R&D and Intellectual Property

Toyota R&D is dedicated to 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.

R&D Guiding Principles
- Providing clean and safe products and enhancing the quality of life of people everywhere through all our activities.
- Pursuing advanced technological development in a wide range of fields, we pledge to provide attractive products and services that respond to the needs of customers worldwide.

R&D Activities
The overriding goal of Toyota’s technology and product development activities is to minimize the negative aspects of driving, such as traffic accidents and the burden that automobiles have 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, we want to open the door to the automobile society of the future.

To ensure efficient progress in R&D activities, we coordinate and integrate all phases, from basic research to forward-looking technology and product development. With respect to such basic research issues as energy, the environment, information technology, telecommunications, and materials, projects are regularly reviewed and evaluated in consultation with outside experts to achieve efficient R&D cost control.

And with respect to forward-looking, leading-edge technology and product development, we establish cost-performance benchmarks on a project-by-project basis to ensure efficient development investment.

<table>
<thead>
<tr>
<th>Basic research</th>
<th>Development theme discovery</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Research on basic vehicle-related technology</td>
</tr>
<tr>
<td>Technological breakthroughs related to components and systems</td>
<td>Development of leading-edge components and systems ahead of competitors</td>
</tr>
<tr>
<td>Product development</td>
<td>Primary responsibility for new model development</td>
</tr>
<tr>
<td></td>
<td>Development of all-new models and existing-model upgrades</td>
</tr>
</tbody>
</table>

R&D Guiding Principles
- Providing clean and safe products and enhancing the quality of life of people everywhere through all our activities.
- Pursuing advanced technological development in a wide range of fields, we pledge to provide attractive products and services that respond to the needs of customers worldwide.

R&D Expenditures
In fiscal 2013, R&D expenses totaled ¥807.4 billion, up 3.5% from the previous fiscal year, representing 3.7% of consolidated net revenues. We worked closely with suppliers to develop components and products more efficiently and took steps to reduce our own R&D expenses. At the same time, we plan to continue making substantial investments in R&D involving forward-looking, leading-edge technologies and the development of products associated with the environment, energy, and safety. These investments are essential to preserving our competitive edge in terms of technologies and products.

R&D Organization
Toyota operates a global R&D organization with the primary goal of building automobiles that precisely meet the needs of customers in every region of the world.

In Japan, R&D operations are led by 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, we have a worldwide network of technical centers as well as design and motorsports R&D centers.

Domestic and Overseas R&D Bases

<table>
<thead>
<tr>
<th>Facility Name</th>
<th>Activities</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head Office Toyota Technical Center</td>
<td>Product Planning, Design, Vehicle Engineering and Evaluation</td>
<td>Toyota City, Aichi Prefecture</td>
</tr>
<tr>
<td>Higashi-FujI Technical Center</td>
<td>Advanced Engineering</td>
<td>Susono City, Shizuoka Prefecture</td>
</tr>
<tr>
<td>Tokyo Design Research &amp; Laboratory</td>
<td>Research of Advanced Styling Designs</td>
<td>Hachioji City, Tokyo</td>
</tr>
<tr>
<td>Shibetsu Proving Ground</td>
<td>Vehicle Testing and Evaluation</td>
<td>Shibetsu City, Hokkaido</td>
</tr>
<tr>
<td>Toyota Central Research &amp; Development Laboratories, Inc.</td>
<td>Basic Research</td>
<td>Nagakute City, Aichi Prefecture</td>
</tr>
<tr>
<td>Head Office Toyota Technical Center</td>
<td>Product Planning, Design, Vehicle Engineering and Evaluation</td>
<td>Newport Beach, California</td>
</tr>
<tr>
<td>Calty Design Research, LLC</td>
<td>Design</td>
<td>Ann Arbor, Michigan</td>
</tr>
</tbody>
</table>

Facility Name | Activities | Location |
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Calty Design Research, LLC</td>
<td>Design</td>
<td>Ann Arbor, Michigan</td>
</tr>
</tbody>
</table>

Toyota Motor Engineering & Manufacturing North America, Inc.
R&D and Intellectual Property

Intellectual Property

Intellectual Property Guiding Principle

Securing greater corporate flexibility and maximizing corporate value through the appropriate acquisition and utilization of intellectual property.

