are subject to Japanese withholding tax on dividends paid by Japanese corporations. Stock splits are, in general, not taxable events.

In the absence of an applicable income tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing an exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-resident Holders is generally 20.42 percent, provided that, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of common stock or ADSs of Toyota) to non-resident Holders, other than any individual shareholder who holds 3 percent or more of the total issued shares of the relevant Japanese corporation, the aforementioned 20.42 percent withholding tax rate is reduced to 15.315 percent for dividends due and payable on or before December 31, 2037. These rates include a special additional withholding tax (2.1 percent of the original withholding tax amount) to secure funds for reconstruction from the Great East Japan Earthquake.

At the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, in most cases to 15 percent or 10 percent for portfolio investors (15 percent under the income tax treaties with, among other countries, Belgium, Canada, Denmark, Finland,

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**Table of Contents**

Germany, Ireland, Italy, Luxembourg, New Zealand, Norway, Singapore, and Spain, and 10 percent under the income tax treaties with, among other countries, Australia, France, Hong Kong, the Netherlands, Portugal, Sweden, Switzerland, the U.K. and the United States).

Under the Treaty, the maximum rate of Japanese withholding tax which may be imposed on dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a portfolio investor is generally reduced to 10 percent of the gross amount actually distributed, and dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a pension fund (as defined in the Treaty) are exempt from Japanese income tax by way of withholding or otherwise, provided that such dividends are not derived from the carrying on of a business, directly or indirectly, by such pension fund.

If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by Toyota to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or if any particular non-resident Holder is exempt from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder who is entitled to a reduced rate of or exemption from Japanese withholding tax on the payment of dividends on shares of common stock by Toyota is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends (together with any other required forms and documents) in advance through the withholding agent to the relevant tax authority before the payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. In addition, a simplified special filing procedure is available for non-resident Holders to claim treaty benefits of exemption from or reduction of Japanese withholding tax by submitting a Special Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax and Special Income Tax for Reconstruction on Dividends of Listed Stock (together with any other required forms and documents). With respect to ADSs, this reduced rate or exemption is applicable if the Depositary or its agent submits, together with other documents, two Special Application Forms (one before payment of dividends, the other within eight months after the recording date concerning such payment of dividends) to the Japanese tax authority. To claim this reduced rate or exemption, any relevant non-resident Holder of ADSs will be required to file proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the Depositary. A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced treaty rate lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but fails to submit the required application in advance, will be entitled to claim the refund of Japanese taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the entire amount of Japanese tax withheld (if such non-resident Holder is entitled to an exemption under the applicable income tax treaty) by complying with a certain subsequent filing procedure. Toyota does not assume any responsibility to ensure withholding at the reduced rate, or exemption therefrom, for non-resident Holders who would be so eligible under an applicable tax treaty, but where the required procedures as stated above are not followed.

Gains derived from the sale of shares of common stock or ADSs outside Japan by a non-resident Holder holding such shares of common stock or ADSs as portfolio investors are, in general, not subject to Japanese income tax or corporation tax under Japanese law. Eligible U.S. Holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty so long as filings required under Japanese law are made.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired from another individual shares of common stock or ADSs as a legatee, heir or donee even though neither the individual, nor the deceased, nor donor is a Japanese resident.

Holders of shares of common stock or ADSs should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. Holders, the possible application of the Estate and Gift Tax Treaty between the United States and Japan.

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**Table of Contents**

**U.S. Federal Income Taxation**

***U.S. Holders***

The following discussion is a summary of the principal U.S. federal income tax consequences to U.S. Holders that hold shares of common stock or ADSs as capital assets (generally, for investment purposes).

***Taxation of Dividends***

Subject to the passive foreign investment company ( PFIC ) rules discussed below, the gross amount of any distribution made by Toyota in respect of shares of common stock or ADSs (without reduction for Japanese withholding taxes) will constitute a taxable dividend to the extent paid out of current or accumulated earnings and profits, as determined under U.S. federal income tax principles. The U.S. dollar amount of such a dividend generally will be included in the gross income of a U.S. Holder, as ordinary income, when actually or constructively received by the U.S. Holder, in the case of shares of common stock, or by the Depositary, in the case of ADSs. Dividends paid by Toyota will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

Dividends received on shares and ADSs of certain foreign corporations by non-corporate U.S. investors may be subject to U.S. federal income tax at lower rates than other types of ordinary income if certain conditions are met. Dividends received by non-corporate U.S. Holders with respect to shares of common stock or ADSs of Toyota are expected to be eligible for these reduced rates of tax. U.S. Holders should consult their own tax advisors regarding the eligibility of such dividends for a reduced rate of tax.

The U.S. dollar amount of a dividend paid in Japanese yen will be determined based on the Japanese yen/U.S. dollar exchange rate in effect on the date that the dividend is included in the gross income of the U.S. Holder, regardless of whether the payment is converted into U.S. dollars on that date. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in the gross income of a U.S. Holder through the date that payment is converted into U.S. dollars (or otherwise disposed of) will be treated as U.S.-source ordinary income or loss. U.S. Holders should consult their own tax advisors regarding the calculation and U.S. federal income tax treatment of foreign currency gain or loss.

To the extent, if any, that the amount of any distribution received by a U.S. Holder in respect of shares of common stock or ADSs exceeds Toyota's current and accumulated earnings and profits, as determined under U.S. federal income tax principles, the distribution first will be treated as a tax-free return of capital to the extent of the U.S. Holder's adjusted tax basis in those shares or ADSs, and thereafter will be treated as U.S.-source capital gain.

Distributions of additional shares of common stock that are made to U.S. Holders with respect to their shares of common stock or ADSs, and that are part of a pro rata distribution to all of Toyota's shareholders, generally will not be subject to U.S. federal income tax.

For U.S. foreign tax credit purposes, dividends included in gross income by a U.S. Holder in respect of shares of common stock or ADSs will constitute income from sources outside the United States, and will generally be passive category income or, in the case of certain U.S. Holders, general category income. Subject to generally applicable limitations under U.S. federal income tax law and the Treaty, any Japanese withholding tax imposed in respect of a Toyota dividend may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, or alternatively as a deduction in the computation of such U.S. Holder's taxable income if the U.S. Holder does not elect to claim a credit for any foreign taxes paid or accrued for the taxable year. Special rules generally will apply to the calculation of foreign tax credits in respect of dividend income that qualifies for preferential U.S. federal income tax rates. Additionally, special rules apply to individuals whose foreign source income during the taxable year consists entirely of qualified passive income and whose creditable foreign taxes paid or accrued during the taxable year do not exceed \$300 (\$600 in the case of a joint return). Further, under some circumstances, a U.S. Holder that:

(i) has held shares of common stock or ADSs for less than a specified minimum period; or

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**Table of Contents**

(ii) is obligated to make payments related to Toyota dividends,

will not be allowed a foreign tax credit for Japanese taxes imposed on Toyota dividends.

U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

***Taxation of Capital Gains and Losses***

In general, upon a sale or other taxable disposition of shares of common stock or ADSs, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other taxable disposition and the U.S. Holder's adjusted tax basis in those shares of common stock or ADSs. A U.S. Holder generally will have an adjusted tax basis in a share of common stock or an ADS equal to its U.S. dollar cost. Subject to the PFIC rules discussed below, gain or loss recognized on the sale or other taxable disposition of shares of common stock or ADSs generally will be capital gain or loss and, if the U.S. Holder's holding period for those shares or ADSs exceeds one year, will be long-term capital gain or loss. Non-corporate U.S. Holders, including individuals, currently are eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. Under U.S. federal income tax law, the deduction of capital losses is subject to limitations. Any gain or loss recognized by a U.S. Holder in respect of the sale or other disposition of shares of common stock or ADSs generally will be treated as U.S.-source income or loss for U.S. foreign tax credit purposes.

Deposits and withdrawals of common stock in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

***Passive Foreign Investment Companies***

A non-U.S. corporation generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying look-through rules, either (1) at least 75% of its gross income is passive income or (2) on average at least 50% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. The PFIC determination is made annually and generally is based on the value of a non-U.S. corporation's assets (including goodwill) and composition of its income.

Toyota does not believe that it was a PFIC for U.S. federal income tax purposes for its taxable year ended March 31, 2016, and currently intends to continue its operations in such a manner that it will not become a PFIC in the future. Because the PFIC determination is made annually and the application of the PFIC rules to a corporation such as Toyota (which among other things is engaged in leasing and financing through several subsidiaries) is not entirely clear, no assurances can be made regarding determination of its PFIC status in the current or any future taxable year. If Toyota is determined to be a PFIC, U.S. Holders could be subject to additional U.S. federal income taxes on gain recognized with respect to the shares of common stock or ADSs and on certain distributions. In addition, an interest charge may apply to the portion of the U.S. federal income tax liability on such gains or distributions treated under the PFIC rules as having been deferred by the U.S. Holder. Moreover, dividends that a non-corporate U.S. Holder receives from Toyota will not be eligible for the reduced U.S. federal income tax rates on dividends described above if Toyota is a PFIC either in the taxable year of the dividend or the preceding taxable year. If a U.S. Holder owns shares of common stock or ADSs in any taxable year in which Toyota is a PFIC, such U.S. Holder generally would be required to file Internal Revenue Service ( IRS ) Form 8621 (or other form specified by the U.S. Department of the Treasury) on an annual basis, subject to certain exceptions based on the value of PFIC stock held. Toyota will inform U.S. Holders if it believes that it will be classified as a PFIC in any taxable year.

Prospective investors should consult their own tax advisors regarding the potential application of the PFIC rules to shares of common stock or ADSs.

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## **Table of Contents**

### ***Non-U.S. Holders***

The following discussion is a summary of the principal U.S. federal income tax consequences to beneficial owners of shares of common stock or ADSs that are neither U.S. Holders, nor partnerships, nor entities taxable as partnerships for U.S. federal income tax purposes ( Non-U.S. Holders ).

A Non-U.S. Holder generally will not be subject to any U.S. federal income or withholding tax on distributions received in respect of shares of common stock or ADSs unless the distributions are effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States (and, if an applicable tax treaty requires, are attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder).

A Non-U.S. Holder generally will not be subject to U.S. federal income tax in respect of gain recognized on a sale or other disposition of shares of common stock or ADSs, unless:

- (i) the gain is effectively connected with a trade or business conducted by the Non-U.S. Holder within the United States (and, if an applicable tax treaty requires, is attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder); or
- (ii) the Non-U.S. Holder is an individual who was present in the United States for 183 or more days in the taxable year of the disposition and other conditions are met.

Income that is effectively connected with a U.S. trade or business of a Non-U.S. Holder, and, if an income tax treaty applies and so requires, is attributable to a U.S. permanent establishment or fixed base of the Non-U.S. Holder, generally will be taxed in the same manner as the income of a U.S. Holder. In addition, under certain circumstances, any effectively connected earnings and profits realized by a corporate Non-U.S. Holder may be subject to an additional branch profits tax at the rate of 30% or at a lower rate that may be prescribed by an applicable income tax treaty.

### ***Backup Withholding and Information Reporting***

In general, information reporting requirements will apply to dividends paid to a U.S. Holder in respect of shares of common stock or ADSs, and to the proceeds received upon the sale, exchange or redemption of the shares of common stock or ADSs within the United States by U.S. Holders. Furthermore, backup withholding may apply to those amounts (currently at a 28% rate) if a U.S. Holder fails to provide an accurate taxpayer identification number to certify that such U.S. Holder is not subject to backup withholding or to otherwise comply with the applicable requirements of the backup withholding requirements.

Dividends paid to a Non-U.S. Holder in respect of shares of common stock or ADSs, and proceeds received upon the sale, exchange or redemption of shares of common stock or ADSs by a Non-U.S. Holder, generally are exempt from information reporting and backup withholding under current U.S. federal income tax law. However, a Non-U.S. Holder may be required to provide certification of non-U.S. status in order to obtain that exemption.

Persons required to establish their exempt status generally must provide such certification under penalty of perjury on IRS Form W-9, entitled Request for Taxpayer Identification Number and Certification, in the case of U.S. persons, and on IRS Form W-8BEN, entitled Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding and Reporting (Individuals), or IRS Form W-8BEN-E, entitled Certificate of Status of Beneficial Owner for United States Tax Withholding and Reporting (Entities) (or other appropriate IRS Form W-8), in the case of non-U.S. persons. Backup withholding is not an additional tax. The amount of backup withholding imposed on a payment generally may be claimed as a credit against the holder's U.S. federal income tax liability, provided that the required information is properly furnished to the IRS in a timely manner.

In addition, certain U.S. Holders who are individuals that hold certain foreign financial assets (which may include shares of common stock or ADSs) are required to report information relating to such assets, subject to



## **Table of Contents**

certain exceptions. U.S. Holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of shares of common stock or ADSs.

THE SUMMARY OF U.S. FEDERAL INCOME AND JAPANESE NATIONAL TAX CONSEQUENCES SET OUT ABOVE IS INTENDED FOR GENERAL INFORMATION PURPOSES ONLY. PROSPECTIVE PURCHASERS OF COMMON STOCK OR ADSs ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING OR DISPOSING OF COMMON STOCK OR ADSs, BASED ON THEIR PARTICULAR CIRCUMSTANCES.

### **10.F DIVIDENDS AND PAYING AGENTS**

Not applicable.

### **10.G STATEMENT BY EXPERTS**

Not applicable.

### **10.H DOCUMENTS ON DISPLAY**

Toyota files annual reports on Form 20-F and reports on Form 6-K with the SEC. You may read and copy this information at the SEC's Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549 or by accessing the SEC's home page (<http://www.sec.gov>). You can also request copies of the documents, upon payment of a duplicating fee, by writing to the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. In addition, Toyota's reports, proxy statements and other information may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. Copies of the documents referred to herein may also be inspected at Toyota's offices by contacting Toyota at 1 Toyota-cho, Toyota City, Aichi Prefecture 471-8571, Japan, attention: Financial Reporting Department, Accounting Division, telephone number: 81-565-28-2121.

### **10.I SUBSIDIARY INFORMATION**

Not applicable.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Quantitative and Qualitative Disclosures about Market Risk**

Toyota is exposed to market risk from changes in foreign currency exchange rates, interest rates, certain commodity and equity security prices. In order to manage the risk arising from changes in foreign currency exchange rates and interest rates, Toyota enters into a variety of derivative financial instruments.

A description of Toyota's accounting policies for derivative instruments is included in note 2 to the consolidated financial statements and further disclosure is provided in notes 21 and 27 to the consolidated financial statements.

Toyota monitors and manages these financial exposures as an integral part of its overall risk management program, which recognizes the unpredictability of financial markets, and seeks to reduce the potentially adverse effects on Toyota's operating results.

The financial instruments included in the market risk analysis consist of all of Toyota's cash and cash equivalents, marketable securities, finance receivables, securities investments, long-term and short-term debt and all derivative financial instruments. Toyota's portfolio of derivative financial instruments consists of forward

**Table of Contents**

foreign currency exchange contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements and interest rate options. Anticipated transactions denominated in foreign currencies that are covered by Toyota's derivative hedging are not included in the market risk analysis. Although operating leases are not required to be included, Toyota has included these instruments in determining interest rate risk.

**Foreign Currency Exchange Rate Risk**

Toyota has foreign currency exposures related to buying, selling and financing in currencies other than the local currencies in which it operates. Toyota is exposed to foreign currency risk related to future earnings or assets and liabilities that are exposed due to operating cash flows and various financial instruments that are denominated in foreign currencies. Toyota's most significant foreign currency exposures relate to the U.S. dollar and the euro.

Toyota uses a value-at-risk analysis ( VAR ) to evaluate its exposure to changes in foreign currency exchange rates. The VAR of the combined foreign exchange position represents a potential loss in pre-tax earnings that was estimated to be ¥163.4 billion and ¥155.1 billion as of March 31, 2015 and 2016, respectively. Based on Toyota's overall currency exposure (including derivative positions), the risk during fiscal 2016 to pre-tax cash flow from currency movements was on average ¥164.7 billion, with a high of ¥172.2 billion and a low of ¥155.1 billion.

The VAR was estimated by using a Monte Carlo Simulation Method and assumed 95% confidence level on the realization date and a 10-day holding period.

**Interest Rate Risk**

Toyota is subject to market risk from exposures to changes in interest rates based on its financing, investing and cash management activities. Toyota enters into various financial instrument transactions to maintain the desired level of exposure to the risk of interest rate fluctuations and to minimize interest expense. The potential decrease in fair value resulting from a hypothetical 100 basis point upward shift in interest rates would be approximately ¥244.9 billion as of March 31, 2015 and ¥231.2 billion as of March 31, 2016.

There are certain shortcomings inherent to the sensitivity analyses presented. The model assumes that interest rate changes are instantaneous parallel shifts in the yield curve. However, in reality, changes are rarely instantaneous. Although certain assets and liabilities may have similar maturities or periods to repricing, they may not react correspondingly to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may lag behind changes in market rates. Finance receivables are less susceptible to prepayments when interest rates change and, as a result, Toyota's model does not address prepayment risk for automotive related finance receivables. However, in the event of a change in interest rates, actual loan prepayments may deviate significantly from the assumptions used in the model.

**Commodity Price Risk**

Commodity price risk is the possibility of higher or lower costs due to changes in the prices of commodities, such as non-ferrous alloys (e.g., aluminum), precious metals (e.g., palladium, platinum and rhodium) and ferrous alloys, which Toyota uses in the production of motor vehicles. Toyota does not use derivative instruments to hedge the price risk associated with the purchase of those commodities and controls its commodity price risk by holding minimum stock levels.

**Equity Price Risk**

Toyota holds investments in various available-for-sale equity securities that are subject to price risk. The fair value of available-for-sale equity securities was ¥2,704.8 billion as of March 31, 2015 and ¥2,558.9 billion as

**Table of Contents**

of March 31, 2016. The potential change in the fair value of these investments, assuming a 10% change in prices, would be approximately ¥270.4 billion as of March 31, 2015 and ¥255.8 billion as of March 31, 2016.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**12.A DEBT SECURITIES**

Not applicable.

**12.B WARRANTS AND RIGHTS**

Not applicable.

**12.C OTHER SECURITIES**

Not applicable.

**12.D AMERICAN DEPOSITARY SHARES**

**Fees and Charges for Holders of American Depositary Receipts**

The Bank of New York Mellon, as Depositary for the ADSs, collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

**Persons depositing or withdrawing shares must pay:**

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

\$0.02 (or less) per ADS

A fee equivalent to the fee that would be payable if securities distributed to the ADR holder had been shares and the shares had been deposited for issuance of ADSs

Registration fees

Expenses of the Depositary

**For:**

Issuance of ADSs, including issuances resulting from a distribution, sale or exercise of shares or rights or other property

Cancellation of ADSs for the purpose of withdrawal including if the deposit agreement terminates

Any cash distribution to ADS registered holders

Distribution of securities distributed to holders of deposited securities which are distributed by the Depositary to ADS registered holders

Registration of transfer of shares on Toyota's share register to the name of the Depositary or its nominee or the custodian or its nominee when shares are deposited or withdrawn

Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)

Converting foreign currency to U.S. dollars

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Taxes and other governmental charges the Depositary or the custodian  
have to pay on any ADS or share underlying an ADS

As necessary

126

**Table of Contents**

**Fees Incurred in Fiscal 2016**

For fiscal 2016, Toyota received \$326,319.23 from the Depositary for standard out-of-pocket maintenance costs for the ADRs (consisting of the expenses of postage and envelopes for mailing annual reports, printing and distributing dividend checks, stationery, postage, facsimile, and telephone calls) and expenses relating to Toyota's annual general shareholders' meeting that are incurred with respect to Toyota's ADR holders. The Depositary also paid Toyota's continuing annual stock exchange listing fees.

**Fees to be Paid in the Future**

With regards to the ADS program, the Depositary has agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which includes the expenses of postage and envelopes for mailing annual reports, printing and distributing dividend checks, stationery, postage, facsimile and telephone calls. It has also agreed to pay for investor relations expenses and any other program related expenses. The limit on the amount of expenses for which the Depositary will pay is the sum of \$300,000 annually. In addition, the Depositary has agreed to pay Toyota 50% of the net dividend fees collected by the Depositary during each annual period towards the aforementioned expenses.

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**Table of Contents**

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

On June 16, 2015, Toyota amended its articles of incorporation in connection with establishment of Model AA Class Shares pursuant to resolutions adopted by its shareholders at the general shareholders' meeting on the same date. The amended articles of incorporation are incorporated by reference as Exhibit 1.1 to Toyota's Annual Report on Form 20-F for the fiscal year ended March 31, 2015, filed with the SEC on June 24, 2015 (file no. 001-14948). For more information on Toyota's articles of incorporation, please see Item 10.B Additional Information Memorandum and Articles of Association.

**ITEM 15. CONTROLS AND PROCEDURES**

**(a) DISCLOSURE CONTROLS AND PROCEDURES**

Toyota performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the fiscal 2016. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the Form 20-F that Toyota files under the Exchange Act is accumulated and communicated to its management, including the chief executive officer and the principal accounting and financial officer, to allow timely decision regarding required disclosure. The disclosure controls and procedures also ensure that the Form 20-F that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. The evaluation was performed under the supervision of Toyota's Chairman of the Board of Directors and the Executive Vice President. Toyota's disclosure controls and procedures are designed to provide reasonable assurance of achieving its objectives. Managerial judgment was necessary to evaluate the cost-benefit relationship of possible controls and procedures. The Chairman of the Board of Directors and the Executive Vice President have concluded that Toyota's disclosure controls and procedures are effective at the reasonable assurance level.

**(b) MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Toyota's management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Toyota's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of Toyota's assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that Toyota's receipts and expenditures are being made only in accordance with authorizations of Toyota's management and members of the board of directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Toyota's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



## **Table of Contents**

Toyota's management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, management concluded that Toyota's internal control over financial reporting was effective as of March 31, 2016.

PricewaterhouseCoopers Aarata, an independent registered public accounting firm that audited the consolidated financial statements included in this report, has also audited the effectiveness of Toyota's internal control over financial reporting as of March 31, 2016, as stated in its report included herein.

### **(c) ATTESTATION REPORT OF THE REGISTERED PUBLIC ACCOUNTING FIRM**

Toyota's independent registered public accounting firm, PricewaterhouseCoopers Aarata, has issued an audit report on the effectiveness of Toyota's internal control over financial reporting. This report appears in Item 18.

### **(d) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There have been no changes in Toyota's internal control over financial reporting during fiscal 2016 that have materially affected, or are reasonably likely to materially affect, Toyota's internal control over financial reporting.

## **ITEM 16. [RESERVED]**

### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Toyota maintains an audit & supervisory board system, in accordance with the Companies Act. Toyota's audit & supervisory board is comprised of six audit & supervisory board members, three of whom are outside audit & supervisory board members. Each audit & supervisory board member has been appointed at Toyota's meetings of shareholders and has certain statutory powers independently, including auditing the business affairs and accounts of Toyota.

Toyota's audit & supervisory board has determined that it does not have an audit committee financial expert serving on the audit & supervisory board. The qualifications for, and powers of, the audit & supervisory board member delineated in the Companies Act are different from those anticipated for any audit committee financial expert. Audit & supervisory board members have the authority to be given reports from a certified public accountant or an accounting firm concerning audits, including technical accounting matters. At the same time, each audit & supervisory board member has the authority to consult internal and external experts on accounting matters. Each audit & supervisory board member must fulfill the requirements under Japanese laws and regulations and otherwise follow Japanese corporate governance practices and, accordingly, Toyota's audit & supervisory board has confirmed that it is not necessarily in Toyota's best interest to nominate as audit & supervisory board member a person who meets the definition of audit committee financial experts. Although Toyota does not have an audit committee financial expert on its audit & supervisory board, Toyota believes that Toyota's current corporate governance system, taken as a whole, including the audit & supervisory board members' ability to consult internal and external experts, is fully equivalent to a system having an audit committee financial expert on its audit & supervisory board.

### **ITEM 16B. CODE OF ETHICS**

Toyota has adopted a code of ethics that applies to its members of the board of directors and managing officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of Toyota's code of ethics is included as an exhibit to this annual report on Form 20-F.



**Table of Contents****ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

PricewaterhouseCoopers Aarata has audited the financial statements of Toyota included in this annual report on Form 20-F.

The following table presents the aggregate fees for professional services and other services rendered by PricewaterhouseCoopers Aarata and the various network and member firms of PricewaterhouseCoopers to Toyota in fiscal 2015 and fiscal 2016.

	Yen in millions	
	2015	2016
Audit Fees <sup>(1)</sup>	4,208	4,786
Audit-related Fees <sup>(2)</sup>	127	167
Tax Fees <sup>(3)</sup>	494	586
All Other Fees <sup>(4)</sup>	532	251
<b>Total</b>	<b>5,361</b>	<b>5,790</b>

- (1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor reasonably can provide, and include the services of annual audit, quarterly reviews and assessment and reviews of the effectiveness of internal controls over financial reporting of Toyota and its subsidiaries and affiliated companies; the services associated with SEC registration statements or other documents issued in connection with securities offerings such as comfort letters and consents; and consultations as to the accounting or disclosure treatment of transactions or events.
- (2) Audit-related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of its financial statements or that are traditionally performed by the external auditor, and mainly include services such as due diligence; agreed-upon or expanded audit procedures; internal control reviews and assistance; review of the information system; and financial statement audits of employee benefit plans.
- (3) Tax Fees include fees billed for tax compliance services, including services such as tax planning, advice and compliance of federal, state, local and international tax; the review of tax returns; assistance with tax audits and appeals; tax-only valuation services including transfer pricing and cost segregation studies; expatriate tax assistance and compliance.
- (4) All Other Fees primarily include fees billed for risk management advisory services of assessment and testing of security infrastructure controls; services providing information related to automotive market conditions; IT advisory services; and other advisory services.

**Policies and Procedures of the Audit & Supervisory Board**

Below is a summary of the current policies and procedures of the audit & supervisory board for the pre-approval of audit and permissible non-audit services performed by Toyota's independent public accountants.

Under the policy, the Representative Directors submit a request for general pre-approval of audit and permissible non-audit services for the following fiscal year, which shall include details of the specific services and estimated fees for the services, to the audit & supervisory board, which reviews and determines whether or not to grant the request by the end of March of the fiscal year. Upon the general pre-approval of the audit & supervisory board, the Representative Directors are not required to obtain any specific pre-approval for audit and permissible non-audit services so long as those services fall within the scope of the general pre-approval provided.

The audit & supervisory board makes a further determination of whether or not to grant a request to revise the general pre-approval for the applicable fiscal year if such request is submitted by the Representative Directors. Such request may include (i) adding any audit or permissible non-audit services other than the ones



**Table of Contents**

listed in the general pre-approval and (ii) obtaining services that are listed in the general pre-approval but of which the total fee amount exceeds the amount affirmed by the general pre-approval. The determination of whether or not to grant a request to revise the general pre-approval noted in the foregoing may alternatively be made by an audit & supervisory board member (full time), who is designated in advance by a resolution of the audit & supervisory board, in which case such audit & supervisory board member (full time) shall report such decision at the next meeting of the audit & supervisory board. The performance of audit and permissible non-audit services and the payment of fees are subject to review by the audit & supervisory board at least once every fiscal half year.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Toyota does not have an audit committee. Toyota is relying on the general exemption contained in Rule 10A-3(c)(3) under the Exchange Act, which provides an exemption from the NYSE's listing standards relating to audit committees for foreign companies like Toyota that have an audit & supervisory board. Toyota's reliance on Rule 10A-3(c)(3) does not, in its opinion, materially adversely affect the ability of its audit & supervisory board to act independently and to satisfy the other requirements of Rule 10A-3.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

The following table sets forth purchases of Toyota's common stock by Toyota and its affiliated purchasers during fiscal 2016:

Period	(a) Total Number of Shares Purchased <sup>(1)</sup>	(b) Average Price Paid per Share (Yen) <sup>(1)</sup>	(c)	(d)
			Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
April 1, 2015 - April 30, 2015	2,811	8,330.14		
May 1, 2015 - May 31, 2015	2,293	8,346.48		
June 1, 2015 - June 30, 2015	2,670	8,421.80		
July 1, 2015 - July 31, 2015	2,806	8,203.71		
August 1, 2015 - August 31, 2015	15,107,645	7,693.43	15,100,000	
September 1, 2015 - September 30, 2015	18,545,495	7,169.99	18,544,200	
October 1, 2015 - October 31, 2015	11,331,816	7,334.76	11,330,100	
November 1, 2015 - November 30, 2015	9,006,531	7,578.81	9,004,700	
December 1, 2015 - December 31, 2015	19,268,487	7,668.71	19,263,900	
January 1, 2016 - January 31, 2016	12,083,143	6,749.89	12,081,700	
February 1, 2016 - February 29, 2016	13,992,721	6,183.69	13,991,500	
March 1, 2016 - March 31, 2016	10,727,743	6,023.51	10,726,800	
<b>Total</b>	<b>110,074,161</b>		<b>110,042,900</b>	

(1) A portion of the above purchases were made as a result of holders of shares constituting less than one unit, which is 100 shares of common stock, requesting Toyota to purchase shares that are a fraction of a unit, in accordance with Toyota's share handling regulations. Toyota is required to comply with such requests pursuant to the Companies Act. See Additional Information Memorandum and Articles of Association Japanese Unit Share System. It also includes shares purchased based on demands made by dissenting shareholders in connection with a business integration executed by Toyota. The number of shares purchased not pursuant to publicly announced plans or programs conducted in fiscal 2016 is 31,261.

(2) To avoid the dilution of its common shares as a result of the issuance of First Series Model AA Class Shares, Toyota announced on April 28, 2015, June 16, 2015 and August 4, 2015 that it would repurchase up



**Table of Contents**

to 47.1 million common shares between August 10, 2015 and November 30, 2015 at a total price up to ¥600 billion. In addition, Toyota announced on May 8, 2015, August 4, 2015 and November 5, 2015 that it would repurchase up to 40 million common shares between November 16, 2015 and January 29, 2016 at a total price up to ¥300 billion, in order to return to shareholders the profits derived in the fiscal year ended March 31, 2015. Toyota also announced on November 5, 2015 and February 5, 2016 that it would repurchase up to 23 million common shares between February 8, 2016 and March 24, 2016 at a total price up to ¥150 billion in order to return to shareholders the profits derived in the interim period ended September 30, 2015.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE****Significant Differences in Corporate Governance Practices between Toyota and U.S. Companies Listed on the NYSE**

Pursuant to home country practices exemptions granted by the NYSE, Toyota is permitted to follow certain corporate governance practices complying with Japanese laws, regulations and stock exchange rules in lieu of the NYSE's listing standards. The SEC approved changes to the NYSE's listing standards related to corporate governance practices of listed companies (the NYSE Corporate Governance Rules) in November 2003, as further amended in November 2004. Toyota is exempt from the approved changes, except for requirements that (a) Toyota's audit & supervisory board satisfies the requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act), (b) Toyota must disclose significant differences in its corporate governance practices as compared to those followed by domestic companies under the NYSE listing standards, (c) Toyota's principal executive officer must notify the NYSE in writing after any executive officer of Toyota becomes aware of any non-compliance with (a) and (b), and (d) Toyota must submit annual and interim written affirmations to the NYSE. Toyota's corporate governance practices and those followed by domestic companies under the NYSE Corporate Governance Rules have the following significant differences:

**I. Members of the Board of Directors.** Toyota currently does not have any members of the board of directors who will be deemed an independent director as required under the NYSE Corporate Governance Rules for U.S. listed companies. Unlike the NYSE Corporate Governance Rules, the Companies Act does not require Japanese companies with an audit & supervisory board such as Toyota to have any independent directors on its board of directors. While the NYSE Corporate Governance Rules require that the non-management directors of each listed company meet at regularly scheduled executive sessions without management, Toyota currently has no non-management member on its board of directors. Unlike the NYSE Corporate Governance Rules, the Companies Act does not require, and accordingly Toyota does not have, an internal corporate organ or committee comprised solely of independent directors.

Toyota currently has three outside members of the board of directors under the Companies Act. An outside member of the board of directors refers to:

(a) the person who is not, and has never been during the 10 year period before becoming an outside member of the board of directors, an executive director (a member of the board of directors who engages in the execution of business), executive officer, manager or employee (collectively, Executive Director, etc.) of Toyota or its subsidiaries;

(b) if the person was a member of the board of directors, accounting counselor (in the case that an accounting counselor is a legal entity, an employee of such entity who is in charge of its affairs) or audit & supervisory board member (excluding those who have ever been Executive Directors, etc.) of Toyota or any of its subsidiaries at any time during the 10 year period before becoming an outside member of the board of directors,

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**Table of Contents**

such person who has not been an Executive Director, etc. of Toyota or any of its subsidiaries during the 10 year period before becoming a member of the board of directors, accounting counselor or audit & supervisory board member; and

(c) the person who is not a spouse or relative within the second degree of kinship of any member of the board of directors or manager or other key employee of Toyota.

Such qualifications for an outside member of the board of directors are different from the director independence requirements under the NYSE Corporate Governance Rules.

In addition, pursuant to the regulations of the Japanese stock exchanges, Toyota is required to have one or more independent director(s)/audit & supervisory board member(s), defined under the relevant regulations of the Japanese stock exchanges as outside directors or outside audit & supervisory board members (as defined under the Companies Act), who are unlikely to have any conflicts of interests with Toyota's general shareholders, and is also required to make efforts to have at least one independent director(s)/audit & supervisory board member(s) who is also a director. Each of the outside members of the board of directors of Toyota satisfies the independent director/audit & supervisory board member requirements under the regulations of the Japanese stock exchanges. Japan's Corporate Governance Code provides that companies should appoint at least two independent outside directors as defined based on the criteria for assessing director independence established by Toyota in line with the independence standards of the Japanese stock exchanges. The content of the criteria for assessing director independence established by Toyota is the same as that of the independence standards of the Japanese stock exchanges, and each of the outside members of the board of directors of Toyota satisfies the independent outside director requirements under such independence standards. The definition of independent director/audit & supervisory board member and independent outside director is different from that of the definition of independent director under the NYSE Corporate Governance Rules.

**2. Committees.** Under the Companies Act, Toyota has elected to structure its corporate governance system as a company with audit & supervisory board members who are under a statutory duty to monitor, review and report on the management of the affairs of Toyota. Toyota, as with other Japanese companies with an audit & supervisory board, does not have certain committees that are required of U.S. listed companies subject to the NYSE Corporate Governance Rules, including those that are responsible for director nomination, corporate governance and executive compensation. However, members of Toyota's Executive Appointment Meeting and Executive Compensation Meeting, both consisting of the Chairman, President, Executive Vice President in charge of human resources and an outside director, discuss recommendations to the board of directors concerning nominees and remuneration for members of the board of directors, respectively.

Pursuant to the Companies Act, Toyota's board of directors nominates and submits a proposal for the appointment of members of the board of directors for shareholder approval. The shareholders vote on such nomination at the general shareholders' meeting. The Companies Act requires that the limits or calculation formula and kind (in case that the remuneration, bonus and any other benefits in compensation for the execution of duties (remuneration, etc.) are to be paid in other than cash) of remuneration, etc. to be paid to directors as well as limits of remuneration, etc. to be paid to audit & supervisory board members must be determined by a resolution of the general shareholders' meeting, unless their remuneration, etc. is provided for in the articles of incorporation. The distribution of remuneration, etc. among each member of the board of directors is broadly delegated to the board of directors and the distribution of remuneration among each audit & supervisory board member is determined by consultation among the audit & supervisory board members.

**3. Audit Committee.** Toyota avails itself of paragraph (c)(3) of Rule 10A-3 of the Exchange Act, which provides a general exemption from the audit committee requirements to a foreign private issuer with an audit & supervisory board, subject to certain requirements which continue to be applicable under Rule 10A-3.

**Table of Contents**

Pursuant to the requirements of the Companies Act, Toyota elects its audit & supervisory board members through a resolution adopted at a general shareholders' meeting. Toyota currently has six audit & supervisory board members, which exceeds the minimum number of audit & supervisory board members required pursuant to the Companies Act.

Unlike the NYSE Corporate Governance Rules, the Companies Act, among others, does not require audit & supervisory board members to establish an expertise in accounting or financial management nor are they required to present other special knowledge and experience. Therefore, none of Toyota's audit & supervisory board members has an expertise in accounting or financial management as set forth in the NYSE Corporate Governance Rules. The Japanese Corporate Governance Code indicates that one or more audit & supervisory board members who have appropriate knowledge of finance and accounting matters should be appointed. Toyota has appointed persons who are able to provide opinions and advice regarding management based on their broader experience and discretion beyond finance and accounting. Under the Companies Act, the audit & supervisory board may determine the auditing policies and methods of investigating the conditions of Toyota's business and assets, and may resolve other matters concerning the execution of the audit & supervisory board members' duties. The audit & supervisory board also prepares auditors' reports, gives consent to proposals of the nomination of audit & supervisory board members and makes decisions concerning proposals relating to the appointment and dismissal of accounting auditors.

Toyota currently has three outside audit & supervisory board members under the Companies Act. Under the Companies Act, at least half of the audit & supervisory board members must be an outside audit & supervisory board member, which is any person who satisfies all of the following requirements:

- (a) the person has never been a member of the board of directors, accounting counselor (in the case that an accounting counselor is a legal entity, an employee of such entity who is in charge of its affairs), executive officer, manager or employee of Toyota or its subsidiaries during the 10 year period before becoming an outside audit & supervisory board member;
- (b) if the person was an audit & supervisory board member of Toyota or any of its subsidiaries at any time during the 10 year period before becoming an outside audit & supervisory board member, such person has not been a member of the board of directors, accounting counselor (in the case that an accounting counselor is a legal entity, an employee of such entity who is in charge of its affairs), executive officer, manager or employee of Toyota or any of its subsidiaries during the 10 year period before becoming an audit & supervisory board member of Toyota or any of its subsidiaries; and
- (c) the person is not a spouse or relative within the second degree of kinship of any member of the board of directors or manager or other key employee of Toyota.

Such qualifications for an outside audit & supervisory board member are different from the audit committee independence requirement under the NYSE Corporate Governance Rules.

Each of the outside audit & supervisory board members of Toyota satisfies the independent director/audit & supervisory board member requirements under the regulations of the Japanese stock exchanges, as described above in 1. Members of the Board of Directors.

**4. Corporate Governance Guidelines.** Unlike the NYSE Corporate Governance Rules, Toyota is not required to adopt Japan's Corporate Governance Code under Japanese laws and regulations, including the Companies Act, the Financial Instruments and Exchange Law of Japan and stock exchange rules. However, if Toyota does not comply with Japan's Corporate Governance Code, it is required to explain the reasons why it does not do so in accordance with the regulations of the Japanese stock exchanges. In addition, Toyota is required to resolve at the board of directors matters relating to a system, which is required under the ordinance of the Ministry of Justice (internal control system or *naibu-tosei*), to ensure the execution of duties of the members of the board of directors to comply with laws, regulations and articles of incorporation, and any other systems to ensure the adequacy of the business, and to disclose such matters resolved, policies and the present

**Table of Contents**

status of its corporate governance in its business reports, annual securities report and certain other disclosure documents in accordance with the regulations under the Financial Instruments and Exchange Law and stock exchange rules in respect of timely disclosure.

**5. Code of Business Conduct and Ethics.** Similar to the NYSE Corporate Governance Rules, under Japan's Corporate Governance Code, Toyota is encouraged to adopt a code of conduct regarding ethical business activities for members of the board of directors, officers and employees. Toyota has resolved matters relating to maintenance of an internal control system, or *naibu-tosei*, in order to ensure its employees comply with laws, regulations and the articles of incorporation, etc. pursuant to the Companies Act, and Toyota maintains guidelines and internal regulations such as Guiding Principles at Toyota, Toyota Code of Conduct and a code of ethics pursuant to Section 406 of the Sarbanes-Oxley Act. Please see Code of Ethics for additional information.

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.



**Table of Contents**

**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

The following financial statements are filed as part of this annual report on Form 20-F.

Table of Contents

**TOYOTA MOTOR CORPORATION**  
**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated balance sheets at March 31, 2015 and 2016</u>	F-3
<u>Consolidated statements of income for the years ended March 31, 2014, 2015 and 2016</u>	F-5
<u>Consolidated statements of comprehensive income for the years ended March 31, 2014, 2015 and 2016</u>	F-6
<u>Consolidated statements of shareholders' equity for the years ended March 31, 2014, 2015 and 2016</u>	F-7
<u>Consolidated statements of cash flows for the years ended March 31, 2014, 2015 and 2016</u>	F-9
<u>Notes to consolidated financial statements</u>	F-10
All financial statements schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.	

Financial statements of 50% or less owned persons accounted for by the equity method have been omitted because the registrant's proportionate share of the income from continuing operations before income taxes is less than 20% of consolidated income from continuing operations before income taxes and the investment in and advances to each company is less than 20% of consolidated total assets.

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**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors of

Toyota Jidosha Kabushiki Kaisha

( Toyota Motor Corporation )

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Toyota Motor Corporation and its subsidiaries at March 31, 2015 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2016, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 15(b). Our responsibility is to express opinions on these financial statements, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Aarata

Nagoya, Japan

June 24, 2016

F-2

**Table of Contents**

**TOYOTA MOTOR CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	Yen in millions	
	March 31,	
	2015	2016
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,284,557	2,939,428
Time deposits	149,321	1,032,034
Marketable securities	2,782,099	1,511,389
Trade accounts and notes receivable, less allowance for doubtful accounts of ¥40,849 million in 2015 and ¥83,969 million in 2016	2,108,660	2,000,149
Finance receivables, net	6,269,862	5,912,684
Other receivables	420,708	451,406
Inventories	2,137,618	2,061,511
Deferred income taxes	978,179	967,607
Prepaid expenses and other current assets	805,393	1,333,345
Total current assets	17,936,397	18,209,553
<b>Noncurrent finance receivables, net</b>	9,202,531	8,642,947
<b>Investments and other assets</b>		
Marketable securities and other securities investments	7,632,126	7,439,799
Affiliated companies	2,691,460	2,631,612
Employees receivables	45,206	32,998
Other	926,391	730,271
Total investments and other assets	11,295,183	10,834,680
<b>Property, plant and equipment</b>		
Land	1,354,815	1,352,904
Buildings	4,282,839	4,311,895
Machinery and equipment	10,945,377	10,945,267
Vehicles and equipment on operating leases	5,199,986	5,652,622
Construction in progress	581,412	513,953
Total property, plant and equipment, at cost	22,364,429	22,776,641
Less - Accumulated depreciation	(13,068,710)	(13,036,224)
Total property, plant and equipment, net	9,295,719	9,740,417
Total assets	47,729,830	47,427,597

The accompanying notes are an integral part of these consolidated financial statements.

F-3

**Table of Contents**

**TOYOTA MOTOR CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Short-term borrowings	5,048,188	4,698,134
Current portion of long-term debt	3,915,304	3,822,954
Accounts payable	2,410,588	2,389,515
Other payables	913,013	1,040,277
Accrued expenses	2,668,666	2,726,120
Income taxes payable	348,786	343,325
Other current liabilities	1,126,951	1,104,131
<b>Total current liabilities</b>	<b>16,431,496</b>	<b>16,124,456</b>
<b>Long-term liabilities</b>		
Long-term debt	10,014,395	9,772,065
Accrued pension and severance costs	880,293	904,911
Deferred income taxes	2,298,469	2,046,089
Other long-term liabilities	457,848	491,890
<b>Total long-term liabilities</b>	<b>13,651,005</b>	<b>13,214,955</b>
<b>Total liabilities</b>	<b>30,082,501</b>	<b>29,339,411</b>
<b>Mezzanine equity</b>		
Model AA Class Shares, no par value, authorized: 0 share in 2015 and 150,000,000 shares in 2016		479,779
issued: 0 share in 2015 and 47,100,000 shares in 2016		
<b>Shareholders equity</b>		
Toyota Motor Corporation shareholders equity		
Common stock, no par value, authorized: 10,000,000,000 shares in 2015 and 2016; issued: 3,417,997,492 shares in 2015 and 3,337,997,492 shares in 2016		
	397,050	397,050
Additional paid-in capital	547,054	548,161
Retained earnings	15,591,947	16,794,240
Accumulated other comprehensive income (loss)	1,477,545	610,768
Treasury stock, at cost, 271,183,861 shares in 2015 and 300,321,622 shares in 2016	(1,225,465)	(1,603,284)

Total Toyota Motor Corporation shareholders' equity	16,788,131	16,746,935
Noncontrolling interests	859,198	861,472
Total shareholders' equity	17,647,329	17,608,407
Commitments and contingencies		
Total liabilities, mezzanine equity and shareholders' equity	47,729,830	47,427,597

Note: The total number of authorized shares for common stock and Model AA Class Shares is 10,000,000,000 shares.

The accompanying notes are an integral part of these consolidated financial statements.



Table of Contents

**TOYOTA MOTOR CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Net revenues</b>			
Sales of products	24,312,644	25,612,836	26,549,111
Financing operations	1,379,267	1,621,685	1,854,007
Total net revenues	25,691,911	27,234,521	28,403,118
<b>Costs and expenses</b>			
Cost of products sold	19,988,245	20,916,362	21,456,086
Cost of financing operations	812,894	925,314	1,149,379
Selling, general and administrative	2,598,660	2,642,281	2,943,682
Total costs and expenses	23,399,799	24,483,957	25,549,147
Operating income	2,292,112	2,750,564	2,853,971
<b>Other income (expense)</b>			
Interest and dividend income	115,410	147,122	157,862
Interest expense	(19,630)	(22,871)	(35,403)
Foreign exchange gain (loss), net	50,260	88,140	(5,573)
Other income (loss), net	2,928	(70,127)	12,524
Total other income (expense)	148,968	142,264	129,410
Income before income taxes and equity in earnings of affiliated companies	2,441,080	2,892,828	2,983,381
Provision for income taxes	767,808	893,469	878,269
Equity in earnings of affiliated companies	318,376	308,545	329,099
Net income	1,991,648	2,307,904	2,434,211
Less - Net income attributable to noncontrolling interests	(168,529)	(134,566)	(121,517)
Net income attributable to Toyota Motor Corporation	1,823,119	2,173,338	2,312,694

Note: Net income attributable to common shareholders for the fiscal year ended March 31, 2016 is 2,306,607 million yen, which is derived by deducting dividend and accretion to Model AA Class Shares of 6,087 million yen from Net income attributable to Toyota Motor Corporation.

	<b>Yen</b>		
<b>Net income attributable to Toyota Motor Corporation per common share</b>			
- Basic	575.30	688.02	741.36
- Diluted	574.92	687.66	735.36
<b>Cash dividends per common share</b>	165.00	200.00	210.00

The accompanying notes are an integral part of these consolidated financial statements.