Intellectual Property Strategies

Toyota carefully analyzes patents and the need for patents in each area of research to formulate more effective R&D strategies. We identify R&D projects in which Toyota should acquire patents, and file relevant applications as necessary to help build a strong global patent portfolio. In addition, we want to contribute to sustainable mobility by promoting the spread of technologies with environmental and safety benefits. This is why we take an open stance to patent licensing and grant licenses when appropriate terms are met. A good example of this policy is the licensing to other companies of patents in the area of hybrid technology, which is one of our core technologies involving environmental energy.

Intellectual Property Activities

Toyota’s competitiveness springs from the forward-looking R&D stance that is instrumental to core strengths associated with products and technologies. Underlying each new product that emerges from R&D, there are always intellectual properties such as inventions and expertise that we value as important management resources.

Intellectual Property Systems

R&D and intellectual property activities are organizationally linked to enable us to focus on selected development themes and build a strong patent portfolio. We have established an Intellectual Property Committee made up of individuals involved with management, R&D, and intellectual property. This committee acquires and utilizes important intellectual property that contributes to business operations and helps determine policies for management risks associated with intellectual property.

<table>
<thead>
<tr>
<th>Facility Name</th>
<th>Activities</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toyota Motor Europe NV/SA</td>
<td>Vehicle Engineering and Evaluation Design</td>
<td>Brussels, Belgium; Derby, U.K.</td>
</tr>
<tr>
<td>Toyota Europe Design Development</td>
<td>Development for Motorsport Vehicles Advanced Engineering</td>
<td>Nice, France</td>
</tr>
<tr>
<td>Toyota Motorsport GmbH (TMG)</td>
<td></td>
<td>Cologne, Germany</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Facility Name</th>
<th>Activities</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toyota Motor Engineering and Manufacturing (China) Co., Ltd.</td>
<td>Basic Research, Technical Research and Vehicle Evaluation</td>
<td>Jiangsu</td>
</tr>
<tr>
<td>Tianjin FAW Toyota Motor Co., Ltd. FAW Toyota R&amp;D Center</td>
<td>Vehicle Engineering and Evaluation</td>
<td>Tianjin</td>
</tr>
<tr>
<td>GAC Toyota Motor Co., Ltd. R&amp;D Center</td>
<td>Vehicle Engineering and Evaluation</td>
<td>Guangdong</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Facility Name</th>
<th>Activities</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia Pacific</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Toyota Motor Asia Pacific Engineering and Manufacturing Co., Ltd.</td>
<td>Vehicle Engineering and Evaluation</td>
<td>Samutprakarn Province, Thailand</td>
</tr>
<tr>
<td>Toyota Technical Center Asia Pacific Australia Pty. Ltd.</td>
<td>Vehicle Engineering and Evaluation</td>
<td>Melbourne, Australia</td>
</tr>
</tbody>
</table>

See Domestic and Overseas R&D Bases
Corporate Philosophy

Seeking Harmony between People, Society and the Global Environment, and Sustainable Development of Society through Manufacturing

Since its foundation, Toyota has continuously strived to contribute to the sustainable development of society through the manufacturing and provision of innovative, high-quality products and services that lead the times. The automobile is a wonderful machine that provides freedom of movement. Nevertheless, automobiles have an impact on the environment and society. This is something we at Toyota always keep in mind, and we try to create harmony among people, societies and the environment by listening to what our customers and local communities have to say. Our operations are aimed at creating a sustainable society through monozukuri (conscientious manufacturing). Toyota develops and produces environment-friendly vehicles such as hybrid vehicles, and we also offer superior accident prevention and collision safety features. In addition, Toyota is involved in new businesses, such as biotech, afforestation and renewable energy. The pillars of our social contribution are “environment,” “traffic safety,” and “human resources development.” Toyota seeks to be of value to communities and to society through our main lines of business, and to bring smiles to people’s faces. Toyota’s basic Corporate Social Responsibility (CSR) policy is to contribute to the sustainable development of society. This phrase embodies the spirit of the Toyota Guiding Principles, and clarifies our CSR stance for our stakeholders, both within and outside the company. Toyota subsidiaries and suppliers share this CSR policy, and we expect them to adhere to the spirit of the policy in their operations.