F-5

Table of Contents

**TOYOTA MOTOR CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Net income</b>	1,991,648	2,307,904	2,434,211
<b>Other comprehensive income (loss), net of tax</b>			
Foreign currency translation adjustments	301,889	404,352	(395,352)
Unrealized gains (losses) on securities	499,560	577,703	(312,192)
Pension liability adjustments	99,404	4,316	(209,181)
Total other comprehensive income (loss)	900,853	986,371	(916,725)
<b>Comprehensive income</b>	2,892,501	3,294,275	1,517,486
Less - Comprehensive income attributable to noncontrolling interests	(185,098)	(171,553)	(71,569)
<b>Comprehensive income attributable to Toyota Motor Corporation</b>	2,707,403	3,122,722	1,445,917

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

**TOYOTA MOTOR CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

	Yen in millions							
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Total Toyota Motor Corporation shareholders' equity	Noncontrolling interests	Total shareholders' equity
<b>Balances at March 31, 2013</b>	397,050	551,040	12,689,206	(356,123)	(1,133,138)	12,148,035	624,821	12,772,856
Equity transaction with noncontrolling interests and other		528				528	2,985	3,513
Comprehensive income								
Net income			1,823,119			1,823,119	168,529	1,991,648
Other comprehensive income (loss)								
Foreign currency translation adjustments				296,942		296,942	4,947	301,889
Unrealized gains (losses) on securities				493,750		493,750	5,810	499,560
Pension liability adjustments				93,592		93,592	5,812	99,404
<b>Total comprehensive income</b>						2,707,403	185,098	2,892,501
Dividends paid to Toyota Motor Corporation shareholders			(396,030)			(396,030)		(396,030)

Dividends paid to noncontrolling interests							(63,065)	(63,065)
Repurchase and reissuance of treasury stock	(260)			9,472		9,212		9,212
<b>Balances at March 31, 2014</b>	397,050	551,308	14,116,295	528,161	(1,123,666)	14,469,148	749,839	15,218,987
Equity transaction with noncontrolling interests and other	(422)					(422)	7,101	6,679
Comprehensive income								
Net income			2,173,338			2,173,338	134,566	2,307,904
Other comprehensive income (loss)								
Foreign currency translation adjustments				380,448		380,448	23,904	404,352
Unrealized gains (losses) on securities				567,002		567,002	10,701	577,703
Pension liability adjustments				1,934		1,934	2,382	4,316
Total comprehensive income						3,122,722	171,553	3,294,275
Dividends paid to Toyota Motor Corporation shareholders			(554,933)			(554,933)		(554,933)
Dividends paid to noncontrolling interests							(69,295)	(69,295)
Repurchase of treasury stock	(2,136)	(23,290)			(360,233)	(360,233)		(360,233)
				137,275		111,849		111,849

Reissuance of treasury stock								
Retirement of treasury stock	(1,696)	(119,463)		121,159				
<b>Balances at March 31, 2015</b>	397,050	547,054	15,591,947	1,477,545	(1,225,465)	16,788,131	859,198	17,647,329

The accompanying notes are an integral part of these consolidated financial statements.

F-7

Table of Contents

**TOYOTA MOTOR CORPORATION**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (CONTINUED)**

	Yen in millions							
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Total Toyota Motor Corporation shareholder equity	Noncontrolling interests	Total shareholders equity
<b>Balances at March 31, 2015</b>	397,050	547,054	15,591,947	1,477,545	(1,225,465)	16,788,131	859,198	17,647,329
Equity transaction with noncontrolling interests and other		1,972	(97)			1,875	3,834	5,709
Comprehensive income								
Net income			2,312,694			2,312,694	121,517	2,434,211
Other comprehensive income (loss)								
Foreign currency translation adjustments				(362,965)		(362,965)	(32,387)	(395,352)
Unrealized gains (losses) on securities				(302,620)		(302,620)	(9,572)	(312,192)
Pension liability adjustments				(201,192)		(201,192)	(7,989)	(209,181)
<b>Total comprehensive income</b>						1,445,917	71,569	1,517,486
Accretion to Mezzanine equity			(3,638)			(3,638)		(3,638)
Dividends to Toyota Motor Corporation class shareholders			(2,449)			(2,449)		(2,449)
Dividends paid to Toyota Motor Corporation common shareholders			(704,728)			(704,728)		(704,728)
Dividends paid to noncontrolling interests							(73,129)	(73,129)

Repurchase of treasury stock					(782,871)	(782,871)		(782,871)
Reissuance of treasury stock	183				4,515	4,698		4,698
Retirement of treasury stock	(1,048)	(399,489)			400,537			
<b>Balances at March 31, 2016</b>	397,050	548,161	16,794,240	610,768	(1,603,284)	16,746,935	861,472	17,608,407

The accompanying notes are an integral part of these consolidated financial statements.



Table of Contents

**TOYOTA MOTOR CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Yen in millions		
	For the years ended March 31,		
	2014	2015	2016
<b>Cash flows from operating activities</b>			
Net income	1,991,648	2,307,904	2,434,211
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	1,250,853	1,409,075	1,625,837
Provision for doubtful accounts and credit losses	49,718	78,969	159,265
Pension and severance costs, less payments	20,654	(3,161)	8,833
Losses on disposal of fixed assets	28,657	31,625	33,329
Unrealized losses on available-for-sale securities, net	6,197	2,578	9,272
Deferred income taxes	(56,279)	(26,887)	32,889
Equity in earnings of affiliated companies	(318,376)	(308,545)	(329,099)
Changes in operating assets and liabilities, and other			
Increase in accounts and notes receivable	(121,926)	(69,477)	(25,180)
Increase in inventories	(110,819)	(171,001)	(68,912)
Increase in other current assets	(77,645)	(43,355)	(200,669)
Increase in accounts payable	65,312	150,058	120,381
Increase (decrease) in accrued income taxes	438,527	(246,043)	(5,516)
Increase in other current liabilities	277,659	494,254	368,923
Other	201,855	79,759	297,293
Net cash provided by operating activities	3,646,035	3,685,753	4,460,857
<b>Cash flows from investing activities</b>			
Additions to finance receivables	(11,953,064)	(13,126,596)	(13,549,278)
Collection of finance receivables	10,990,546	12,426,475	13,067,700
Proceeds from sales of finance receivables	34,807	23,913	48,154
Additions to fixed assets excluding equipment leased to others	(970,021)	(1,146,318)	(1,282,545)
Additions to equipment leased to others	(1,708,670)	(2,211,250)	(2,776,671)
Proceeds from sales of fixed assets excluding equipment leased to others	39,191	41,547	42,147
Proceeds from sales of equipment leased to others	744,339	803,423	1,111,727
Purchases of marketable securities and security investments	(4,738,278)	(3,194,294)	(2,197,477)
Proceeds from sales of marketable securities and security investments	538,894	113,348	108,708
Proceeds upon maturity of marketable securities and security investments	2,780,433	2,569,653	3,307,107
Changes in investments and other assets, and other	(94,425)	(113,391)	(1,062,116)
Net cash used in investing activities	(4,336,248)	(3,813,490)	(3,182,544)

<b>Cash flows from financing activities</b>			
Proceeds from issuance of long-term debt	3,890,310	5,029,018	4,845,872
Payments of long-term debt	(2,988,923)	(3,462,237)	(4,176,202)
Increase (decrease) in short-term borrowings	467,976	(288,724)	(10,903)
Proceeds from issuance of class shares			474,917
Dividends paid to Toyota Motor Corporation class shareholders			(1,225)
Dividends paid to Toyota Motor Corporation common shareholders	(396,030)	(554,933)	(704,728)
Dividends paid to noncontrolling interests	(63,065)	(69,295)	(73,129)
Reissuance (repurchase) of treasury stock	9,212	(347,784)	(778,173)
Net cash provided by (used in) financing activities	919,480	306,045	(423,571)
Effect of exchange rate changes on cash and cash equivalents	93,606	65,079	(199,871)
Net increase in cash and cash equivalents	322,873	243,387	654,871
Cash and cash equivalents at beginning of year	1,718,297	2,041,170	2,284,557
Cash and cash equivalents at end of year	2,041,170	2,284,557	2,939,428

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Nature of operations:**

Toyota and its affiliated companies are primarily engaged in the design, manufacture, and sale of sedans, minivans, compact cars, sport-utility vehicles, trucks and related parts and accessories throughout the world. In addition, Toyota and its affiliated companies provide financing, vehicle and equipment leasing and certain other financial services primarily to its dealers and their customers to support the sales of vehicles and other products manufactured by Toyota and its affiliated companies.

**2. Summary of significant accounting policies:**

The parent company and its subsidiaries in Japan and its foreign subsidiaries maintain their records and prepare their financial statements in accordance with Japanese generally accepted accounting principles and those of their countries of domicile. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform to U.S.GAAP.

Significant accounting policies after reflecting adjustments for the above are as follows:

**Basis of consolidation and accounting for investments in affiliated companies -**

The consolidated financial statements include the accounts of the parent company, its majority-owned subsidiary companies and variable interest entities of which Toyota is the primary beneficiary. All significant intercompany transactions and accounts have been eliminated. Investments in affiliated companies in which Toyota exercises significant influence, but which it does not control, are stated at cost plus equity in undistributed earnings. Consolidated net income includes Toyota's equity in current earnings of such companies, after elimination of unrealized intercompany profits. Investments in such companies are reduced to net realizable value if a decline in market value is determined other-than-temporary. Investments in non-public companies in which Toyota does not exercise significant influence (generally less than a 20% ownership interest) are stated at cost.

**Estimates -**

The preparation of Toyota's consolidated financial statements in conformity with U.S.GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The more significant estimates include: product warranties, liabilities accrued for recalls and other safety measures, allowance for doubtful accounts and credit losses, residual values for leased assets, impairment of long-lived assets, pension costs and obligations, fair value of derivative financial instruments, other-than-temporary losses on marketable securities, litigation liabilities and valuation allowance for deferred tax assets.

**Translation of foreign currencies -**

All asset and liability accounts of foreign subsidiaries and affiliated companies are translated into Japanese yen at appropriate year-end current exchange rates and all income and expense accounts of those subsidiaries are translated at the average exchange rates for each period. The foreign currency translation adjustments are included as a component of accumulated other comprehensive income.

Foreign currency receivables and payables are translated at appropriate year-end current exchange rates and the resulting transaction gains or losses are recorded in operations currently.

F-10

**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Revenue recognition -**

Revenues from sales of vehicles and parts are generally recognized upon delivery which is considered to have occurred when the dealer has taken title to the product and the risk and reward of ownership have been substantively transferred, except as described below.

Toyota's sales incentive programs principally consist of cash payments to dealers calculated based on vehicle volume or a model sold by a dealer during a certain period of time. Toyota accrues these incentives as revenue reductions upon the sale of a vehicle corresponding to the program by the amount determined in the related incentive program.

Revenues from the sales of vehicles under which Toyota conditionally guarantees the minimum resale value are recognized on a pro rata basis from the date of sale to the first exercise date of the guarantee in a manner similar to operating lease accounting. The underlying vehicles of these transactions are recorded as assets and are depreciated in accordance with Toyota's depreciation policy.

Revenues from retail financing contracts and finance leases are recognized using the effective yield method. Revenues from operating leases are recognized on a straight-line basis over the lease term.

The sale of certain vehicles includes a determinable amount for the contract, which entitles customers to free vehicle maintenance. Such revenues from free maintenance contracts are deferred and recognized as revenue over the period of the contract, which approximates the pattern of the related costs.

**Other costs -**

Advertising and sales promotion costs are expensed as incurred. Advertising costs were ¥419,409 million, ¥435,150 million and ¥489,036 million for the years ended March 31, 2014, 2015 and 2016, respectively.

Toyota generally warrants its products against certain manufacturing and other defects. Provisions for product warranties are provided for specific periods of time and/or usage of the product and vary depending upon the nature of the product, the geographic location of the sale and other factors. Toyota records a provision for estimated product warranty costs at the time the related sale is recognized based on estimates that Toyota will incur to repair or replace product parts that fail while under warranty. The amount of accrued estimated warranty costs is primarily based on historical experience as to product failures as well as current information on repair costs. The amount of warranty costs accrued also contains an estimate of warranty claim recoveries to be received from suppliers.

In addition to product warranties above, Toyota accrues for costs of recalls and other safety measures based on management's estimates when it is probable a liability has been incurred and the amount of loss can be reasonably estimated. Toyota employs an estimation model, to accrue at the time of vehicle sale, an amount that represents management's best estimate of expenses related to future recalls and other safety measures. The estimation model for recalls and other safety measures takes into account Toyota's historical experience of recalls and other safety measures.

Litigation liabilities are established to cover probable losses on various lawsuits based on the information currently available. Attorneys' fees are expensed as incurred.

Research and development costs are expensed as incurred. Research and development costs were ¥910,517 million, ¥1,004,547 million and ¥1,055,672 million for the years ended March 31, 2014, 2015 and 2016, respectively.

F-11

**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Cash and cash equivalents -**

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

**Marketable securities -**

Marketable securities consist of debt and equity securities. Debt and equity securities designated as available-for-sale are carried at fair value with unrealized gains or losses included as a component of accumulated other comprehensive income in shareholders' equity, net of applicable taxes. Individual securities classified as available-for-sale are reduced to net realizable value for other-than-temporary declines in market value. In determining if a decline in value is other-than-temporary, Toyota considers the length of time and the extent to which the fair value has been less than the carrying value, the financial condition and prospects of the company and Toyota's ability and intent to retain its investment in the company for a period of time sufficient to allow for any anticipated recovery in market value. Realized gains and losses, which are determined on the average-cost method, are reflected in the consolidated statements of income when realized.

**Security investments in non-public companies -**

Security investments in non-public companies are carried at cost as fair value is not readily determinable. If the value of a non-public security investment is estimated to have declined and such decline is judged to be other-than-temporary, Toyota recognizes the impairment of the investment and the carrying value is reduced to its fair value. Determination of impairment is based on the consideration of such factors as operating results, business plans and estimated future cash flows. Fair value is determined principally through the use of the latest financial information.

**Finance receivables -**

Finance receivables recorded on Toyota's consolidated balance sheets are comprised of the unpaid principal balance, plus accrued interest, less charge-offs, net of any unearned income and deferred origination costs and the allowance for credit losses. Deferred origination costs are amortized so as to approximate a level rate of return over the term of the related contracts.

The determination of portfolio segments is based primarily on the qualitative consideration of the nature of Toyota's business operations and finance receivables. The three portfolio segments within finance receivables are as follows:

***Retail receivables portfolio segment -***

The retail receivables portfolio segment consists of retail installment sales contracts acquired mainly from dealers (auto loans) including credit card loans. These contracts acquired must first meet specified credit standards. Thereafter, Toyota retains responsibility for contract collection and administration.

The contract periods of auto loans primarily range from 2 to 7 years. Toyota acquires security interests in the vehicles financed and has the right to repossess vehicles if customers fail to meet their contractual obligations. Almost all auto loans are non-recourse, which relieves the dealers from financial responsibility in the event of repossession.



**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Toyota classifies retail receivables portfolio segment into one class based on common risk characteristics associated with the underlying finance receivables, the similarity of the credit risks, and the quantitative materiality.

***Finance lease receivables portfolio segment -***

Toyota acquires new vehicle lease contracts originated primarily through dealers. The contract periods of these primarily range from 2 to 5 years. Lease contracts acquired must first meet specified credit standards after which Toyota assumes ownership of the leased vehicle. Toyota is responsible for contract collection and administration during the lease period.

Toyota is generally permitted to take possession of the vehicle upon a default by the lessee. The residual value is estimated at the time the vehicle is first leased. Vehicles returned to Toyota at the end of their leases are sold by auction.

Toyota classifies finance lease receivables portfolio segment into one class based on common risk characteristics associated with the underlying finance receivables and the similarity of the credit risks.

***Wholesale and other dealer loan receivables portfolio segment -***

Toyota provides wholesale financing to qualified dealers to finance inventories. Toyota acquires security interests in vehicles financed at wholesale. In cases where additional security interests would be required, Toyota takes dealership assets or personal assets, or both, as additional security. If a dealer defaults, Toyota has the right to liquidate any assets acquired and seek legal remedies.

Toyota also makes term loans to dealers for business acquisitions, facilities refurbishment, real estate purchases and working capital requirements. These loans are typically secured with liens on real estate, other dealership assets and/or personal assets of the dealers.

Toyota classifies wholesale and other dealer loan receivables portfolio segment into three classes of wholesale, real estate and working capital, based on the risk characteristics associated with the underlying finance receivables.

A receivable account balance is considered impaired when, based on current information and events, it is probable that Toyota will be unable to collect all amounts due according to the terms of the contract. Factors such as payment history, compliance with terms and conditions of the underlying loan agreement and other subjective factors related to the financial stability of the borrower are considered when determining whether a loan is impaired. Impaired finance receivables include certain nonaccrual receivables for which a specific reserve has been assessed. An account modified as a troubled debt restructuring is considered to be impaired. A troubled debt restructuring occurs when an account is modified through a concession to a borrower experiencing financial difficulty.

All classes of wholesale and other dealer loan receivables portfolio segment are placed on nonaccrual status when full payment of principal or interest is in doubt, or when principal or interest is 90 days or more contractually past due, whichever occurs first. Collateral dependent loans are placed on nonaccrual status if collateral is insufficient to cover

principal and interest. Interest accrued but not collected at the date a receivable is placed on nonaccrual status is reversed against interest income. In addition, the amortization of net deferred fees is suspended.

F-13

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Interest income on nonaccrual receivables is recognized only to the extent it is received in cash. Accounts are restored to accrual status only when interest and principal payments are brought current and future payments are reasonably assured. Receivable balances are written-off against the allowance for credit losses when it is probable that a loss has been realized. Retail receivables class and finance lease receivables class are not placed generally on nonaccrual status when principal or interest is 90 days or more past due. However, these receivables are generally written-off against the allowance for credit losses when payments due are no longer expected to be received or the account is 120 days contractually past due, whichever occurs first.

As of March 31, 2015 and 2016, finance receivables on nonaccrual status are as follows:

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
Retail	7,629	8,107
Finance leases	5,562	682
Wholesale	11,573	16,122
Real estate	8,592	16,801
Working capital	446	822
	33,802	42,534

As of March 31, 2015 and 2016, finance receivables 90 days or more past due and accruing are as follows:

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
Retail	28,147	23,419
Finance leases	3,954	3,984
	32,101	27,403

**Allowance for credit losses -**

Allowance for credit losses is established to cover probable losses on finance receivables and vehicles and equipment on operating leases, resulting from the inability of customers to make required payments. Provision for credit losses is included in selling, general and administrative expenses.

The allowance for credit losses is based on a systematic, ongoing review and evaluation performed as part of the credit-risk evaluation process, historical loss experience, the size and composition of the portfolios, current economic events and conditions, the estimated fair value and adequacy of collateral and other pertinent factors. Vehicles and equipment on operating leases are not within the scope of accounting guidance governing the disclosure of portfolio segments.

***Retail receivables portfolio segment -***

Toyota calculates allowance for credit losses to cover probable losses on retail receivables by applying reserve rates to such receivables. Reserve rates are calculated mainly by historical loss experience, current economic events and conditions and other pertinent factors.

**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Finance lease receivables portfolio segment -***

Toyota calculates allowance for credit losses to cover probable losses on finance lease receivables by applying reserve rates to such receivables. Reserve rates are calculated mainly by historical loss experience, current economic events and conditions and other pertinent factors such as used car markets.

***Wholesale and other dealer loan receivables portfolio segment -***

Toyota calculates allowance for credit losses to cover probable losses on wholesale and other dealer loan receivables by applying reserve rates to such receivables. Reserve rates are calculated mainly by financial conditions of the dealers, terms of collateral setting, current economic events and conditions and other pertinent factors.

Toyota establishes specific reserves to cover the estimated losses on individually impaired receivables within the wholesale and other dealer loan receivables portfolio segment. Specific reserves on impaired receivables are determined by the present value of expected future cash flows or the fair value of collateral when it is probable that such receivables will be unable to be fully collected. The fair value of the underlying collateral is used if the receivable is collateral-dependent. The receivable is determined collateral-dependent if the repayment of the loan is expected to be provided by the underlying collateral. For the receivables in which the fair value of the underlying collateral was in excess of the outstanding balance, no allowance was provided.

Troubled debt restructurings in the retail receivables and finance lease receivables portfolio segments are specifically identified as impaired and aggregated with their respective portfolio segments when determining the allowance for credit losses. Impaired loans in the retail receivables and finance lease receivables portfolio segments are insignificant for individual evaluation and Toyota has determined that allowance for credit losses for each of the retail receivables and finance lease receivables portfolio segments would not be materially different if they had been individually evaluated for impairment.

Specific reserves on impaired receivables within the wholesale and other dealer loan receivables portfolio segment are recorded by an increase to the allowance for credit losses based on the related measurement of impairment. Related collateral, if recoverable, is repossessed and sold and the account balance is written-off.

Any shortfall between proceeds received and the carrying cost of repossessed collateral is charged to the allowance. Recoveries are reversed from the allowance for credit losses.

**Allowance for residual value losses -**

Toyota is exposed to risk of loss on the disposition of off-lease vehicles to the extent that sales proceeds are not sufficient to cover the carrying value of the leased asset at lease termination. Toyota maintains an allowance to cover probable estimated losses related to unguaranteed residual values on its owned portfolio. The allowance is evaluated considering projected vehicle return rates and projected loss severity. Factors considered in the determination of projected return rates and loss severity include historical and market information on used vehicle sales, trends in lease returns and new car markets, and general economic conditions. Management evaluates the foregoing factors, develops

several potential loss scenarios, and reviews allowance levels to determine whether reserves are considered adequate to cover the probable range of losses.

The allowance for residual value losses is maintained in amounts considered by Toyota to be appropriate in relation to the estimated losses on its owned portfolio. Upon disposal of the assets, the allowance for residual losses is adjusted for the difference between the net book value and the proceeds from sale.

**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Inventories -**

Inventories are valued at cost, not in excess of market, cost being determined on the average-cost basis, except for the cost of finished products carried by certain subsidiary companies which is determined on the specific identification basis or last-in, first-out ( LIFO ) basis. Inventories valued on the LIFO basis totaled ¥402,180 million and ¥382,660 million at March 31, 2015 and 2016, respectively. Had the first-in, first-out basis been used for those companies using the LIFO basis, inventories would have been ¥39,165 million and ¥13,297 million higher than reported at March 31, 2015 and 2016, respectively.

**Property, plant and equipment -**

Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized; minor replacements, maintenance and repairs are charged to current operations. Depreciation of property, plant and equipment is mainly computed on the declining-balance method for the parent company and Japanese subsidiaries and on the straight-line method for foreign subsidiary companies at rates based on estimated useful lives of the respective assets according to general class, type of construction and use. The estimated useful lives range from 2 to 65 years for buildings and from 2 to 20 years for machinery and equipment.

Vehicles and equipment on operating leases to third parties are originated by dealers and acquired by certain consolidated subsidiaries. Such subsidiaries are also the lessors of certain property that they acquire directly. Vehicles and equipment on operating leases are depreciated primarily on a straight-line method over the lease term, generally from 2 to 5 years, to the estimated residual value. Incremental direct costs incurred in connection with the acquisition of operating lease contracts are capitalized and amortized on a straight-line method over the lease term.

**Long-lived assets -**

Toyota reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset group exceeds the estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the carrying value of the asset group over its fair value. Fair value is determined mainly using a discounted cash flow valuation method.

**Goodwill and intangible assets -**

Goodwill is not material to Toyota's consolidated balance sheets.

Intangible assets consist mainly of software. Intangible assets with a definite life are amortized on a straight-line basis with estimated useful lives mainly of 5 years. Intangible assets with an indefinite life are tested for impairment whenever events or circumstances indicate that a carrying amount of an asset (asset group) may not be recoverable.

An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the asset. The amount of the impairment loss to be recorded is generally determined by the difference between the fair value of the asset using a discounted cash flow valuation method and the current book value.

**Employee benefit obligations -**

Toyota has both defined benefit and defined contribution plans for employees' retirement benefits. Retirement benefit obligations are measured by actuarial calculations in accordance with U.S.GAAP. The funded



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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

status of the defined benefit postretirement plans is recognized on the consolidated balance sheets as prepaid pension and severance costs or accrued pension and severance costs, and the funded status change is recognized in the year in which it occurs through other comprehensive income.

**Environmental matters -**

Environmental expenditures relating to current operations are expensed or capitalized as appropriate. Expenditures relating to existing conditions caused by past operations, which do not contribute to current or future revenues, are expensed. Liabilities for remediation costs are recorded when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or Toyota's commitment to a plan of action. The cost of each environmental liability is estimated by using current technology available and various engineering, financial and legal specialists within Toyota based on current law. Such liabilities do not reflect any offset for possible recoveries from insurance companies and are not discounted. There were no material changes in these liabilities for all periods presented.

**Income taxes -**

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

**Derivative financial instruments -**

Toyota employs derivative financial instruments, including forward foreign currency exchange contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements and interest rate options to manage its exposure to fluctuations in interest rates and foreign currency exchange rates. All derivative financial instruments are recorded on the consolidated balance sheets at fair value, taking into consideration the effects of legally enforceable master netting agreements that allow us to net settle positive and negative positions and offset cash collateral held with the same counterparty on a net basis. Toyota does not use derivatives for speculation or trading purposes. Changes in the fair value of derivatives are recorded each period in current earnings or through other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges is recognized currently in operations.

**Net income attributable to Toyota Motor Corporation per common share -**

Basic net income attributable to Toyota Motor Corporation per common share is calculated by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding during the reported period. The calculation of diluted net income attributable to Toyota Motor Corporation per common share is done by adjusting net income attributable to common shareholders and the weighted-average number of common shares outstanding, which includes the additional dilution from the assumed conversion of model AA class shares and

the assumed exercise of dilutive stock options.

**Stock-based compensation -**

Toyota measures compensation expense for its stock-based compensation plan based on the grant-date fair value of the award, and accounts for the award.

F-17

**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Other comprehensive income -**

Other comprehensive income refers to revenues, expenses, gains and losses that, under U.S.GAAP are included in comprehensive income, but are excluded from net income as these amounts are recorded directly as an adjustment to shareholders equity. Toyota's other comprehensive income is primarily comprised of unrealized gains/losses on marketable securities designated as available-for-sale, foreign currency translation adjustments and adjustments attributed to pension liabilities associated with Toyota's defined benefit pension plans.

**Accounting changes -**

In April 2014, the FASB issued updated guidance on reporting discontinued operations and disclosures of disposals of components of an entity. Under the new guidance, only disposals that represent a strategic shift and that have (or will have) a major effect on an entity's operations and financial results should be presented as discontinued operations. Toyota adopted this guidance on April 1, 2015. The adoption of this guidance did not have a material impact on Toyota's consolidated financial statements.

**Recent pronouncements to be adopted in future periods -**

In May 2014, the FASB issued updated guidance on the recognition of revenue from contracts with customers. This guidance will supersede the current revenue recognition guidance. In August 2015, the FASB issued updated guidance on the deferral of the effective date. As a result, this guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In February 2015, the FASB issued updated guidance that amends the analysis a reporting entity must perform to determine whether it should consolidate certain legal entities. This guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In April 2015, the FASB issued updated guidance that requires debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. In August 2015, the FASB issued an additional update which clarifies that debt issuance costs for line of credit agreements may continue to be deferred and amortized. This guidance is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Management does not expect this guidance to have a material impact on Toyota's consolidated financial statements.

In April 2015, the FASB issued updated guidance to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. This guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In May 2015, the FASB issued updated guidance on disclosures for investments in certain entities that calculate net asset value per share. This guidance removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. This guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In July 2015, the FASB issued updated guidance to simplify the measurement of inventory. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In November 2015, the FASB issued updated guidance to simplify the balance sheet classification of deferred taxes. This guidance will require that deferred tax assets and liabilities be classified as noncurrent on the balance sheet. This guidance is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Current deferred tax assets were ¥967.6 billion and current deferred tax liabilities were ¥28.1 billion, as of March 31, 2016.

In January 2016, the FASB issued updated guidance for financial instruments. This guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments and will require entities to measure equity investments at fair value and recognize any changes in fair value in net income. This guidance is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In February 2016, the FASB issued updated guidance for leases. This guidance will require lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In March 2016, the FASB issued updated guidance for effect of derivative contract novations on existing hedge accounting relationships. This guidance clarifies that a change in the counterparty to a designated derivative hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In March 2016, the FASB issued updated guidance for contingent put and call options in debt instruments. This guidance clarifies whether embedded contingent put and call options are clearly and closely related to the debt host when bifurcating embedded derivatives. This guidance is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

In June 2016, the FASB issued updated guidance for measurement of credit losses on financial instruments. This guidance introduces an approach to estimate credit losses on certain types of financial instruments based on expected losses. It also modifies the impairment model for available-for-sale debt securities. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

**Reclassifications -**

Certain prior year amounts have been reclassified to conform to the presentations as of and for the year ended March 31, 2016.

F-19

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****3. Supplemental cash flow information:**

Cash payments for income taxes were ¥411,133 million, ¥1,145,808 million and ¥884,589 million for the years ended March 31, 2014, 2015 and 2016, respectively. Interest payments during the years ended March 31, 2014, 2015 and 2016 were ¥352,590 million, ¥369,770 million and ¥381,280 million, respectively.

Capital lease obligations of ¥3,422 million, ¥3,709 million and ¥6,546 million were incurred for the years ended March 31, 2014, 2015 and 2016, respectively.

**4. Acquisitions and dispositions:**

During the years ended March 31, 2014, 2015 and 2016, Toyota made several acquisitions and dispositions, however the assets and liabilities acquired or transferred were not material.

**5. Marketable securities and other securities investments:**

Marketable securities and other securities investments include public and corporate bonds and common stocks for which the aggregate cost, gross unrealized gains and losses and fair value are as follows:

	<b>Yen in millions</b>			
	<b>March 31, 2015</b>			
	<b>Cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
<b>Available-for-sale</b>				
Public and corporate bonds	6,848,348	337,341	4,738	7,180,951
Common stocks	621,750	2,083,164	100	2,704,814
Other	387,085	43,649	12	430,722
<b>Total</b>	<b>7,857,183</b>	<b>2,464,154</b>	<b>4,850</b>	<b>10,316,487</b>
<b>Securities not practicable to determine fair value</b>				
Public and corporate bonds	20,404			
Common stocks	77,334			
<b>Total</b>	<b>97,738</b>			

**Yen in millions**  
**March 31, 2016**

	<b>Cost</b>	<b>Gross unrealized gains</b>	<b>Gross unrealized losses</b>	<b>Fair value</b>
<b>Available-for-sale</b>				
Public and corporate bonds	5,706,026	261,226	15,671	5,951,581
Common stocks	661,796	1,897,439	304	2,558,931
Other	318,240	30,282	40	348,482
<b>Total</b>	<b>6,686,062</b>	<b>2,188,947</b>	<b>16,015</b>	<b>8,858,994</b>
<b>Securities not practicable to determine fair value</b>				
Public and corporate bonds	20,253			
Common stocks	71,941			
<b>Total</b>	<b>92,194</b>			

F-20



**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Public and corporate bonds included in available-for-sale represent 43% of Japanese bonds, and 57% of U.S., European and other bonds as of March 31, 2015, and 37% of Japanese bonds, and 63% of U.S., European and other bonds as of March 31, 2016. Listed stocks on the Japanese stock markets represent 88% and 90% of common stocks which are included in available-for-sale as of March 31, 2015 and 2016, respectively. Public and corporate bonds include government bonds, and Other includes investment trusts.

Unrealized losses continuing over a 12 month period or more in the aggregate were not material as of March 31, 2015 and 2016.

As of March 31, 2015 and 2016, maturities of public and corporate bonds included in available-for-sale are mainly from 1 to 10 years.

Proceeds from sales of available-for-sale securities were ¥538,894 million, ¥113,348 million and ¥108,708 million for the years ended March 31, 2014, 2015 and 2016, respectively. On those sales, gross realized gains were ¥25,099 million, ¥17,912 million and ¥9,500 million and gross realized losses were ¥404 million, ¥161 million and ¥365 million, respectively.

During the years ended March 31, 2014, 2015 and 2016, Toyota recognized impairment losses on available-for-sale securities of ¥6,197 million, ¥2,578 million and ¥9,272 million, respectively, which are included in Other income (loss), net and other in the accompanying consolidated statements of income.

In the ordinary course of business, Toyota maintains long-term investment securities, included in Marketable securities and other securities investments and issued by a number of non-public companies which are recorded at cost, as their fair values were not readily determinable. Management employs a systematic methodology to assess the recoverability of such investments by reviewing the financial viability of the underlying companies and the prevailing market conditions in which these companies operate to determine if Toyota's investment in each individual company is impaired and whether the impairment is other-than-temporary. Toyota periodically performs this impairment test for significant investments recorded at cost. If the impairment is determined to be other-than-temporary, the carrying value of the investment is written-down by the impaired amount and the losses are recognized currently in operations.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Finance receivables:**

Finance receivables consist of the following:

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
Retail	12,015,844	11,156,798
Finance leases	1,158,361	1,144,312
Wholesale and other dealer loans	3,124,079	2,994,171
	16,298,284	15,295,281
Deferred origination costs	179,905	169,467
Unearned income	(837,124)	(754,836)
Allowance for credit losses		
Retail	(109,316)	(98,853)
Finance leases	(29,303)	(24,600)
Wholesale and other dealer loans	(30,053)	(30,828)
Total allowance for credit losses	(168,672)	(154,281)
Total finance receivables, net	15,472,393	14,555,631
Less - Current portion	(6,269,862)	(5,912,684)
Noncurrent finance receivables, net	9,202,531	8,642,947

Finance receivables were geographically distributed as follows: in North America 59.3%, in Asia 12.8%, in Europe 9.5%, in Japan 7.9% and in Other 10.5% as of March 31, 2015, and in North America 59.1%, in Asia 11.9%, in Europe 10.3%, in Japan 8.3% and in Other 10.4% as of March 31, 2016.

The contractual maturities of retail receivables, the future minimum lease payments on finance leases and the contractual maturities of wholesale and other dealer loans at March 31, 2016 are summarized as follows:

	<b>Yen in millions</b>		
<b>Years ending March 31,</b>	<b>Retail</b>	<b>Finance</b>	<b>Wholesale</b>
<b>2017</b>		<b>leases</b>	<b>and other</b>
			<b>dealer loans</b>
	3,708,910	297,674	2,204,683

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2018	2,745,820	225,249	259,953
2019	2,154,888	175,003	180,465
2020	1,418,530	79,702	118,401
2021	727,919	27,731	100,245
Thereafter	400,731	4,729	130,424
	11,156,798	810,088	2,994,171

F-22

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Finance leases consist of the following:

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
Minimum lease payments	835,491	810,088
Estimated unguaranteed residual values	322,870	334,224
	1,158,361	1,144,312
Deferred origination costs	4,791	5,135
Less - Unearned income	(98,915)	(95,213)
Less - Allowance for credit losses	(29,303)	(24,600)
<b>Finance leases, net</b>	<b>1,034,934</b>	<b>1,029,634</b>

Toyota is exposed to credit risk on Toyota's finance receivables. Credit risk is the risk of loss arising from the failure of customers or dealers to meet the terms of their contracts with Toyota or otherwise fail to perform as agreed. Toyota estimates allowance for credit losses by variety of credit-risk evaluation process to cover probable and estimable losses above.

The table below shows the amount of the finance receivables segregated into aging categories based on the number of days outstanding as of March 31, 2015 and 2016:

	<b>Yen in millions</b>				
	<b>March 31, 2015</b>				
	<b>Retail</b>	<b>Finance leases</b>	<b>Wholesale</b>	<b>Real estate</b>	<b>Working capital</b>
Current	11,821,070	1,147,488	1,540,395	854,791	728,689
30-59 days past due	129,649	4,179	2	70	
60-89 days past due	29,552	1,985			
90 days or greater past due	35,573	4,709		26	106
<b>Total</b>	<b>12,015,844</b>	<b>1,158,361</b>	<b>1,540,397</b>	<b>854,887</b>	<b>728,795</b>

**Yen in millions**  
**March 31, 2016**

	<b>Retail</b>	<b>Finance leases</b>	<b>Wholesale</b>	<b>Real estate</b>	<b>Working capital</b>
Current	10,966,689	1,135,474	1,482,697	817,896	692,784
30-59 days past due	128,603	2,896	1		
60-89 days past due	29,995	1,465			
90 days or greater past due	31,511	4,477	3	480	310
<b>Total</b>	<b>11,156,798</b>	<b>1,144,312</b>	<b>1,482,701</b>	<b>818,376</b>	<b>693,094</b>

F-23

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The tables below show the recorded investment for each credit quality of the finance receivable within the wholesale and other dealer loan receivables portfolio segment in the United States and other regions as of March 31, 2015 and 2016:

*United States*

The wholesale and other dealer loan receivables portfolio segment is primarily segregated into credit qualities below based on internal risk assessments by dealers.

Performing: Account not classified as either Credit Watch, At Risk or Default

Credit Watch: Account designated for elevated attention

At Risk: Account where there is an increased likelihood that default may exist based on qualitative and quantitative factors

Default: Account is not currently meeting contractual obligations or we have temporarily waived certain contractual requirements

	<b>Yen in millions</b>			
	<b>March 31, 2015</b>			
	<b>Wholesale</b>	<b>Real estate</b>	<b>Working capital</b>	<b>Total</b>
Performing	960,542	454,451	197,369	1,612,362
Credit Watch	136,537	101,221	21,197	258,955
At Risk	7,230	4,476	3,806	15,512
Default	4,340	482	273	5,095
<b>Total</b>	<b>1,108,649</b>	<b>560,630</b>	<b>222,645</b>	<b>1,891,924</b>

	<b>Yen in millions</b>			
	<b>March 31, 2016</b>			
	<b>Wholesale</b>	<b>Real estate</b>	<b>Working capital</b>	<b>Total</b>
Performing	912,643	430,673	189,969	1,533,285
Credit Watch	117,346	85,963	25,753	229,062
At Risk	12,683	12,311	1,937	26,931
Default	976	1,085	151	2,212
<b>Total</b>	<b>1,043,648</b>	<b>530,032</b>	<b>217,810</b>	<b>1,791,490</b>

*Other regions*

Credit qualities of the wholesale and other dealer loan receivables portfolio segment in other regions are also monitored based on internal risk assessments by dealers on a consistent basis as in the United States. These accounts classified as *Credit Watch* or *At Risk* were not significant in other regions, and consequently the tables below summarize information for two categories, *Performing* and *Default* .

	<b>Yen in millions</b>			
	<b>March 31, 2015</b>			
	<b>Wholesale</b>	<b>Real estate</b>	<b>Working capital</b>	<b>Total</b>
Performing	428,889	292,007	505,675	1,226,571
Default	2,859	2,250	475	5,584
<b>Total</b>	<b>431,748</b>	<b>294,257</b>	<b>506,150</b>	<b>1,232,155</b>

Table of Contents

## TOYOTA MOTOR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Yen in millions March 31, 2016			
	Wholesale	Real estate	Working capital	Total
Performing	436,839	284,512	474,731	1,196,082
Default	2,214	3,832	553	6,599
<b>Total</b>	<b>439,053</b>	<b>288,344</b>	<b>475,284</b>	<b>1,202,681</b>

The tables below summarize information about impaired finance receivables:

	Yen in millions					
	Recorded investment		Unpaid principal balance		Individually evaluated allowance	
	March 31,		March 31,		March 31,	
	2015	2016	2015	2016	2015	2016
<b>Impaired account balances individually evaluated for impairment with an allowance:</b>						
Wholesale	11,810	13,374	11,810	13,374	2,387	1,303
Real estate	8,136	13,891	8,136	13,891	2,054	1,934
Working capital	4,881	4,851	4,881	4,851	4,376	3,916
<b>Total</b>	<b>24,827</b>	<b>32,116</b>	<b>24,827</b>	<b>32,116</b>	<b>8,817</b>	<b>7,153</b>

**Impaired account balances individually evaluated for impairment without an allowance:**

Wholesale	13,644	21,056	13,644	21,056
Real estate	10,935	11,098	10,935	11,098
Working capital	312	388	312	388
<b>Total</b>	<b>24,891</b>	<b>32,542</b>	<b>24,891</b>	<b>32,542</b>

**Impaired account balances aggregated and evaluated for impairment:**

Retail	32,907	27,854	32,541	27,149
Finance leases	118	85	104	75
<b>Total</b>	<b>33,025</b>	<b>27,939</b>	<b>32,645</b>	<b>27,224</b>

**Total impaired account balances:**

Retail	32,907	27,854	32,541	27,149
Finance leases	118	85	104	75
Wholesale	25,454	34,430	25,454	34,430
Real estate	19,071	24,989	19,071	24,989



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Working capital	5,193	5,239	5,193	5,239
Total	82,743	92,597	82,363	91,882

F-25

Table of Contents

## TOYOTA MOTOR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Yen in millions			
	Average impaired finance receivables		Interest income recognized	
	For the years ended March 31,		For the years ended March 31,	
	2015	2016	2015	2016
<b>Total impaired account balances:</b>				
Retail	33,722	31,368	2,389	2,155
Finance leases	155	96	4	2
Wholesale	13,977	29,315	110	481
Real estate	14,634	23,441	439	721
Working capital	3,813	5,486	110	240
<b>Total</b>	<b>66,301</b>	<b>89,706</b>	<b>3,052</b>	<b>3,599</b>

The amount of finance receivables modified as a troubled debt restructuring for the year ended March 31, 2016 was not significant for all classes of finance receivables. Finance receivables modified as troubled debt restructurings for the year ended March 31, 2016 and for which there was a payment default were not significant for all classes of such receivables.

**7. Other receivables:**

Other receivables relate to arrangements with certain component manufacturers whereby Toyota procures inventory for these component manufactures and is reimbursed for the related purchases.

**8. Inventories:**

Inventories consist of the following:

	Yen in millions	
	March 31,	
	2015	2016
Finished goods	1,365,818	1,323,477
Raw materials	401,040	367,079
Work in process	270,113	265,570
Supplies and other	100,647	105,385
<b>Total</b>	<b>2,137,618</b>	<b>2,061,511</b>



Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Vehicles and equipment on operating leases:**

Vehicles and equipment on operating leases consist of the following:

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
Vehicles	5,169,524	5,778,463
Equipment	163,195	12,836
Less - Deferred income and other	(132,733)	(138,677)
	5,199,986	5,652,622
Less - Accumulated depreciation	(1,080,936)	(1,133,785)
Less - Allowance for credit losses	(9,366)	(13,049)
<b>Vehicles and equipment on operating leases, net</b>	<b>4,109,684</b>	<b>4,505,788</b>

Rental income from vehicles and equipment on operating leases was ¥586,983 million, ¥726,515 million and ¥891,733 million for the years ended March 31, 2014, 2015 and 2016, respectively. Future minimum rentals from vehicles and equipment on operating leases are due in installments as follows:

<b>Years ending March 31,</b>	<b>Yen in millions</b>
2017	738,681
2018	500,855
2019	225,526
2020	48,217
2021	11,719
Thereafter	1,355
<b>Total minimum future rentals</b>	<b>1,526,353</b>

The future minimum rentals as shown above should not be considered indicative of future cash collections.

**10. Allowance for doubtful accounts and credit losses:**

The net changes in the allowance for doubtful accounts relating to trade accounts and notes receivable for the years ended March 31, 2014, 2015 and 2016 are as follows:

	<b>Yen in millions</b>		
	<b>For the years ended March</b>		
	<b>31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Allowance for doubtful accounts at beginning of year	46,144	47,518	50,410
Provision for doubtful accounts, net of reversal	3,405	(1,598)	69,029
Write-offs	(1,162)	(289)	(20,649)
Other	(869)	4,779	(3,937)
Allowance for doubtful accounts at end of year	47,518	50,410	94,853

Other includes the impact of currency translation adjustments for the years ended March 31, 2014, 2015 and 2016.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A portion of the allowance for doubtful accounts balance at March 31, 2015 and 2016 totaling ¥9,561 million and ¥10,884 million, respectively, is attributed to certain non-current receivable balances which are reported as Other assets in the consolidated balance sheets.

The net changes in the allowance for credit losses relating to finance receivables and vehicles and equipment on operating leases for the years ended March 31, 2014, 2015 and 2016 are as follows:

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Allowance for credit losses at beginning of year	147,049	153,602	178,038
Provision for credit losses, net of reversal	46,313	80,567	90,236
Charge-offs	(65,359)	(84,310)	(102,948)
Recoveries	16,662	18,173	22,356
Other	8,937	10,006	(20,352)
Allowance for credit losses at end of year	153,602	178,038	167,330

Other primarily includes the impact of currency translation adjustments for the years ended March 31, 2014, 2015 and 2016.

The net changes in the allowance for credit losses above relating to retail receivables portfolio segment, finance lease receivables portfolio segment and wholesale and other dealer loan receivables portfolio segment for the years ended March 31, 2014, 2015 and 2016 are as follows:

	<b>Yen in millions</b>		
	<b>For the year ended March 31, 2014</b>		
	<b>Retail</b>	<b>Finance leases</b>	<b>Wholesale and other dealer loans</b>
Allowance for credit losses at beginning of year	83,858	28,928	26,243
Provision for credit losses, net of reversal	42,055	1,847	(807)
Charge-offs	(55,733)	(2,554)	(626)
Recoveries	14,051	587	16
Other	5,208	1,777	1,532
Allowance for credit losses at end of year	89,439	30,585	26,358

	<b>Yen in millions</b>		
	<b>For the year ended March 31, 2015</b>		
			<b>Wholesale and other dealer loans</b>
	<b>Retail</b>	<b>Finance leases</b>	
Allowance for credit losses at beginning of year	89,439	30,585	26,358
Provision for credit losses, net of reversal	70,129	(858)	2,531
Charge-offs	(71,403)	(2,568)	(603)
Recoveries	15,008	497	78
Other	6,143	1,647	1,689
Allowance for credit losses at end of year	109,316	29,303	30,053

F-28

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Yen in millions</b>		
	<b>For the year ended March 31, 2016</b>		
	<b>Retail</b>	<b>Finance leases</b>	<b>Wholesale and other dealer loans</b>
Allowance for credit losses at beginning of year	109,316	29,303	30,053
Provision for credit losses, net of reversal	65,677	1,742	4,962
Charge-offs	(83,116)	(3,833)	(667)
Recoveries	18,999	380	230
Other	(12,023)	(2,992)	(3,750)
Allowance for credit losses at end of year	98,853	24,600	30,828

**11. Affiliated companies and variable interest entities:****Investments in and transactions with affiliated companies -**

Summarized financial information for affiliated companies accounted for by the equity method is shown below:

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
Current assets	11,380,649	11,299,674
Noncurrent assets	11,890,150	10,961,889
<b>Total assets</b>	<b>23,270,799</b>	<b>22,261,563</b>
Current liabilities	7,330,762	7,414,894
Long-term liabilities and noncontrolling interests	5,965,242	5,509,745
Affiliated companies accounted for by the equity method shareholders equity	9,974,795	9,336,924
<b>Total liabilities and shareholders equity</b>	<b>23,270,799</b>	<b>22,261,563</b>
Toyota's share of affiliated companies accounted for by the equity method shareholders equity	2,691,222	2,631,389
Number of affiliated companies accounted for by the equity method at end of period	54	54



	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Net revenues	28,289,687	30,163,457	31,037,029
Gross profit	3,385,048	3,614,946	3,852,899
Net income attributable to affiliated companies accounted for by the equity method	963,003	966,133	957,742
Equity in earnings of affiliated companies attributable to Toyota Motor Corporation	318,376	308,545	329,099

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Entities comprising a significant portion of Toyota's investment in affiliated companies and percentage of ownership are presented below:

<b>Name of affiliated companies</b>	<b>Percentage of ownership</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
Denso Corporation	24.9%	24.9%
Toyota Industries Corporation	24.6%	24.6%
Aisin Seiki Co., Ltd.	23.3%	23.3%
Toyota Tsusho Corporation	22.0%	22.0%
Toyoda Gosei Co., Ltd.	43.0%	43.0%

Certain affiliated companies accounted for by the equity method with carrying amounts of ¥2,010,249 million and ¥1,950,661 million at March 31, 2015 and 2016, respectively, were quoted on various established markets at an aggregate value of ¥2,889,079 million and ¥2,470,588 million, respectively. Toyota evaluated its investments in affiliated companies, considering the length of time and the extent to which the quoted market prices have been less than the carrying amounts, the financial condition and near-term prospects of the affiliated companies and Toyota's ability and intent to retain those investments in the companies for a period of time. Toyota did not recognize any impairment loss for the years ended March 31, 2014, 2015 and 2016.

Account balances and transactions with affiliated companies are presented below:

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
Trade accounts and notes receivable, and other receivables	266,999	256,700
Accounts payable and other payables	635,878	676,415

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Net revenues	1,854,708	1,785,238	1,804,493
Purchases	4,289,583	5,065,613	4,359,854

Dividends from affiliated companies accounted for by the equity method for the years ended March 31, 2014, 2015 and 2016 were ¥147,039 million, ¥174,485 million and ¥186,212 million, respectively.

Toyota does not have any significant related party transactions other than transactions with affiliated companies in the ordinary course of business.

**Variable Interest Entities -**

Toyota enters into securitization transactions using special-purpose entities, that are considered variable interest entities ( VIEs ). Although the finance receivables and vehicles on operating leases related to securitization transactions have been legally sold to the VIEs, Toyota has both the power to direct the activities of the VIEs that most significantly impact the VIEs economic performance and the obligation to absorb losses of the VIEs or the right to receive benefits from the VIEs that could potentially be significant to the VIEs. As a result, Toyota is considered the primary beneficiary of the VIEs and therefore consolidates the VIEs.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Related to securitization transactions, ¥1,845,092 million and ¥2,087,303 million retail finance receivables, ¥144,729 million and ¥290,873 million vehicles on operating leases, ¥112,004 million and ¥126,012 million restricted cash and ¥1,572,185 million and ¥1,903,189 million secured debt were included in Toyota's consolidated financial statements as of March 31, 2015 and 2016, respectively. The creditors of the VIEs do not have recourse to Toyota's general credit with the exception of debts guaranteed by Toyota. Risks to which Toyota is exposed including credit, interest rate, and/or prepayment risks are not incremental compared with the situation before Toyota enters into securitization transactions.

As for VIEs other than those specified above, neither the aggregate size nor Toyota's involvements are material to Toyota's consolidated financial statements.

**12. Short-term borrowings and long-term debt:**

Short-term borrowings at March 31, 2015 and 2016 consist of the following:

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
Loans, principally from banks, with a weighted-average interest at March 31, 2015 and March 31, 2016 of 2.83% and of 2.05% per annum, respectively	1,167,792	1,068,417
Commercial paper with a weighted-average interest at March 31, 2015 and March 31, 2016 of 0.41% and of 0.71% per annum, respectively	3,880,396	3,629,717
	5,048,188	4,698,134

As of March 31, 2016, Toyota has unused short-term lines of credit amounting to ¥1,900,499 million of which ¥560,218 million related to commercial paper programs. Under these programs, Toyota is authorized to obtain short-term financing at prevailing interest rates for periods not in excess of 360 days.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Long-term debt at March 31, 2015 and 2016 comprises the following:

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
Unsecured loans, representing obligations principally to banks, due 2015 to 2029 in 2015 and due 2016 to 2035 in 2016 with a weighted-average interest at March 31, 2015 and March 31, 2016 of 2.36% and of 2.24% per annum, respectively	3,712,598	3,403,347
Secured loans, representing obligations principally to finance receivables securitization due 2015 to 2030 in 2015 and due 2016 to 2030 in 2016 with a weighted-average interest at March 31, 2015 and March 31, 2016 of 0.95% and of 1.11% per annum, respectively	1,594,489	1,909,830
Medium-term notes of consolidated subsidiaries, due 2015 to 2047 in 2015 and due 2016 to 2047 in 2016 with a weighted-average interest at March 31, 2015 and March 31, 2016 of 2.19% and of 2.05% per annum, respectively	6,740,355	6,409,141
Unsecured notes of parent company, due 2015 to 2024 in 2015 and due 2016 to 2024 in 2016 with a weighted-average interest at March 31, 2015 and March 31, 2016 of 1.34% and of 1.43% per annum, respectively	380,000	350,000
Unsecured notes of consolidated subsidiaries, due 2015 to 2032 in 2015 and due 2016 to 2031 in 2016 with a weighted-average interest at March 31, 2015 and March 31, 2016 of 2.49% and of 2.30% per annum, respectively	1,469,218	1,467,199
Secured notes of consolidated subsidiaries, due 2016 to 2018 in 2015 and due 2016 to 2019 in 2016 with a weighted-average interest at March 31, 2015 and March 31, 2016 of 8.95% and of 8.58% per annum, respectively	13,580	34,000
Long-term capital lease obligations, due 2015 to 2030 in 2015 and due 2016 to 2035 in 2016 with interest ranging from 0.50% to 14.73% per annum in 2015 and from 0.23% to 14.73% per annum in 2016	19,459	21,502
	13,929,699	13,595,019
Less - Current portion due within one year	(3,915,304)	(3,822,954)
	10,014,395	9,772,065

As of March 31, 2016, approximately 49%, 12%, 9% and 30% of long-term debt are denominated in U.S. dollars, Japanese yen, Australian dollars and other currencies, respectively.

As of March 31, 2016, property, plant and equipment with a book value of ¥335,332 million and other assets aggregating ¥2,148,534 million were pledged as collateral mainly for certain debt obligations of subsidiaries. These other assets principally consist of securitized finance receivables.

The aggregate amounts of annual maturities of long-term debt during the next five years are as follows:

<b>Years ending March 31,</b>	<b>Yen in millions</b>
2017	3,822,954
2018	2,803,663
2019	2,605,601
2020	1,924,979
2021	1,218,586

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Standard agreements with certain banks include provisions that collateral (including sums on deposit with such banks) or guarantees will be furnished upon the banks' request and that any collateral furnished, pursuant to such agreements or otherwise, will be applicable to all present or future indebtedness to such banks. During the year ended March 31, 2016, Toyota has not received any significant requests from these banks.

As of March 31, 2016, Toyota has unused long-term lines of credit amounting to ¥7,223,398 million.

Interest expense during the years ended March 31, 2014, 2015 and 2016 were ¥316,054 million, ¥347,030 million and ¥377,310 million, respectively. Interest expense related to the financial services business is included in Cost of financing operations in the accompanying consolidated statements of income.

**13. Product warranties and recalls and other safety measures:**

Toyota provides product warranties for certain defects mainly resulting from manufacturing based on warranty contracts with its customers at the time of sale of products. Toyota accrues estimated warranty costs to be incurred in the future in accordance with the warranty contracts. In addition to product warranties, Toyota initiates recalls and other safety measures to repair or to replace parts which might be expected to fail from products safety perspectives or customer satisfaction standpoints. Toyota accrues for costs of recalls and other safety measures at the time of vehicle sale based on the amount estimated from historical experience.

Liabilities for product warranties and liabilities for recalls and other safety measures have been combined into a single table showing an aggregate liability for quality assurances due to the fact that both are liabilities for costs to repair or replace defects of vehicles and the amounts incurred for recalls and other safety measures may affect the amounts incurred for product warranties and vice versa.

Liabilities for quality assurances are included in Accrued expenses in the consolidated balance sheets.

The net changes in liabilities for quality assurances above for the years ended March 31, 2014, 2015 and 2016 consist of the following:

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Liabilities for quality assurances at beginning of year	1,003,023	1,154,021	1,328,916
Payments made during year	(383,572)	(509,488)	(501,073)
Provision for quality assurances	524,442	686,006	636,719
Changes relating to pre-existing quality assurances	(7,248)	(25,619)	(39,225)
Other	17,376	23,996	(21,573)
Liabilities for quality assurances at end of year	1,154,021	1,328,916	1,403,764

Other primarily includes the impact of currency translation adjustments and the impact of consolidation and deconsolidation of certain entities due to changes in ownership interest.

F-33



Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The table below shows the net changes in liabilities for recalls and other safety measures which are comprised in liabilities for quality assurances above for the years ended March 31, 2014, 2015 and 2016.

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Liabilities for recalls and other safety measures at beginning of year	566,406	680,475	755,050
Payments made during year	(207,652)	(357,447)	(347,861)
Provision for recalls and other safety measures	315,574	421,618	524,100
Other	6,147	10,404	(5,814)
Liabilities for recalls and other safety measures at end of year	680,475	755,050	925,475

**14. Other payables:**

Other payables are mainly related to purchases of property, plant and equipment and non-manufacturing purchases.

**15. Income taxes:**

The components of income before income taxes comprise the following:

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Income before income taxes:			
Parent company and domestic subsidiaries	1,621,013	1,685,909	1,834,413
Foreign subsidiaries	820,067	1,206,919	1,148,968
	2,441,080	2,892,828	2,983,381

The provision for income taxes consists of the following:

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Current income tax expense:			

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Parent company and domestic subsidiaries	634,458	552,122	591,868
Foreign subsidiaries	189,629	368,234	253,512
Total current	824,087	920,356	845,380
Deferred income tax expense (benefit):			
Parent company and domestic subsidiaries	(122,898)	(77,653)	(40,934)
Foreign subsidiaries	66,619	50,766	73,823
Total deferred	(56,279)	(26,887)	32,889
Total provision	767,808	893,469	878,269

F-34

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Toyota is subject to a number of different income taxes which, in the aggregate, indicate a statutory rate in Japan of approximately 37.6%, 35.2% and 32.9% for the years ended March 31, 2014, 2015 and 2016, respectively. The statutory tax rates in effect for the year in which the temporary differences are expected to reverse are used to calculate the tax effects of temporary differences which are expected to reverse in the future years. Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Statutory tax rate	37.6%	35.2%	32.9%
Increase (reduction) in taxes resulting from:			
Non-deductible expenses	2.2	1.5	0.3
Deferred tax liabilities on undistributed earnings of foreign subsidiaries	1.5	1.0	1.0
Deferred tax liabilities on undistributed earnings of affiliated companies accounted for by the equity method	3.0	2.5	2.4
Valuation allowance	(4.3)	(0.5)	(0.4)
Tax credits	(6.5)	(5.3)	(4.7)
The difference between the statutory tax rate in Japan and that of foreign subsidiaries	(3.2)	(2.4)	(1.3)
Unrecognized tax benefits adjustments	0.0	3.2	0.2
Revision to reduce deferred tax assets and liabilities at the fiscal year-end due to changes in tax rates	0.9	(1.9)	(0.5)
Other	0.3	(2.4)	(0.5)
Effective income tax rate	31.5%	30.9%	29.4%

Unrecognized tax benefits adjustments for the year ended March 31, 2015 reflects a charge for the settlement of a pre 2012 tax position in a foreign jurisdiction.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Significant components of deferred tax assets and liabilities are as follows:

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
<b>Deferred tax assets</b>		
Accrued pension and severance costs	184,215	283,713
Accrued expenses and liabilities for quality assurances	573,246	586,628
Other accrued employees' compensation	126,366	116,420
Operating loss carryforwards for tax purposes	259,896	201,957
Tax credit carryforwards	42,059	22,687
Property, plant and equipment and other assets	220,226	241,454
Other	288,012	321,022
<b>Gross deferred tax assets</b>	<b>1,694,020</b>	<b>1,773,881</b>
Less - Valuation allowance	(169,811)	(151,665)
<b>Total deferred tax assets</b>	<b>1,524,209</b>	<b>1,622,216</b>
<b>Deferred tax liabilities</b>		
Unrealized gains on securities, net	(810,192)	(692,972)
Undistributed earnings of foreign subsidiaries	(27,692)	(30,112)
Undistributed earnings of affiliated companies accounted for by the equity method	(686,692)	(656,448)
Basis difference of acquired assets	(31,946)	(31,171)
Lease transactions	(1,162,540)	(1,073,518)
Other	(21,597)	(93,206)
<b>Gross deferred tax liabilities</b>	<b>(2,740,659)</b>	<b>(2,577,427)</b>
<b>Net deferred tax liability</b>	<b>(1,216,450)</b>	<b>(955,211)</b>

The deferred tax assets and liabilities above that comprise the net deferred tax liability are included in the consolidated balance sheets as follows:

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
<b>Deferred tax assets</b>		

Deferred income taxes (Current assets)	978,179	967,607
Investments and other assets - Other	132,548	151,431
<b>Deferred tax liabilities</b>		
Other current liabilities	(28,708)	(28,160)
Deferred income taxes (Long-term liabilities)	(2,298,469)	(2,046,089)
<b>Net deferred tax liability</b>	<b>(1,216,450)</b>	<b>(955,211)</b>

The factors used to assess the likelihood of realization of the deferred tax assets are the future reversal of existing taxable temporary differences, the future taxable income and available tax planning strategies that are prudent and feasible. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for deferred tax assets which are not more-likely-than-not to be realized.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The accounting for deferred tax assets represents Toyota's current best estimate based on all available evidence. Unanticipated events or changes could result in re-evaluating the realizability of deferred tax assets.

Operating loss carryforwards for tax purposes as of March 31, 2016 in Japan and foreign countries were ¥22,266 million and ¥613,285 million, respectively, and are available as an offset against future taxable income. The majority of these carryforwards in Japan and foreign countries expire in years 2017 to 2025 and expire in years 2017 to 2036, respectively. Tax credit carryforwards as of March 31, 2016 in Japan and foreign countries were ¥1,137 million and ¥21,550 million, respectively, and the majority of these carryforwards in Japan and foreign countries expire in years 2017 to 2019 and expire in years 2017 to 2035, respectively.

The valuation allowance mainly relates to deferred tax assets of operating loss and foreign tax credit carryforwards for tax purposes that are not more-likely-than-not to be realized. The net changes in the total valuation allowance for deferred tax assets for the years ended March 31, 2014, 2015 and 2016 consist of the following:

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
Valuation allowance at beginning of year	284,835	189,894	169,811
Additions	23,390	34,485	33,243
Deductions	(128,928)	(50,247)	(43,723)
Other	10,597	(4,321)	(7,666)
Valuation allowance at end of year	189,894	169,811	151,665

Other includes the impact of consolidation and deconsolidation of certain entities due to changes in ownership interest and currency translation adjustments during the years ended March 31, 2014, 2015 and 2016.

Because management intends to reinvest undistributed earnings of foreign subsidiaries to the extent not expected to be remitted in the foreseeable future, management has made no provision for income taxes on those undistributed earnings aggregating ¥3,348,031 million as of March 31, 2016. Toyota estimates an additional tax provision of ¥130,615 million would be required if the full amount of those undistributed earnings were remitted.

A summary of the gross unrecognized tax benefits changes for the years ended March 31, 2014, 2015 and 2016 is as follows:

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>

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Balance at beginning of year	22,447	19,393	13,644
Additions based on tax positions related to the current year	310	593	1,001
Additions for tax positions of prior years	491	94,852	6,378
Reductions for tax positions of prior years	(1,273)	(4,015)	(77)
Reductions for tax positions related to lapse of statute of limitations		(58)	(7)
Reductions for settlements	(3,771)	(98,929)	(427)
Other	1,189	1,808	(1,262)
Balance at end of year	19,393	13,644	19,250

F-37

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was not material at March 31, 2014, 2015 and 2016, respectively. Toyota does not believe it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

Interest and penalties related to income tax liabilities are included in Other income (loss), net. The amounts of interest and penalties accrued as of and recognized for the years ended March 31, 2014, 2015 and 2016, were not material.

Toyota remains subject to income tax examination for the tax returns related to the years beginning on and after April 1, 2009 and January 1, 2000, with various tax jurisdictions in Japan and foreign countries, respectively.

**16. Class Shares:**

Toyota Motor Corporation ( TMC ) issued First Series Model AA Class Shares (the Model AA Class Shares ) on July 24, 2015. Presented below is additional information regarding the Model AA Class Shares:

Total number of shares issued	: 47,100,000 shares
Issue price	: 10,598 yen per share
Purchase price	: 10,121.09 yen per share
Voting rights	: Model AA Class Shares shall have voting rights. The number of shares constituting one unit with respect to Model AA Class Shares shall be 100.
Restrictions on transfer	: Model AA Class Shares shall have restrictions on transfer.
Dividends	: (1) If the record date falls in the fiscal year ending on March 31, 2016 : 0.5% of the issue price (2) If the record date falls in the fiscal year ending on March 31, 2017 through March 31, 2020 : the annual dividend rate for the previous fiscal year plus 0.5% of the issue price (3) If the record date falls in the fiscal year ending on March 31, 2021 or later : 2.5% of the issue price
Shareholder's right	: (1) Shareholder's conversion right into Common Shares  Shareholders of the Model AA Class Shares may demand TMC to acquire all or a part of their Model AA Class Shares in exchange for Common Shares on the first business day of April and October of every year, starting October 1, 2020. (2) Shareholder's cash put option



Shareholders of the Model AA Class Shares may demand TMC to acquire all or a part of their Model AA Class Shares in exchange for cash on the last business day of March, June, September and December of each year, starting on September 1, 2020.

TMC's right

: TMC may acquire, on or after April 2, 2021, all of the outstanding Model AA Class Shares in exchange for cash.

F-38

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Model AA Class Shares will not be treated as shareholders' equity because the shareholders of the Model AA Class Shares will have cash put options and hence, the Model AA Class Shares will be reported as mezzanine equity, a separate line item between liabilities and shareholders' equity.

As of March 31, 2016, unpaid dividends which are included in mezzanine equity were ¥1,224 million.

The difference between the issuance amount and initial carrying amount of the mezzanine equity is adjusted for accretion of the mezzanine equity over a period of time from the issuance date until the Class Shares can first be redeemed.

**17. Shareholders' equity:**

Changes in the number of shares of common stock issued have resulted from the following:

	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Common stock issued</b>			
Balance at beginning of year	3,447,997,492	3,447,997,492	3,417,997,492
Issuance during the year			
Purchase and retirement		(30,000,000)	(80,000,000)
Balance at end of year	3,447,997,492	3,417,997,492	3,337,997,492

The Companies Act provides that an amount equal to 10% of distributions from surplus paid by the parent company and its Japanese subsidiaries be appropriated as a capital reserve or a retained earnings reserve. No further appropriations are required when the total amount of the capital reserve and the retained earnings reserve reaches 25% of stated capital.

The retained earnings reserve included in retained earnings as of March 31, 2015 and 2016 were ¥186,555 million and ¥182,518 million, respectively. The Companies Act provides that the retained earnings reserve of the parent company and its Japanese subsidiaries is restricted and unable to be used for dividend payments, and is excluded from the calculation of the profit available for dividend.

The amounts of statutory retained earnings of the parent company available for dividend payments to shareholders were ¥7,635,250 million and ¥7,964,099 million as of March 31, 2015 and 2016, respectively. In accordance with customary practice in Japan, the distributions from surplus are not accrued in the financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholders' approval has been obtained. Retained earnings at March 31, 2016 include amounts representing year-end cash dividends of ¥334,144 million, ¥110 per common share, which were resolved at the Meeting of the Board of Directors held on May 11, 2016.

Retained earnings at March 31, 2016 include ¥2,003,566 million relating to equity in undistributed earnings of affiliated companies accounted for by the equity method.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The reissuance, repurchase and retirement of treasury stock for the years ended March 31, 2015 and 2016 are as follows:

For the year ended March 31, 2015

**Reissuance of treasury stock*****Reason for reissuing treasury stock -***

TMC resolved at the Meeting of the Board of Directors held on March 26, 2014 to establish Toyota Mobility Foundation, a General Incorporated Foundation (the Foundation). The reissuance of treasury stock was made by way of third-party allotment to a trust that was established by TMC to provide funding for the activities of the Foundation through dividends, etc. on TMC's common stock.

***Details of matters relating to reissuance -***

Number of common shares reissued	30,000,000 shares
Price of reissuance	¥1 per share
Amount of proceeds	¥30 million

**Repurchase of treasury stock*****Reason for repurchasing treasury stock -***

The repurchase was made to avoid the dilution of common share value triggered by the reissuance of treasury stock described above, and to promote capital efficiency and agile capital policy in view of the business environment.

***Details of matters relating to repurchase -***

Number of common shares repurchased	55,521,900 shares
Total purchase price for repurchase of shares	¥359,994 million

**Retirement of treasury stock*****Reason for retiring treasury stock -***

The retirement was made to relieve concerns regarding the dilution of common share value due to reissuance of treasury stock in the future.

***Details of matters relating to retirement -***

Number of common shares retired	30,000,000 shares
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The amount on retirement of treasury stock and the amount of the difference between fair value and book value of treasury stock on reissuance for the Foundation were treated as a reduction in additional paid-in capital and retained earnings and the amount of the difference between amount of proceeds and fair value of treasury stock on reissuance was included in Other income (expense). The fair value of treasury stock was measured using a dividend discount model due to the restrictions on transfer in the reissued stock for the Foundation. As a result, treasury stock, additional paid-in capital, retained earnings and Other income (expense) decreased by ¥246,807 million, ¥4,624 million, ¥142,753 million and ¥99,400 million, respectively.

F-40

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the year ended March 31, 2016

**Repurchase of treasury stock***Reason for repurchasing treasury stock -*

The repurchase was made to avoid the dilution of common share value as a result of the issuance of the First Series Model AA Class Shares.

*Details of matters relating to repurchase -*

Number of common shares repurchased	47,100,000 shares
Total purchase price for repurchase of shares	¥349,935 million

*Reason for repurchasing treasury stock -*

The repurchase was made to return capital to shareholders in addition to promoting capital efficiency and agile capital policy in view of the business environment.

*Details of matters relating to repurchase -*

Number of common shares repurchased	62,942,900 shares
Total purchase price for repurchase of shares	¥432,692 million

**Retirement of treasury stock***Reason for retiring treasury stock -*

The retirement was made to relieve concerns regarding the dilution of common share value due to reissuance of treasury stock in the future.

*Details of matters relating to retirement -*

Number of common shares retired	80,000,000 shares
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The amount on retirement of treasury stock was treated as a reduction in additional paid-in capital and retained earnings. As a result, treasury stock, additional paid-in capital and retained earnings decreased by ¥400,537 million, ¥1,048 million and ¥399,489 million, respectively.

F-41

Table of Contents

## TOYOTA MOTOR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**18. Accumulated other comprehensive income:**

Changes in accumulated other comprehensive income (loss) are as follows:

	Yen in millions			
	Foreign currency translation adjustments	Unrealized gains (losses) on securities	Pension liability adjustments	Accumulated other comprehensive income (loss)
<b>Balance at March 31, 2013</b>	(813,480)	666,813	(209,456)	(356,123)
Other comprehensive income (loss) before reclassifications, net of taxes of ¥(25,139) million, ¥(255,959) million, ¥(44,987) million and ¥(326,085) million	301,889	507,566	91,507	900,962
Reclassifications, net of taxes of ¥ million, ¥5,209 million, ¥(4,682) million and ¥527 million		(8,006)	7,897	(109)
Other comprehensive income (loss), net of tax	301,889	499,560	99,404	900,853
Less - Other comprehensive income attributable to noncontrolling interests	(4,947)	(5,810)	(5,812)	(16,569)
<b>Balance at March 31, 2014</b>	(516,538)	1,160,563	(115,864)	528,161
Other comprehensive income (loss) before reclassifications, net of taxes of ¥(8,742) million, ¥(309,767) million, ¥2,853 million and ¥(315,656) million	404,352	596,417	621	1,001,390
Reclassifications, net of taxes of ¥ million, ¥11,013 million, ¥(2,153) million and ¥8,860 million		(18,714)	3,695	(15,019)
Other comprehensive income (loss), net of tax	404,352	577,703	4,316	986,371
Less - Other comprehensive income attributable to noncontrolling interests	(23,904)	(10,701)	(2,382)	(36,987)
<b>Balance at March 31, 2015</b>	(136,090)	1,727,565	(113,930)	1,477,545
Other comprehensive income (loss) before reclassifications, net of taxes of ¥10,719 million, ¥130,092 million, ¥93,210 million and ¥234,021 million	(423,404)	(291,681)	(214,600)	(929,685)
	28,052	(20,511)	5,419	12,960



Reclassifications, net of taxes of ¥ million, ¥9,832 million, ¥(3,318) million and ¥6,514 million

Other comprehensive income (loss), net of tax	(395,352)	(312,192)	(209,181)	(916,725)
Less - Other comprehensive income attributable to noncontrolling interests	32,387	9,572	7,989	49,948
<b>Balance at March 31, 2016</b>	(499,055)	1,424,945	(315,122)	610,768

F-42

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Reclassifications for the years ended March 31, 2014, 2015 and 2016 consist of the following:

	Yen in millions			Affected line items in the consolidated statements of income
	For the years ended March 31,			
	2014	2015	2016	
Foreign currency translation adjustments:				
			28,052	Other income (loss), net
			28,052	Income before income taxes and equity in earnings of affiliated companies
			28,052	Net income
Unrealized gains (losses) on securities:				
	(29)	(7,727)	(779)	Financing operations
	5,079	(14,552)	(27,275)	Foreign exchange gain, net
	(18,469)	(7,446)	(6,185)	Other income (loss), net
	(13,419)	(29,725)	(34,239)	Income before income taxes and equity in earnings of affiliated companies
	5,209	11,013	9,832	Provision for income taxes
	204	(2)	3,896	Equity in earnings of affiliated companies
	(8,006)	(18,714)	(20,511)	Net income
Pension liability adjustments:				
Recognized net actuarial loss	17,786	10,194	12,971	*1
Amortization of prior service costs	(5,207)	(4,346)	(4,234)	*1
	12,579	5,848	8,737	Income before income taxes and equity in earnings of affiliated companies
	(4,682)	(2,153)	(3,318)	Provision for income taxes
	7,897	3,695	5,419	Net income
Total reclassifications, net of tax	(109)	(15,019)	12,960	

Amounts of reclassifications in parentheses indicate gains in the consolidated statements of income.

\*1: These components are included in the computation of net periodic pension cost. See note 20 to the consolidated financial statements for additional information.

**19. Stock-based compensation:**

In June 1997, the parent company's shareholders approved a stock option plan for board members. In June 2001, the shareholders approved an amendment of the plan to include both board members and key employees. Each year until June 2010, since the plan's inception, the shareholders have approved the authorization for the grant of options for the purchase of the parent company's common stock. Authorized shares for each year that remain ungranted are unavailable for grant in future years. Stock options granted in and after August 2006 have terms of 8 years and an exercise price equal to 1.025 times the closing price of Toyota's common stock on the date of grant. These options generally vest 2 years from the date of grant.

Table of Contents

## TOYOTA MOTOR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the years ended March 31, 2014, Toyota recognized stock-based compensation expenses for stock options of ¥23 million, 2015 and 2016 was none, respectively, as selling, general and administrative expenses.

The following table summarizes Toyota's stock option activity:

		Yen		Yen in millions
	Number of shares	Weighted-average exercise price	Weighted-average remaining contractual life in years	Aggregate intrinsic value
<b>Options outstanding at March 31, 2013</b>	10,849,000	4,909	3.56	5,921
Granted				
Exercised	(2,390,100)	4,043		
Canceled	(1,128,000)	6,373		
<b>Options outstanding at March 31, 2014</b>	7,330,900	4,965	2.52	8,646
Granted				
Exercised	(2,603,900)	4,834		
Canceled	(1,223,500)	6,200		
<b>Options outstanding at March 31, 2015</b>	3,503,500	4,632	2.05	13,143
Granted				
Exercised	(936,400)	5,049		
Canceled	(473,600)	6,917		
<b>Options outstanding at March 31, 2016</b>	2,093,500	3,858	1.56	4,384
Options exercisable at March 31, 2014	7,330,900	4,965	2.52	8,646
Options exercisable at March 31, 2015	3,503,500	4,632	2.05	13,143
Options exercisable at March 31, 2016	2,093,500	3,858	1.56	4,384

The total intrinsic value of options exercised for the years ended March 31, 2014, 2015 and 2016 was ¥4,793 million, ¥5,313 million and ¥2,236 million, respectively.

Cash received from the exercise of stock options for the years ended March 31, 2014, 2015 and 2016 was ¥9,663 million, ¥12,501 million and ¥4,728 million, respectively.

The following table summarizes information for options outstanding and options exercisable at March 31, 2016:

<b>Exercise price range Yen</b>		<b>Number of shares</b>	<b>Outstanding Weighted-average exercise price Yen</b>	<b>Weighted-average remaining life Years</b>	<b>Number of shares</b>	<b>Exercisable Weighted-average exercise price Yen</b>
3,153	4,682	2,093,500	3,858	1.56	2,093,500	3,858

F-44

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**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**20. Employee benefit plans:**

**Pension and severance plans -**

Upon terminations of employment, employees of the parent company and subsidiaries in Japan are entitled, under the retirement plans of each company, to lump-sum indemnities or pension payments, based on current rates of pay and lengths of service or the number of points mainly determined by those. Under normal circumstances, the minimum payment prior to retirement age is an amount based on voluntary retirement. Employees receive additional benefits on involuntary retirement, including retirement at the age limit.

Effective October 1, 2004, the parent company amended its retirement plan to introduce a point based retirement benefit plan. Under the new plan, employees are entitled to lump-sum or pension payments determined based on accumulated points vested in each year of service.

There are three types of points that vest in each year of service consisting of service period points which are attributed to the length of service, job title points which are attributed to the job title of each employee, and performance points which are attributed to the annual performance evaluation of each employee. Under normal circumstances, the minimum payment prior to retirement age is an amount reflecting an adjustment rate applied to represent voluntary retirement. Employees receive additional benefits upon involuntary retirement, including retirement at the age limit.

Effective October 1, 2005, the parent company partly amended its retirement plan and introduced the quasi cash-balance plan under which benefits are determined based on the variable-interest crediting rate rather than the fixed-interest crediting rate as was in the pre-amended plan.

The parent company and most subsidiaries in Japan have contributory funded defined benefit pension plans, which are pursuant to the Corporate Defined Benefit Pension Plan Law (CDBPPL). The contributions to the plans are funded with several financial institutions in accordance with the applicable laws and regulations. These pension plan assets consist principally of common stocks, government bonds and insurance contracts.

Most foreign subsidiaries have pension plans or severance indemnity plans covering substantially all of their employees under which the cost of benefits are currently invested or accrued. The benefits for these plans are based primarily on lengths of service and current rates of pay.

Toyota uses a March 31 measurement date for its benefit plans.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Information regarding Toyota's defined benefit plans is as follows:

	Yen in millions			
	March 31,			
	Japanese plans		Foreign plans	
	2015	2016	2015	2016
<b>Change in benefit obligation</b>				
Benefit obligation at beginning of year	1,657,520	1,721,225	705,583	976,930
Service cost	73,256	78,611	41,147	47,544
Interest cost	21,746	17,509	37,993	40,340
Plan participants' contributions	871	898	575	404
Plan amendments	(381)	(489)	3,217	(573)
Net actuarial (gain) loss	51,198	160,983	116,787	(22,332)
Acquisition and other	(18,523)	(138)	91,097	(63,107)
Benefits paid	(64,462)	(66,443)	(19,469)	(15,951)
Benefit obligation at end of year	1,721,225	1,912,156	976,930	963,255
<b>Change in plan assets</b>				
Fair value of plan assets at beginning of year	1,244,466	1,447,802	580,982	713,528
Actual return on plan assets	212,908	(94,669)	59,800	11,042
Acquisition and other	(11,341)	(88)	74,171	(45,801)
Employer contributions	38,917	53,060	14,660	25,612
Plan participants' contributions	871	898	575	404
Benefits paid	(38,019)	(37,767)	(16,660)	(11,984)
Fair value of plan assets at end of year	1,447,802	1,369,236	713,528	692,801
Funded status	273,423	542,920	263,402	270,454

Amounts recognized in the consolidated balance sheets as of March 31, 2015 and 2016 are comprised of the following:

	Yen in millions			
	March 31,			
	Japanese plans		Foreign plans	
	2015	2016	2015	2016
Accrued expenses (Accrued pension and severance costs)	26,906	29,023	2,411	3,161

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Accrued pension and severance costs	595,598	632,340	284,695	272,571
Investments and other assets - Other (Prepaid pension and severance costs)	(349,081)	(118,443)	(23,704)	(5,278)
Net amount recognized	273,423	542,920	263,402	270,454

F-46



Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Amounts recognized in accumulated other comprehensive income (loss) as of March 31, 2015 and 2016 are comprised of the following:

	<b>Yen in millions</b>			
	<b>March 31,</b>			
	<b>Japanese plans</b>		<b>Foreign plans</b>	
	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>
Net actuarial loss	(110,948)	(395,686)	(133,594)	(137,443)
Prior service costs	43,879	39,699	(4,499)	(3,491)
Net transition obligation				
Net amount recognized	(67,069)	(355,987)	(138,093)	(140,934)

The accumulated benefit obligation for all defined benefit pension plans was ¥1,647,345 million and ¥1,852,556 million in Japanese plans, ¥874,629 million and ¥892,154 million in Foreign plans at March 31, 2015 and 2016, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for which the accumulated benefit obligations exceed plan assets are as follows:

	<b>Yen in millions</b>			
	<b>March 31,</b>			
	<b>Japanese plans</b>		<b>Foreign plans</b>	
	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>
Projected benefit obligation	838,224	892,078	341,416	311,256
Accumulated benefit obligation	805,107	863,593	324,160	300,026
Fair value of plan assets	217,738	242,096	65,533	66,183

Components of the net periodic pension cost are as follows:

	<b>Yen in millions</b>					
	<b>For the years ended March 31,</b>					
	<b>Japanese plans</b>			<b>Foreign plans</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Service cost	64,549	73,256	78,611	36,908	41,147	47,544
Interest cost	24,518	21,746	17,509	32,153	37,993	40,340
Expected return on plan assets	(26,768)	(31,255)	(35,012)	(34,059)	(40,784)	(44,616)

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Amortization of prior service costs	(5,566)	(4,723)	(4,669)	359	377	435
Recognized net actuarial loss	12,562	7,302	5,850	5,224	2,892	7,121
Amortization of net transition obligation						
Net periodic pension cost	69,295	66,326	62,289	40,585	41,625	50,824

F-47

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss) are as follows:

	<b>Yen in millions</b>					
	<b>For the years ended March 31,</b>					
	<b>Japanese plans</b>			<b>Foreign plans</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
Net actuarial gain (loss)	71,890	130,455	(290,664)	52,253	(97,772)	(11,242)
Recognized net actuarial loss	12,562	7,302	5,850	5,224	2,892	7,121
Prior service costs	427	381	489	(96)	(3,217)	573
Amortization of prior service costs	(5,566)	(4,723)	(4,669)	359	377	435
Amortization of net transition obligation						
Other		46	76	(7,605)	7,564	272
<b>Total recognized in other comprehensive income (loss)</b>	<b>79,313</b>	<b>133,461</b>	<b>(288,918)</b>	<b>50,135</b>	<b>(90,156)</b>	<b>(2,841)</b>

Other includes the impact of consolidation and deconsolidation of certain entities due to changes in ownership interest and currency translation adjustments during the years ended March 31, 2014, 2015 and 2016.

The estimated prior service costs and net actuarial loss that will be amortized from accumulated other comprehensive income (loss) into net periodic pension cost during the year ending March 31, 2017 are ¥(4,600) million and ¥14,500 million in Japanese plans, ¥400 million and ¥6,400 million in Foreign plans, respectively.

Weighted-average assumptions used to determine benefit obligations as of March 31, 2015 and 2016 are as follows:

	<b>March 31,</b>			
	<b>Japanese plans</b>		<b>Foreign plans</b>	
	<b>2015</b>	<b>2016</b>	<b>2015</b>	<b>2016</b>
Discount rate	1.1%	0.5%	4.0%	4.2%
Rate of compensation increase	2.5%	2.7%	4.4%	3.9%

As of March 31, 2015 and 2016, the parent company and certain subsidiaries in Japan employ point based retirement benefit plans and do not use the rates of compensation increase to determine benefit obligations.

Weighted-average assumptions used to determine net periodic pension cost for the years ended March 31, 2014, 2015 and 2016 are as follows:

## For the years ended March 31,

	Japanese plans			Foreign plans		
	2014	2015	2016	2014	2015	2016
Discount rate	1.7%	1.4%	1.1%	4.5%	4.8%	4.0%
Expected return on plan assets	2.6%	2.5%	2.5%	6.9%	6.7%	6.3%
Rate of compensation increase	2.2%	2.1%	2.5%	4.6%	4.5%	4.4%

During the years ended March 31, 2014, 2015 and 2016, the parent company and certain subsidiaries in Japan employ point based retirement benefit plans and do not use the rates of compensation increase to determine net periodic pension cost.

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The expected rate of return on plan assets is determined after considering several applicable factors including, the composition of plan assets held, assumed risks of asset management, historical results of the returns on plan assets, Toyota's principal policy for plan asset management, and forecasted market conditions.

Toyota's policy and objective for plan asset management is to maximize returns on plan assets to meet future benefit payment requirements under risks which Toyota considers permissible. Asset allocations under the plan asset management are determined based on plan asset management policies of each plan which are established to achieve the optimized asset compositions in terms of the long-term overall plan asset management. In Japanese plans, excepting equity securities contributed by Toyota, approximately 45% of the plan assets is invested in equity securities, approximately 30% is invested in debt securities, and the rest of them is invested in insurance contracts and other products. In Foreign plans, excepting equity securities contributed by Toyota, approximately 55% of the plan assets is invested in equity securities, approximately 30% is invested in debt securities, and the rest of them is invested in other products. When actual allocations are not in line with target allocations, Toyota rebalances its investments in accordance with the policies. Prior to making individual investments, Toyota performs in-depth assessments of corresponding factors including category of products, industry type, currencies and liquidity of each potential investment under consideration to mitigate concentrations of risks such as market risk and foreign currency exchange rate risk. To assess performance of the investments, Toyota establishes bench mark return rates for each individual investment, combines these individual bench mark rates based on the asset composition ratios within each asset category, and compares the combined rates with the corresponding actual return rates on each asset category.

The following table summarizes the fair value of classes of plan assets as of March 31, 2015 and 2016. See note 27 to the consolidated financial statements for three levels of input which are used to measure fair value.

*Japanese plans*

	<b>Yen in millions</b>			
	<b>March 31, 2015</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Equity securities</b>				
Common stocks	603,293			603,293
Commingled funds		163,543		163,543
	603,293	163,543		766,836
<b>Debt securities</b>				
Government bonds	91,348			91,348
Commingled funds		247,261		247,261
Other		23,267	233	23,500
	91,348	270,528	233	362,109

Insurance contracts		175,068		175,068
Other	23,549	70,133	50,107	143,789
Total	718,190	679,272	50,340	1,447,802

F-49

Table of Contents

## TOYOTA MOTOR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Yen in millions			Total
	Level 1	Level 2	Level 3	
<b>March 31, 2016</b>				
Equity securities				
Common stocks	500,990			500,990
Commingled funds		168,297		168,297
	500,990	168,297		669,287
Debt securities				
Government bonds	90,330			90,330
Commingled funds		249,565		249,565
Other		33,362	146	33,508
	90,330	282,927	146	373,403
Insurance contracts		198,074		198,074
Other	39,232	32,320	56,920	128,472
Total	630,552	681,618	57,066	1,369,236

*Foreign plans*

	Yen in millions			Total
	Level 1	Level 2	Level 3	
<b>March 31, 2015</b>				
Equity securities				
Common stocks	244,542			244,542
Commingled funds		177,115		177,115
	244,542	177,115		421,657
Debt securities				
Government bonds	67,534			67,534
Commingled funds		71,712		71,712
Other	3,691	52,501		56,192
	71,225	124,213		195,438

Insurance contracts

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Other	16,839	12,764	66,830	96,433
Total	332,606	314,092	66,830	713,528

F-50



Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Yen in millions</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Equity securities</b>				
Common stocks	201,967			201,967
Commingled funds		173,266		173,266
	201,967	173,266		375,233
<b>Debt securities</b>				
Government bonds	75,222			75,222
Commingled funds		84,130		84,130
Other		47,583		47,583
	75,222	131,713		206,935
<b>Insurance contracts</b>				
Other	12,566	15,308	82,759	110,633
<b>Total</b>	<b>289,755</b>	<b>320,287</b>	<b>82,759</b>	<b>692,801</b>

The following is description of the assets, information about the valuation techniques used to measure fair value, key inputs and significant assumptions:

Quoted market prices for identical securities are used to measure fair value of common stocks. Common stocks include 77% of Japanese stocks and 23% of foreign stocks as of March 31, 2015, and 75% of Japanese stocks and 25% of foreign stocks as of March 31, 2016 in Japanese plans. Common stocks include mainly foreign stocks as of March 31, 2015 and 2016 in Foreign plans.

Quoted market prices for identical securities are used to measure fair value of government bonds. Government bonds include 36% of Japanese government bonds and 64% of foreign government bonds as of March 31, 2015, and 27% of Japanese government bonds and 73% of foreign government bonds as of March 31, 2016 in Japanese plans. Government bonds include mainly foreign government bonds as of March 31, 2015 and 2016 in Foreign plans.

Commingled funds are beneficial interests of collective trust. The fair values of commingled funds are measured using the net asset value ( NAV ) provided by the administrator of the fund, and are categorized by the ability to redeem investments at the measurement day.

The fair values of insurance contracts are measured using contracted amount with accrued interest.

Other consists of cash equivalents, other private placement investment funds and other assets. The fair values of other private placement investment funds are measured using the NAV provided by the administrator of the fund, and are

categorized by the ability to redeem investments at the measurement day.

F-51

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following tables summarize the changes in Level 3 plan assets measured at fair value for the years ended March 31, 2014, 2015 and 2016:

*Japanese plans*

	<b>Yen in millions</b>								
	<b>For the years ended March 31,</b>								
	<b>2014</b>			<b>2015</b>			<b>2016</b>		
	<b>Debt securities</b>	<b>Other</b>	<b>Total</b>	<b>Debt securities</b>	<b>Other</b>	<b>Total</b>	<b>Debt securities</b>	<b>Other</b>	<b>Total</b>
Balance at beginning of year	441	41,535	41,976	322	47,760	48,082	233	50,107	50,340
Actual return on plan assets	2	3,583	3,585	2	1,169	1,171	1	(965)	(964)
Purchases, sales and settlements	(121)	2,642	2,521	(91)	1,178	1,087	(88)	7,778	7,690
Other									
Balance at end of year	322	47,760	48,082	233	50,107	50,340	146	56,920	57,066

*Foreign plans*

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
	<b>Other</b>	<b>Other</b>	<b>Other</b>
Balance at beginning of year	40,607	47,866	66,830
Actual return on plan assets	791	4,699	1,987
Purchases, sales and settlements	1,987	7,698	18,476
Other	4,481	6,567	(4,534)
Balance at end of year	47,866	66,830	82,759

Toyota expects to contribute ¥40,190 million in Japanese plans and ¥24,238 million in Foreign plans to its pension plans in the year ending March 31, 2017.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

<b>Years ending March 31,</b>	<b>Yen in millions</b>	
	<b>Japanese plans</b>	<b>Foreign plans</b>
2017	71,433	16,358
2018	73,067	36,437
2019	79,214	18,419
2020	80,526	19,979
2021	80,867	21,649
from 2022 to 2026	438,760	137,021
<b>Total</b>	<b>823,867</b>	<b>249,863</b>

F-52

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Postretirement benefits other than pensions and postemployment benefits -**

Toyota's U.S. subsidiaries provide certain health care and life insurance benefits to eligible retired employees. In addition, Toyota provides benefits to certain former or inactive employees after employment, but before retirement. These benefits are provided through various insurance companies, health care providers and others. The costs of these benefits are recognized over the period the employee provides credited service to Toyota. Toyota's obligations under these arrangements are not material.

**21. Derivative financial instruments:**

Toyota employs derivative financial instruments, including foreign exchange forward contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements and interest rate options to manage its exposure to fluctuations in interest rates and foreign currency exchange rates. Toyota does not use derivatives for speculation or trading.

**Fair value hedges -**

Toyota enters into interest rate swaps and interest rate currency swap agreements mainly to convert its fixed-rate debt to variable-rate debt. Toyota uses interest rate swap agreements in managing interest rate risk exposure. Interest rate swap agreements are executed as either an integral part of specific debt transactions or on a portfolio basis. Toyota uses interest rate currency swap agreements to hedge exposure to currency exchange rate fluctuations on principal and interest payments for borrowings denominated in foreign currencies. Notes and loans payable issued in foreign currencies are hedged by concurrently executing interest rate currency swap agreements, which involve the exchange of foreign currency principal and interest obligations for each functional currency obligations at agreed-upon currency exchange and interest rates.

For the years ended March 31, 2014, 2015 and 2016, the ineffective portion of Toyota's fair value hedge relationships was not material. For fair value hedging relationships, the components of each derivative's gain or loss are included in the assessment of hedge effectiveness.

**Undesignated derivative financial instruments -**

Toyota uses foreign exchange forward contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements, and interest rate options, to manage its exposure to foreign currency exchange rate fluctuations and interest rate fluctuations from an economic perspective, and for some of which Toyota is unable to or has elected not to apply hedge accounting.

Table of Contents

## TOYOTA MOTOR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Fair value and gains or losses on derivative financial instruments -**

The following table summarizes the fair values of derivative financial instruments as of March 31, 2015 and 2016:

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
<b>Derivative assets</b>		
Derivative financial instruments designated as hedging instruments		
Interest rate and currency swap agreements		
Prepaid expenses and other current assets	527	
Investments and other assets - Other	2,880	4,371
<b>Total</b>	<b>3,407</b>	<b>4,371</b>
<b>Undesignated derivative financial instruments</b>		
Interest rate and currency swap agreements		
Prepaid expenses and other current assets	57,915	96,996
Investments and other assets - Other	242,404	230,726
<b>Total</b>	<b>300,319</b>	<b>327,722</b>
<b>Foreign exchange forward and option contracts</b>		
Prepaid expenses and other current assets	35,594	34,290
Investments and other assets - Other		428
<b>Total</b>	<b>35,594</b>	<b>34,718</b>
<b>Total derivative assets</b>	<b>339,320</b>	<b>366,811</b>
<b>Counterparty netting</b>	<b>(117,794)</b>	<b>(116,174)</b>
<b>Collateral received</b>	<b>(76,891)</b>	<b>(65,810)</b>
<b>Carrying value of derivative assets</b>	<b>144,635</b>	<b>184,827</b>
<b>Derivative liabilities</b>		
Derivative financial instruments designated as hedging instruments		
Interest rate and currency swap agreements		
Other current liabilities	(4,793)	
Other long-term liabilities	(401)	

Total	(5,194)	
Undesignated derivative financial instruments		
Interest rate and currency swap agreements		
Other current liabilities	(94,801)	(42,404)
Other long-term liabilities	(253,428)	(180,716)
Total	(348,229)	(223,120)
Foreign exchange forward and option contracts		
Other current liabilities	(7,307)	(21,167)
Other long-term liabilities	(1)	
Total	(7,308)	(21,167)
<b>Total derivative liabilities</b>	<b>(360,731)</b>	<b>(244,287)</b>
<b>Counterparty netting</b>	<b>117,794</b>	<b>116,174</b>
<b>Collateral posted</b>	<b>213,937</b>	<b>94,953</b>
<b>Carrying value of derivative liabilities</b>	<b>(29,000)</b>	<b>(33,160)</b>

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the notional amounts of derivative financial instruments as of March 31, 2015 and 2016:

	Yen in millions			
	2015		2016	
	Designated derivative financial instruments	Undesignated derivative financial instruments	Designated derivative financial instruments	Undesignated derivative financial instruments
Interest rate and currency swap agreements	85,561	18,634,479	41,016	18,312,359
Foreign exchange forward and option contracts		2,625,106		2,742,102
<b>Total</b>	<b>85,561</b>	<b>21,259,585</b>	<b>41,016</b>	<b>21,054,461</b>

The following table summarizes the gains and losses on derivative financial instruments and hedged items reported in the consolidated statements of income for the years ended March 31, 2014, 2015 and 2016:

	Yen in millions					
	2014		2015		2016	
	Gains or (losses) on derivative financial instruments	Gains or (losses) on hedged items	Gains or (losses) on derivative financial instruments	Gains or (losses) on hedged items	Gains or (losses) on derivative financial instruments	Gains or (losses) on hedged items
<b>Derivative financial instruments designated as hedging instruments</b>						
Interest rate and currency swap agreements						
Cost of financing operations	(2,719)	3,106	(15,488)	15,595	(133)	122
<b>Undesignated derivative financial instruments</b>						



Interest rate and currency swap agreements			
Cost of financing operations	199	(57,015)	119,096
Foreign exchange gain (loss), net	(2,862)	6,459	(379)
Foreign exchange forward and option contracts			
Cost of financing operations	20,333	31,738	(16,363)
Foreign exchange gain (loss), net	(930)	(4,108)	115,256

Undesignated derivative financial instruments are used to manage economic risks of fluctuations in foreign currency exchange rates and interest rates of certain receivables and payables. Those economic risks are offset by changes in the fair value of undesignated derivative financial instruments.

F-55

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Cash flows from transactions of derivative financial instruments are included in cash flows from operating activities in the consolidated statements of cash flows.

**Credit risk related contingent features -**

Toyota enters into International Swaps and Derivatives Association Master Agreements with counterparties. These Master Agreements contain a provision requiring either Toyota or the counterparty to settle the contract or to post assets to the other party in the event of a ratings downgrade below a specified threshold.

The aggregate fair value amount of derivative financial instruments that contain credit risk related contingent features that are in a net liability position after being offset by cash collateral as of March 31, 2016 is ¥2,308 million. The aggregate fair value amount of assets that are already posted as cash collateral as of March 31, 2016 is ¥80,904 million. If the ratings of Toyota decline below specified thresholds, the maximum amount of assets to be posted or for which Toyota could be required to settle the contracts is ¥2,308 million as of March 31, 2016.

**22. Other financial instruments:**

Toyota has certain financial instruments, including financial assets and liabilities which arose in the normal course of business. These financial instruments are executed with creditworthy financial institutions, and virtually all foreign currency contracts are denominated in U.S. dollars, euros and other currencies of major developed countries. Financial instruments involve, to varying degrees, market risk as instruments are subject to price fluctuations, and elements of credit risk in the event a counterparty should default. In the unlikely event the counterparties fail to meet the contractual terms of a foreign currency or an interest rate instrument, Toyota's risk is limited to the fair value of the instrument. Although Toyota may be exposed to losses in the event of non-performance by counterparties on financial instruments, it does not anticipate significant losses due to the nature of its counterparties. Counterparties to Toyota's financial instruments represent, in general, international financial institutions. Additionally, Toyota does not have a significant exposure to any individual counterparty. Toyota believes that the overall credit risk related to its financial instruments is not significant.

The following table summarizes the estimated fair values of Toyota's financial instruments, excluding marketable securities, other securities investments, investments and other assets in affiliated companies and derivative financial instruments. See note 27 to the consolidated financial statements for three levels of input which are used to measure fair value.

	<b>Yen in millions</b>				<b>Total</b>
	<b>Carrying amount</b>	<b>Level 1</b>	<b>Estimated fair value</b>		
			<b>Level 2</b>	<b>Level 3</b>	
<b>Assets (Liabilities)</b>					
Cash and cash equivalents	2,284,557	1,936,070	348,487		2,284,557

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Time deposits	149,321	149,321	149,321	149,321
Total finance receivables, net	14,437,459		14,656,825	14,656,825
Other receivables	420,708		420,708	420,708
Short-term borrowings	(5,048,188)	(5,044,376)	(3,812)	(5,048,188)
Long-term debt including the current portion	(13,910,240)	(12,589,871)	(1,568,144)	(14,158,015)

F-56

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Carrying amount	Level 1	Yen in millions March 31, 2016 Estimated fair value		Total
			Level 2	Level 3	
<b>Assets (Liabilities)</b>					
Cash and cash equivalents	2,939,428	2,023,744	915,684		2,939,428
Time deposits	1,032,034		1,032,034		1,032,034
Total finance receivables, net	13,525,997			13,597,910	13,597,910
Other receivables	451,406			451,406	451,406
Short-term borrowings	(4,698,134)		(4,698,134)		(4,698,134)
Long-term debt including the current portion	(13,573,517)		(11,882,343)	(1,900,953)	(13,783,296)

**Cash and cash equivalents and time deposits -**

In the normal course of business, substantially all cash and cash equivalents and time deposits are highly liquid and are carried at amounts which approximate fair value due to its short duration. Cash equivalents and time deposits include negotiable certificate of deposit measured at fair value on a recurring basis. Where money market funds produce a daily net asset value in an active market, this value is used to determine the fair value of the fund investment, and the investment is classified in Level 1. All other types of cash and cash equivalents and time deposits are classified in Level 2.

**Finance receivables, net -**

The fair values of finance receivables are estimated by discounting expected cash flows to present value using internal assumptions, including prepayment speeds, expected credit losses and collateral value. Certain impaired finance receivables are measured at fair value on a nonrecurring basis based on collateral values.

As unobservable inputs are utilized, finance receivables are classified in Level 3.

**Other receivables -**

Other receivables are short-term receivables. These receivables are carried at amounts which approximate fair value, and the difference between the carrying amount and the fair value is not material. These receivables are classified in Level 3.

**Short-term borrowings and long-term debt -**

The fair values of short-term borrowings and long-term debt including the current portion, except for secured loans provided by securitization transactions using special-purpose entities, are estimated based on the discounted amounts of future cash flows using Toyota's current borrowing rates for similar liabilities. As these inputs are observable, these debts are classified in Level 2.

The fair values of the secured loans provided by securitization transactions are estimated based on current market rates and credit spreads for debt with similar maturities. Internal assumptions including prepayment speeds and expected credit losses are used to estimate the timing of cash flows to be paid on the underlying securitized assets. As these valuations utilize unobservable inputs, the secured loans are classified in Level 3. See note 11 to the consolidated financial statements for information regarding the secured loans.

F-57

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****23. Lease commitments:**

Toyota leases certain assets under capital lease and operating lease arrangements.

An analysis of leased assets under capital leases is as follows:

<b>Class of property</b>	<b>Yen in millions</b>	
	<b>2015</b>	<b>2016</b>
Building	15,872	18,411
Machinery and equipment	30,764	29,087
Less - Accumulated depreciation	(27,647)	(27,738)
	18,989	19,760

Amortization expenses under capital leases for the years ended March 31, 2014, 2015 and 2016 were ¥5,151 million, ¥4,348 million and ¥4,801 million, respectively.

Future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 2016 are as follows:

<b>Years ending March 31,</b>	<b>Yen in millions</b>
2017	5,142
2018	3,456
2019	3,076
2020	2,443
2021	1,775
Thereafter	11,650
Total minimum lease payments	27,542
Less - Amount representing interest	(6,040)
Present value of net minimum lease payments	21,502
Less - Current obligations	(4,250)
Long-term capital lease obligations	17,252

Rental expenses under operating leases for the years ended March 31, 2014, 2015 and 2016 were ¥94,613 million, ¥98,479 million and ¥101,932 million, respectively.

F-58

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The minimum rental payments required under operating leases relating primarily to land, buildings and equipment having initial or remaining non-cancelable lease terms in excess of one year at March 31, 2016 are as follows:

<b>Years ending March 31,</b>	<b>Yen in millions</b>
2017	13,747
2018	11,565
2019	8,253
2020	6,179
2021	4,897
Thereafter	24,766
<b>Total minimum future rentals</b>	<b>69,407</b>

**24. Other commitments and contingencies, concentrations and factors that may affect future operations:****Commitments -**

Commitments outstanding as of March 31, 2016 for the purchase of property, plant and equipment, other assets and services totaled ¥331,054 million.

**Guarantees -**

Toyota enters into contracts with Toyota dealers to guarantee customers' payments of their installment payables that arise from installment contracts between customers and Toyota dealers, as and when requested by Toyota dealers. Guarantee periods are set to match maturity of installment payments, and as of March 31, 2016, range from 1 month to 35 years; however, they are generally shorter than the useful lives of products sold. Toyota is required to execute its guarantee primarily when customers are unable to make required payments.

The maximum potential amount of future payments as of March 31, 2016 is ¥2,349,624 million. Liabilities for guarantees totaling ¥5,515 million have been provided as of March 31, 2016. Under these guarantee contracts, Toyota is entitled to recover any amount paid by Toyota from the customers whose original obligations Toyota has guaranteed.

**Legal proceedings -**

From time-to-time, Toyota issues vehicle recalls and takes other safety measures including safety campaigns relating to its vehicles. Since 2009, Toyota issued safety campaigns related to the risk of floor mat entrapment of accelerator pedals and vehicle recalls related to slow-to-return or sticky accelerator pedals. In March 2014, Toyota entered into a Deferred Prosecution Agreement ( DPA ) to resolve an investigation by the U.S. Attorney for the Southern District of New York ( SDNY ) related to unintended acceleration in certain of its vehicles. The DPA provides for an independent



monitor to review and assess policies and procedures relating to Toyota's safety communications process, its process for sharing vehicle accident information internally and its process for preparing and sharing certain technical reports.

In 2010, there was a recall related to the software program that controls the antilock braking system in certain models, including the Prius, which led to putative class action lawsuits on behalf of owners of recalled vehicles and owners of vehicles which were not recalled. The United States District Court for the Central District of California denied the plaintiffs' motions for class certification and granted summary judgment in Toyota's favor denying the plaintiffs' claims related to both the recalled vehicles and the non-recalled vehicles. Proceedings involving the recalled vehicles have concluded; the appeals of the granting of summary judgment and the denial of class certification of the claims for the non-recalled vehicles are still pending.

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**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Personal injury and wrongful death claims involving allegations of unintended acceleration are pending in several consolidated proceedings in federal and state courts, as well as in individual cases in various other states. The judges in the consolidated federal action and the consolidated California state action have approved an Intensive Settlement Process ( ISP ) for such claims in those actions. Under the ISP, all individual claims within the consolidated actions are stayed pending completion of a process to assess whether they can be resolved on terms acceptable to the parties. Cases not resolved after completion of the ISP will then proceed to discovery and toward trial. Toyota has offered the ISP process to plaintiffs in other consolidated actions and in individual cases, as well.

Toyota has been named as a defendant in 33 economic loss class action lawsuits, which, together with similar lawsuits against Takata and other automakers, have been made part of a multi-district litigation proceeding in the United States District Court for the Southern District of Florida, arising out of allegations that airbag inflators manufactured by Takata are defective. These lawsuits are at an early stage.

Toyota has received a request for information from the SDNY related to statements concerning one or more reported injuries sustained in Toyota vehicles following deployments of Takata airbags. Toyota is cooperating with the request.

Toyota self-reported a process gap in fulfilling certain emissions defect information reporting requirements with the U.S. Environmental Protection Agency ( EPA ) and California Air Resources Board, including updates on its repair completion rates for recalled emissions components and certain other reports concerning emissions related defects. Toyota is involved in discussions with these agencies. The SDNY and EPA have requested certain follow-up information regarding this reporting issue, and Toyota is cooperating with the request.

Toyota also has various other pending legal actions and claims, including without limitation personal injury and wrongful death lawsuits and claims in the United States, and is subject to government investigations from-time-to-time.

Beyond the amounts accrued with respect to all aforementioned matters, Toyota is unable to estimate a range of reasonably possible loss, if any, for the pending legal matters because (i) many of the proceedings are in evidence gathering stages, (ii) significant factual issues need to be resolved, (iii) the legal theory or nature of the claims is unclear, (iv) the outcome of future motions or appeals is unknown and/or (v) the outcomes of other matters of these types vary widely and do not appear sufficiently similar to offer meaningful guidance. Based upon information currently available to Toyota, however, Toyota believes that its losses from these matters, if any, beyond the amounts accrued, would not have a material adverse effect on Toyota's financial position, results of operations or cash flows.

The parent company has a concentration of labor supply in employees working under collective bargaining agreements and a substantial portion of these employees are working under the agreement that will expire on December 31, 2017.

**25. Segment data:**

The operating segments reported below are the segments of Toyota for which separate financial information is available and for which operating income/loss amounts are evaluated regularly by executive management in deciding

how to allocate resources and in assessing performance.

The major portions of Toyota's operations on a worldwide basis are derived from the Automotive and Financial Services business segments. The Automotive segment designs, manufactures and distributes sedans, minivans, compact cars, sport-utility vehicles, trucks and related parts and accessories. The Financial Services

F-60

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

segment consists primarily of financing, and vehicle and equipment leasing operations to assist in the merchandising of the parent company and its affiliated companies products as well as other products. The All Other segment includes the design, manufacturing and sales of housing, telecommunications and other businesses.

The following tables present certain information regarding Toyota's industry or geographic segments and overseas revenues by destination as of and for the years ended March 31, 2014, 2015 and 2016.

**Segment operating results and assets -**

As of and for the year ended March 31, 2014:

	Yen in millions				
	Automotive	Financial Services	All Other	Inter-segment Elimination/ Unallocated Amount	Consolidated
Net revenues					
Sales to external customers	23,733,855	1,379,267	578,789		25,691,911
Inter-segment sales and transfers	47,549	41,780	572,491	(661,820)	
Total	23,781,404	1,421,047	1,151,280	(661,820)	25,691,911
Operating expenses	21,842,626	1,126,156	1,087,010	(655,993)	23,399,799
Operating income	1,938,778	294,891	64,270	(5,827)	2,292,112
Assets	14,275,376	18,943,587	1,597,297	6,621,213	41,437,473
Investment in equity method investees	2,343,217	7,129	9,418	69,812	2,429,576
Depreciation expenses	789,266	437,896	23,691		1,250,853
Capital expenditure	1,044,510	1,624,944	39,930	(30,693)	2,678,691

As of and for the year ended March 31, 2015:

	Yen in millions				
	Automotive	Financial Services	All Other	Inter-segment Elimination/ Unallocated Amount	Consolidated
Net revenues					
Sales to external customers	25,006,224	1,621,685	606,612		27,234,521

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Inter-segment sales and transfers	55,905	39,464	649,179	(744,548)	
Total	25,062,129	1,661,149	1,255,791	(744,548)	27,234,521
Operating expenses	22,736,819	1,299,316	1,190,141	(742,319)	24,483,957
Operating income	2,325,310	361,833	65,650	(2,229)	2,750,564
Assets	15,897,022	22,378,941	1,889,433	7,564,434	47,729,830
Investment in equity method investees	2,588,127	8,801	10,000	84,294	2,691,222
Depreciation expenses	819,280	564,619	25,176		1,409,075
Capital expenditure	1,262,670	2,086,481	39,503	(31,086)	3,357,568

F-61

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of and for the year ended March 31, 2016:

	Yen in millions				Consolidated
	Automotive	Financial Services	All Other	Inter-segment Elimination/ Unallocated Amount	
Net revenues					
Sales to external customers	25,923,813	1,854,007	625,298		28,403,118
Inter-segment sales and transfers	53,603	42,217	552,089	(647,909)	
Total	25,977,416	1,896,224	1,177,387	(647,909)	28,403,118
Operating expenses	23,528,418	1,556,998	1,110,880	(647,149)	25,549,147
Operating income	2,448,998	339,226	66,507	(760)	2,853,971
Assets	15,621,757	21,709,010	1,917,148	8,179,682	47,427,597
Investment in equity method investees	2,532,644	9,168	10,801	78,776	2,631,389
Depreciation expenses	900,434	697,991	27,412		1,625,837
Capital expenditure	1,389,289	2,638,111	41,826	(10,010)	4,059,216

**Geographic information -**

As of and for the year ended March 31, 2014:

	Yen in millions					Inter-segment Elimination/ Unallocated Amount	Consolidated
	Japan	North America	Europe	Asia	Other		
Net revenues							
Sales to external customers	8,532,875	7,938,615	2,614,070	4,475,382	2,130,969		25,691,911
Inter-segment sales and transfers	5,764,595	178,484	110,889	402,290	205,672	(6,661,930)	
Total	14,297,470	8,117,099	2,724,959	4,877,672	2,336,641	(6,661,930)	25,691,911
Operating expenses	12,787,305	7,791,047	2,666,731	4,481,935	2,294,073	(6,621,292)	23,399,799

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Operating income	1,510,165	326,052	58,228	395,737	42,568	(40,638)	2,292,112
Assets	13,231,184	13,720,958	2,576,806	4,013,429	2,731,695	5,163,401	41,437,473
Long-lived assets	2,945,247	3,276,273	318,872	725,924	374,982		7,641,298

F-62

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of and for the year ended March 31, 2015:

	Yen in millions							
	Japan	North America	Europe	Asia	Other	Inter-segment Elimination/ Unallocated Amount	Consolidated	
Net revenues								
Sales to external customers	8,338,881	9,430,450	2,690,803	4,531,178	2,243,209		27,234,521	
Inter-segment sales and transfers	6,064,986	247,146	157,491	450,062	206,029	(7,125,714)		
Total	14,403,867	9,677,596	2,848,294	4,981,240	2,449,238	(7,125,714)	27,234,521	
Operating expenses	12,832,391	9,093,077	2,767,176	4,559,458	2,337,729	(7,105,874)	24,483,957	
Operating income	1,571,476	584,519	81,118	421,782	111,509	(19,840)	2,750,564	
Assets	14,466,432	16,961,700	2,640,054	4,753,850	2,903,474	6,004,320	47,729,830	
Long-lived assets	3,062,463	4,632,536	301,736	874,207	424,777		9,295,719	

As of and for the year ended March 31, 2016:

	Yen in millions							
	Japan	North America	Europe	Asia	Other	Inter-segment Elimination/ Unallocated Amount	Consolidated	
Net revenues								
Sales to external customers	8,588,437	10,822,772	2,507,292	4,475,623	2,008,994		28,403,118	
Inter-segment sales and transfers	6,171,051	229,198	154,039	528,236	201,220	(7,283,744)		
Total	14,759,488	11,051,970	2,661,331	5,003,859	2,210,214	(7,283,744)	28,403,118	
Operating expenses	13,081,966	10,523,151	2,588,915	4,554,670	2,101,305	(7,300,860)	25,549,147	



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Operating income	1,677,522	528,819	72,416	449,189	108,909	17,116	2,853,971
Assets	14,291,434	16,622,979	2,612,210	4,415,700	2,579,113	6,906,161	47,427,597
Long-lived assets	3,210,376	4,958,989	309,657	869,989	391,406		9,740,417
Other	consists of Central and South America, Oceania, Africa and the Middle East.						

Revenues are attributed to geographies based on the country location of the parent company or the subsidiary that transacted the sale with the external customer.

There are no any individually material countries with respect to revenues, and long-lived assets included in other foreign countries.

Unallocated amounts included in assets represent assets held for corporate purposes, which mainly consist of cash and cash equivalents and marketable securities. Such corporate assets were ¥7,659,617 million, ¥8,742,168 million and ¥9,369,868 million, as of March 31, 2014, 2015 and 2016, respectively.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Transfers between industry or geographic segments are made at amounts which Toyota's management believes approximate arm's-length transactions. In measuring the reportable segments' income or losses, operating income consists of revenue less operating expenses.

**Overseas revenues by destination -**

The following information shows revenues that are attributed to countries based on location of customers, excluding customers in Japan. In addition to the disclosure requirements under U.S.GAAP, Toyota discloses this information in order to provide financial statements users with valuable information.

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
North America	7,919,832	9,405,305	10,797,304
Europe	2,495,829	2,555,368	2,323,399
Asia	4,252,632	4,231,077	4,292,800
Other	4,616,944	4,947,169	4,724,784
Other consists of Central and South America, Oceania, Africa and the Middle East, etc.			

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Certain financial statements data on non-financial services and financial services businesses -**

The financial data below presents separately Toyota's non-financial services and financial services businesses.

**Balance sheets -**

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
<b>Assets</b>		
<b>Non-Financial Services Businesses</b>		
Current assets		
Cash and cash equivalents	1,680,994	2,318,152
Marketable securities	2,251,581	1,210,427
Trade accounts and notes receivable, less allowance for doubtful accounts	2,178,984	2,089,216
Inventories	2,137,021	2,061,113
Prepaid expenses and other current assets	1,898,558	3,341,150
<b>Total current assets</b>	<b>10,147,138</b>	<b>11,020,058</b>
Investments and other assets	10,765,747	10,204,760
Property, plant and equipment	5,346,553	5,426,247
<b>Total Non-Financial Services Businesses assets</b>	<b>26,259,438</b>	<b>26,651,065</b>
<b>Financial Services Business</b>		
Current assets		
Cash and cash equivalents	603,563	621,276
Marketable securities	530,518	300,962
Finance receivables, net	6,269,862	5,912,684
Prepaid expenses and other current assets	1,007,249	895,257
<b>Total current assets</b>	<b>8,411,192</b>	<b>7,730,179</b>
Noncurrent finance receivables, net	9,202,531	8,642,947
Investments and other assets	816,052	1,021,714
Property, plant and equipment	3,949,166	4,314,170
<b>Total Financial Services Business assets</b>	<b>22,378,941</b>	<b>21,709,010</b>

Eliminations	(908,549)	(932,478)
Total assets	47,729,830	47,427,597

Assets in the non-financial services include unallocated corporate assets.

F-65

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Yen in millions</b>	
	<b>March 31,</b>	
	<b>2015</b>	<b>2016</b>
<b>Liabilities</b>		
<b>Non-Financial Services Businesses</b>		
Current liabilities		
Short-term borrowings	567,566	586,685
Current portion of long-term debt	116,496	117,484
Accounts payable	2,372,354	2,356,355
Accrued expenses	2,567,998	2,640,128
Income taxes payable	338,680	334,490
Other current liabilities	1,437,114	1,527,024
Total current liabilities	7,400,208	7,562,166
Long-term liabilities		
Long-term debt	564,746	584,793
Accrued pension and severance costs	866,930	891,405
Other long-term liabilities	1,872,881	1,690,460
Total long-term liabilities	3,304,557	3,166,658
Total Non-Financial Services Businesses liabilities	10,704,765	10,728,824
<b>Financial Services Business</b>		
Current liabilities		
Short-term borrowings	4,849,826	4,418,483
Current portion of long-term debt	3,830,413	3,715,195
Accounts payable	45,195	40,094
Accrued expenses	116,868	109,246
Income taxes payable	10,106	8,835
Other current liabilities	802,666	814,298
Total current liabilities	9,655,074	9,106,151
Long-term liabilities		
Long-term debt	9,526,991	9,343,632
Accrued pension and severance costs	13,363	13,506
Other long-term liabilities	1,091,616	1,081,789
Total long-term liabilities	10,631,970	10,438,927

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Total Financial Services Business liabilities	20,287,044	19,545,078
Eliminations	(909,308)	(934,491)
Total liabilities	30,082,501	29,339,411
Mezzanine equity		479,779
Total Toyota Motor Corporation shareholders equity	16,788,131	16,746,935
Noncontrolling interests	859,198	861,472
Total shareholders equity	17,647,329	17,608,407
Total liabilities, mezzanine equity and shareholders equity	47,729,830	47,427,597

F-66

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Statements of income -*

	<b>Yen in millions</b>		
	<b>For the years ended March 31,</b>		
	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Non-Financial Services Businesses</b>			
Net revenues	24,343,613	25,643,508	26,581,102
<b>Costs and expenses</b>			
Cost of revenues	20,004,553	20,933,168	21,474,386
Selling, general and administrative	2,334,404	2,319,262	2,589,082
Total costs and expenses	22,338,957	23,252,430	24,063,468
Operating income	2,004,656	2,391,078	2,517,634
Other income (expense), net	140,067	136,797	117,930
Income before income taxes and equity in earnings of affiliated companies	2,144,723	2,527,875	2,635,564
Provision for income taxes	669,173	763,445	752,248
Equity in earnings of affiliated companies	316,612	306,749	327,167
Net income	1,792,162	2,071,179	2,210,483
Less - Net income attributable to noncontrolling interests	(164,709)	(130,172)	(117,544)
Net income attributable to Toyota Motor Corporation - Non-Financial Services Businesses	1,627,453	1,941,007	2,092,939
<b>Financial Services Business</b>			
Net revenues	1,421,047	1,661,149	1,896,224
<b>Costs and expenses</b>			
Cost of revenues	840,905	955,380	1,181,437
Selling, general and administrative	285,251	343,936	375,561
Total costs and expenses	1,126,156	1,299,316	1,556,998

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Operating income	294,891	361,833	339,226
Other income (expense), net	1,451	3,190	8,579
Income before income taxes and equity in earnings of affiliated companies	296,342	365,023	347,805
Provision for income taxes	98,589	130,049	126,319
Equity in earnings of affiliated companies	1,764	1,796	1,932
Net income	199,517	236,770	223,418
Less - Net income attributable to noncontrolling interests	(3,819)	(4,417)	(3,963)
Net income attributable to Toyota Motor Corporation - Financial Services Business	195,698	232,353	219,455
Eliminations	(32)	(22)	300
Net income attributable to Toyota Motor Corporation	1,823,119	2,173,338	2,312,694

F-67



**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Statements of cash flows -*

	Yen in millions			Yen in millions		
	For the year ended March 31, 2014			For the year ended March 31, 2015		
	Non-Financial Services Businesses	Financial Services Business	Consolidated	Non-Financial Services Businesses	Financial Services Business	Consolidated
<b>Cash flows from operating activities</b>						
Net income	1,792,162	199,517	1,991,648	2,071,179	236,770	2,307,904
Adjustments to reconcile net income to net cash provided by operating activities						
Depreciation	812,957	437,896	1,250,853	844,456	564,619	1,409,075
Provision for doubtful accounts and credit losses	3,405	46,313	49,718	(1,598)	80,567	78,969
Pension and severance costs, less payments	21,842	(1,188)	20,654	(5,263)	2,102	(3,161)
Losses on disposal of fixed assets	27,925	732	28,657	31,601	24	31,625
Unrealized losses on available-for-sale securities, net	560	5,636	6,197	2,565	13	2,578
Deferred income taxes	(108,318)	51,995	(56,279)	(114,122)	87,260	(26,887)
Equity in earnings of affiliated companies	(316,612)	(1,764)	(318,376)	(306,749)	(1,796)	(308,545)
Changes in operating assets and liabilities, and other	1,010,360	(269,875)	672,963	356,269	(191,791)	194,195
Net cash provided by operating activities	3,244,281	469,262	3,646,035	2,878,338	777,768	3,685,753
<b>Cash flows from investing activities</b>						
Additions to finance receivables		(20,598,521)	(11,953,064)		(22,325,159)	(13,126,596)
Collection of and proceeds from sales of		19,612,456	11,025,353		21,668,847	12,450,388

finance receivables						
Additions to fixed assets excluding equipment leased to others	(956,232)	(13,789)	(970,021)	(1,133,102)	(13,216)	(1,146,318)
Additions to equipment leased to others	(97,515)	(1,611,155)	(1,708,670)	(137,985)	(2,073,265)	(2,211,250)
Proceeds from sales of fixed assets excluding equipment leased to others	38,311	880	39,191	40,032	1,515	41,547
Proceeds from sales of equipment leased to others	35,995	708,344	744,339	40,878	762,545	803,423
Purchases of marketable securities and security investments	(4,227,802)	(510,476)	(4,738,278)	(2,530,591)	(663,703)	(3,194,294)
Proceeds from sales of and maturity of marketable securities and security investments	2,813,373	505,954	3,319,327	2,198,799	484,202	2,683,001
Changes in investments and other assets, and other	(118,750)	(4,607)	(94,425)	(114,094)	(9,669)	(113,391)
Net cash used in investing activities	(2,512,620)	(1,910,914)	(4,336,248)	(1,636,063)	(2,167,903)	(3,813,490)
<b>Cash flows from financing activities</b>						
Proceeds from issuance of long-term debt	121,723	3,780,228	3,890,310	119,449	4,960,157	5,029,018
Payments of long-term debt	(169,233)	(2,831,116)	(2,988,923)	(100,627)	(3,373,842)	(3,462,237)
Increase (decrease) in short-term borrowings	21,808	465,731	467,976	(47,026)	(259,931)	(288,724)
Dividends paid to Toyota Motor Corporation shareholders	(396,030)		(396,030)	(554,933)		(554,933)
Dividends paid to noncontrolling interests	(63,065)		(63,065)	(69,295)		(69,295)
Reissuance (repurchase) of treasury stock	9,212		9,212	(347,784)		(347,784)
Net cash provided by (used in) financing activities	(475,585)	1,414,843	919,480	(1,000,216)	1,326,384	306,045
Effect of exchange rate changes on cash and cash equivalents	48,375	45,231	93,606	27,075	38,004	65,079

Net increase (decrease) in cash and cash equivalents	304,451	18,422	322,873	269,134	(25,747)	243,387
Cash and cash equivalents at beginning of year	1,107,409	610,888	1,718,297	1,411,860	629,310	2,041,170
Cash and cash equivalents at end of year	1,411,860	629,310	2,041,170	1,680,994	603,563	2,284,557

F-68

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Yen in millions		
	For the year ended March 31, 2016		
	Non-Financial Services Businesses	Financial Services Business	Consolidated
<b>Cash flows from operating activities</b>			
Net income	2,210,483	223,418	2,434,211
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation	927,846	697,991	1,625,837
Provision for doubtful accounts and credit losses	69,029	90,236	159,265
Pension and severance costs, less payments	8,300	533	8,833
Losses on disposal of fixed assets	33,293	36	33,329
Unrealized losses on available-for-sale securities, net	3,217	6,055	9,272
Deferred income taxes	(43,237)	76,423	32,889
Equity in earnings of affiliated companies	(327,167)	(1,932)	(329,099)
Changes in operating assets and liabilities, and other	386,529	148,376	486,320
Net cash provided by operating activities	3,268,293	1,241,136	4,460,857
<b>Cash flows from investing activities</b>			
Additions to finance receivables		(23,399,113)	(13,549,278)
Collection of and proceeds from sales of finance receivables		22,918,132	13,115,854
Additions to fixed assets excluding equipment leased to others	(1,265,174)	(17,371)	(1,282,545)
Additions to equipment leased to others	(155,931)	(2,620,740)	(2,776,671)
Proceeds from sales of fixed assets excluding equipment leased to others	41,154	993	42,147
Proceeds from sales of equipment leased to others	60,989	1,050,738	1,111,727
Purchases of marketable securities and security investments	(1,302,965)	(894,512)	(2,197,477)
Proceeds from sales of and maturity of marketable securities and security investments	2,471,876	943,939	3,415,815
Changes in investments and other assets, and other	(1,371,368)	296,788	(1,062,116)
Net cash used in investing activities	(1,521,419)	(1,721,146)	(3,182,544)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of long-term debt	110,691	4,815,323	4,845,872
Payments of long-term debt	(71,758)	(4,127,178)	(4,176,202)
Increase (decrease) in short-term borrowings	75,990	(132,852)	(10,903)
Proceeds from issuance of class shares	474,917		474,917
Dividends paid to Toyota Motor Corporation class shareholders	(1,225)		(1,225)
Dividends paid to Toyota Motor Corporation common shareholders	(704,728)		(704,728)

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Dividends paid to noncontrolling interests	(73,129)		(73,129)
Reissuance (repurchase) of treasury stock	(778,173)		(778,173)
Net cash provided by (used in) financing activities	(967,415)	555,293	(423,571)
Effect of exchange rate changes on cash and cash equivalents	(142,301)	(57,570)	(199,871)
Net increase in cash and cash equivalents	637,158	17,713	654,871
Cash and cash equivalents at beginning of year	1,680,994	603,563	2,284,557
Cash and cash equivalents at end of year	2,318,152	621,276	2,939,428

F-69

Table of Contents

## TOYOTA MOTOR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**26. Per share amounts:**

Reconciliations of the differences between basic and diluted net income attributable to Toyota Motor Corporation per common share for the years ended March 31, 2014, 2015 and 2016 are as follows:

	Yen in millions	Thousands of shares	Yen Net income attributable to Toyota Motor Corporation per common share
	Net income attributable to Toyota Motor Corporation	Weighted- average common shares	
<b>For the year ended March 31, 2014</b>			
Basic net income attributable to Toyota Motor Corporation per common share	1,823,119	3,168,989	575.30
Effect of dilutive securities			
Assumed exercise of dilutive stock options	(85)	1,922	
Diluted net income attributable to Toyota Motor Corporation per common share	1,823,034	3,170,911	574.92
<b>For the year ended March 31, 2015</b>			
Basic net income attributable to Toyota Motor Corporation per common share	2,173,338	3,158,851	688.02
Effect of dilutive securities			
Assumed exercise of dilutive stock options	(42)	1,578	
Diluted net income attributable to Toyota Motor Corporation per common share	2,173,296	3,160,429	687.66
<b>For the year ended March 31, 2016</b>			
Net income attributable to Toyota Motor Corporation	2,312,694		
Accretion to Mezzanine equity	(3,638)		
Dividends to Toyota Motor Corporation Model AA Class Shareholders	(2,449)		
Basic net income attributable to Toyota Motor Corporation per common share	2,306,607	3,111,306	741.36

Effect of dilutive securities			
Model AA Class Shares	6,087	32,429	
Assumed exercise of dilutive stock options	(21)	1,212	
Diluted net income attributable to Toyota Motor Corporation			
per common share	2,312,673	3,144,947	735.36

Stock options that were not included in the computation of diluted net income attributable to Toyota Motor Corporation per common share for the years ended March 31, 2014 and 2015 were 2,415 thousand shares and 733 thousand shares, respectively, because the options' exercise prices were greater than the average market price per common share during the period. There were no stock options that were not included in the computation of diluted net income attributable to Toyota Motor Corporation per common share for the years ended March 31, 2016.

In addition to the disclosure requirements under U.S.GAAP, Toyota discloses the information below in order to provide financial statements users with valuable information.

F-70

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table shows Toyota Motor Corporation shareholders' equity per share as of March 31, 2015 and 2016. Toyota Motor Corporation shareholders' equity per share amounts are calculated by dividing Toyota Motor Corporation shareholders' equities amount at the end of each period by the number of shares issued and outstanding, excluding treasury stock at the end of the corresponding period.

	Yen in millions	Thousands of shares Common shares issued and outstanding at the end of the year (excluding treasury stock)	Yen  Toyota Motor Corporation shareholders equity per share
<b>As of March 31, 2015</b>	16,788,131	3,146,814	5,334.96
<b>As of March 31, 2016</b>	16,746,935	3,037,676	5,513.08

**27. Fair value measurements:**

In accordance with U.S.GAAP, Toyota classifies fair value into three levels of input as follows which are used to measure it.

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the valuation of assets or liabilities

Level 3: Valuation of assets or liabilities using unobservable inputs which reflect the reporting entity's assumptions. The following table summarizes the fair values of the assets and liabilities measured at fair value on a recurring basis as of March 31, 2015 and 2016. Transfers between levels of the fair value are recognized at the end of their respective reporting periods:

	Yen in millions March 31, 2015			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				



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Cash equivalents	145,923	348,487		494,410
<b>Marketable securities and other securities investments</b>				
Public and corporate bonds	6,129,824	1,038,810	12,317	7,180,951
Common stocks	2,704,814			2,704,814
Other	61,538	369,184		430,722
Derivative financial instruments		338,310	1,010	339,320
<b>Total</b>	<b>9,042,099</b>	<b>2,094,791</b>	<b>13,327</b>	<b>11,150,217</b>
<b>Liabilities</b>				
Derivative financial instruments		(360,731)		(360,731)
<b>Total</b>		<b>(360,731)</b>		<b>(360,731)</b>

F-71

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Yen in millions</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Assets</b>				
Cash equivalents	100,841	915,684		1,016,525
Time deposits		600,000		600,000
Marketable securities and other securities investments				
Public and corporate bonds	4,911,769	1,029,478	10,334	5,951,581
Common stocks	2,558,931			2,558,931
Other	83,082	265,400		348,482
Derivative financial instruments		362,388	4,423	366,811
<b>Total</b>	<b>7,654,623</b>	<b>3,172,950</b>	<b>14,757</b>	<b>10,842,330</b>
<b>Liabilities</b>				
Derivative financial instruments		(242,713)	(1,574)	(244,287)
<b>Total</b>		<b>(242,713)</b>	<b>(1,574)</b>	<b>(244,287)</b>

The following is description of the assets and liabilities measured at fair value, information about the valuation techniques used to measure fair value, key inputs and significant assumptions:

**Cash equivalents and time deposits -**

Cash equivalents include money market funds and other investments with original maturities of three months or less. Cash equivalents classified in Level 2 include negotiable certificate of deposit with original maturities of three months or less. These are measured at fair value using primarily observable interest rates in the market. Time deposits consist of negotiable certificates of deposit with original maturities over three months. These are measured at fair value using primarily observable interest rates in the market.

**Marketable securities and other securities investments -**

Marketable securities and other securities investments include public and corporate bonds, common stocks and other investments. Public and corporate bonds include government bonds and represent 43% of Japanese bonds, and 57% of U.S., European and other bonds as of March 31, 2015, and 37% of Japanese bonds, and 63% of U.S., European and other bonds as of March 31, 2016. Listed stocks on the Japanese stock markets represent 88% and 90% of common stocks as of March 31, 2015 and 2016, respectively. Toyota uses primarily quoted market prices for identical assets to measure fair value of these securities. Other includes investment trusts. Generally, Toyota uses quoted market prices for similar assets or quoted non-active market prices for identical assets to measure fair value of these securities. These assets are classified in Level 2.

**Derivative financial instruments -**

See note 21 to the consolidated financial statements about derivative financial instruments. Toyota primarily estimates the fair value of derivative financial instruments using industry-standard valuation models that require observable inputs including interest rates and foreign exchange rates, and the contractual terms. The usage of these models does not require significant judgment to be applied. These derivative financial instruments are classified in Level 2. In other certain cases when market data is not available, key inputs to the fair value measurement include quotes from counterparties, and other market data. Toyota assesses the reasonableness of changes of the quotes using observable market data. These derivative financial instruments are classified in Level 3. Toyota's derivative fair value measurements consider assumptions about counterparty and Toyota's own non-performance risk, using such as credit default probabilities.

F-72

Table of Contents**TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table summarizes the changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the periods ended March 31, 2014, 2015 and 2016:

	<b>Yen in millions</b>		
	<b>For the year ended March 31, 2014</b>		
	<b>Marketable securities and other securities investments</b>	<b>Derivative financial instruments</b>	<b>Total</b>
Balance at beginning of year	6,889	5,127	12,016
Total gains (losses)			
Included in income (loss)	(28)	3,460	3,432
Included in other comprehensive income (loss)	(228)		(228)
Purchases and issuances	2,575		2,575
Settlements	(1,555)	(1,579)	(3,134)
Other	1,439	536	1,975
Balance at end of year	9,092	7,544	16,636

	<b>Yen in millions</b>		
	<b>For the year ended March 31, 2015</b>		
	<b>Marketable securities and other securities investments</b>	<b>Derivative financial instruments</b>	<b>Total</b>
Balance at beginning of year	9,092	7,544	16,636
Total gains (losses)			
Included in income (loss)	(33)	(5,953)	(5,986)
Included in other comprehensive income (loss)	227		227
Purchases and issuances	4,055		4,055
Settlements	(2,914)	(1,169)	(4,083)
Other	1,890	588	2,478
Balance at end of year	12,317	1,010	13,327

	<b>Yen in millions</b>		
	<b>For the year ended March 31, 2016</b>		
	<b>Marketable securities and other securities investments</b>	<b>Derivative financial instruments</b>	<b>Total</b>
Balance at beginning of year	12,317	1,010	13,327
Total gains (losses)			
Included in income (loss)	1	2,507	2,508
Included in other comprehensive income (loss)	(286)		(286)
Purchases and issuances	931		931
Settlements	(1,451)	(479)	(1,930)
Other	(1,178)	(189)	(1,367)
Balance at end of year	10,334	2,849	13,183

Included in income (loss) in marketable securities and other securities investments and derivative financial instruments are included in Other income (loss), net and Cost of financing operations in the accompanying consolidated statements of income, respectively.

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**Table of Contents**

**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In the reconciliation table above, derivative financial instruments are presented net of assets and liabilities. Other includes the currency translation adjustments for the years ended March 31, 2014, 2015 and 2016.

As of March 31, 2016, the Level 3 assets and liabilities measured at fair value on a recurring basis are not significant.

Certain assets and liabilities are measured at fair value on a nonrecurring basis. During the years ended March 31, 2015 and 2016, Toyota measured certain finance receivables at fair value of ¥40,901 million and ¥57,505 million based on the collateral value, resulting in loss of ¥2,790 million and gain of ¥249 million, respectively. This fair value measurement on a nonrecurring basis is classified in Level 3. See note 22 to the consolidated financial statements for the fair value measurement. These Level 3 financial assets are not significant.

**28. Restructuring charges and asset impairments:**

In February 2014, TMC and Toyota Motor Corporation Australia Ltd., its production and sales subsidiary in Australia, decided to end their vehicle and engine production in Australia by the end of 2017. In fiscal 2014, Toyota recorded costs and expenses of ¥83,073 million relating to the end of production in Australia in the automotive segment. These costs and expenses consist primarily of long-lived assets impairment charges of ¥47,190 million and other restructuring charges of ¥35,883 million. In fiscal 2015 and 2016, Toyota recorded additional charges which were not material. Toyota expects to incur additional charges in fiscal 2017 and 2018 which are not material to Toyota.

**29. Significant subsequent events:**

**Suspension of operations on vehicle assembly lines in Japan -**

Due to parts shortages resulting from the Kumamoto Earthquake that struck Japan's island of Kyushu in April 2016, production on vehicle assembly lines in Japan was suspended in stages starting on April 18, 2016 and production has been restarted in stages starting on April 25. It is uncertain how this suspension will affect Toyota's financial results.

**Repurchase of share -**

At the Meeting of the Board of Directors held on May 11, 2016, TMC resolved to repurchase the Common Shares pursuant to Article 156 of the Companies Act as applied to Article 165, Paragraph 3 of the Companies Act, as set forth below.

***Reason for repurchasing shares -***

To return capital to shareholders in addition to promoting capital efficiency and agile capital policy in view of the business environment.

***Details of matters relating to repurchase -***

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Kind of stock to be repurchased	Common stock of TMC
Number of shares to be repurchased	100,000,000 shares (maximum)
Total purchase price for repurchase of shares	¥500,000 million (maximum)
Method of acquisition	Market purchase through a trust bank
Period of repurchase	From May 18, 2016 to November 17, 2016

F-74

**Table of Contents**

**ITEM 19. EXHIBITS**

*Index to Exhibits*

1.1	Amended and Restated Articles of Incorporation of the Registrant (English translation) (incorporated by reference to Exhibit 1.1 to Toyota's Annual Report on Form 20-F for the fiscal year ended March 31, 2015, filed with the SEC on June 24, 2015 (file no. 001-14948))
1.2	Amended and Restated Regulations of the Board of Directors of the Registrant (English translation) (incorporated by reference to Exhibit 1.2 to Toyota's Annual Report on Form 20-F for the fiscal year ended March 31, 2015, filed with the SEC on June 24, 2015 (file no. 001-14948))
1.3	Amended and Restated Regulations of the Audit & Supervisory Board of the Registrant (English translation)
2.1	Amended and Restated Share Handling Regulations of the Registrant (English translation) (incorporated by reference to Exhibit 2.1 to Toyota's Annual Report on Form 20-F for the fiscal year ended March 31, 2015, filed with the SEC on June 24, 2015 (file no. 001-14948))
2.2	Form of Deposit Agreement among the Registrant, The Bank of New York (predecessor of The Bank of New York Mellon), as depository, and the owners and beneficial owners from time to time of American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to Exhibit 1 to Toyota's Registration Statement on Form F-6, filed with the SEC on November 7, 2006 (file no. 333-138477))
2.3	Form of ADR (included in Exhibit 2.2)
8.1	List of Principal Subsidiaries (See Organizational Structure in Item 4. Information on the Company )
11.1	Code of Ethics of the Registrant applicable to its members of the board of directors and managing officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions (English translation)
12.1	Certifications of the Registrant's Chairman of the Board of Directors and Executive Vice President, Member of the Board pursuant to Section 302 of the Sarbanes-Oxley Act
13.1	Certifications of the Registrant's Chairman of the Board of Directors and Executive Vice President, Member of the Board pursuant to Section 906 of the Sarbanes-Oxley Act
15.1	Consent of Independent Registered Public Accounting Firm
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase



**Table of Contents**

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

TOYOTA MOTOR CORPORATION

By: /s/ TETSUYA Otake  
Name: **Tetsuya Otake**  
Title: **Managing Officer**

Date: June 24, 2016