Toyota also participated in the formulation of the Charter of Corporate Behavior of the Nippon Keidanren (Japan Business Federation), which is an alliance of Japanese leading corporations, and observes the standards outlined therein.

Positioning of the CSR Policy

Overview of Toyota’s CSR Activities

The Spirit of the Toyoda Precepts, Passed down since Toyota’s Founding

The Toyoda Precepts represent the essential philosophy of the founder of the Toyota group of companies, Sakichi Toyoda, and are a source of spiritual support for Toyota employees.

The Toyoda Precepts

- Always be faithful to your duties, thereby contributing to the company and to the overall good.
- Always be studious and creative, striving to stay ahead of the times.
- Always be practical and avoid frivolousness.
- Always strive to build a homelike atmosphere at work that is warm and friendly.
- Always have respect for spiritual matters, and remember to be grateful at all times.

The Toyota Guiding Principles

The Toyota Guiding Principles (adopted in 1992 and revised in 1997) reflect the kind of company that Toyota seeks to be in light of the unique management philosophy, values, and methods that it has embraced since its foundation. Toyota, along with its consolidated subsidiaries, seeks to contribute to the continuous development of human society and of the planet through its businesses based on understanding and sharing the Toyota Guiding Principles.

1. Honor the language and spirit of the law of every nation and undertake open and fair business activities to be a good corporate citizen of the world.
2. Respect the culture and customs of every nation and contribute to economic and social development through corporate activities in their respective communities.
3. Dedicate our business to providing clean and safe products and to enhancing the quality of life everywhere through all of our activities.
4. Create and develop advanced technologies and provide outstanding products and services that fulfill the needs of customers worldwide.
5. Foster a corporate culture that enhances both individual creativity and the value of teamwork, while honoring mutual trust and respect between labor and management.
6. Pursue growth through harmony with the global community via innovative management.
7. Work with business partners in research and manufacture to achieve stable, long-term growth and mutual benefits, while keeping ourselves open to new partnerships.
Toyota has positioned the stable long-term growth of corporate value as a top-priority management issue. We believe that in carrying out this, it is essential that we achieve long-term and stable growth by building positive relationships with all stakeholders, including shareholders and customers as well as business partners, local communities, and employees, and by supplying products that will satisfy our customers. This position is reflected in the “Guiding Principles at Toyota,” which is a statement of Toyota’s fundamental business policies. Also, Toyota adopted and presented the CSR Policy “Contribution towards Sustainable Development,” an interpretation of the “Guiding Principles at Toyota” that organizes the relationships with its stakeholders. We are working to enhance corporate governance through various measures designed to further increase our competitiveness as a global company.

We believe it is important to put in place a system that enables customer opinions and on-site information to be swiftly communicated to management in order to make a prompt management decision, and enables us to review whether such management decisions are accepted by our customers and society. We believe that our current system, involving the supervision and auditing of the execution of business by our Board of Directors (including Outside Directors) and Audit & Supervisory Board Members (including Outside Audit & Supervisory Board Members), is the most appropriate system for us.

Corporate Governance System

In March 2011, Toyota announced the “Toyota Global Vision” and commenced “Visionary Management.” This is based on values that have guided Toyota since its founding, such as the “Guiding Principles at Toyota” and the “Toyota Way,” which aim to exceed customer expectations by the development of ever-better cars and enriching the lives of societies, and to be rewarded with a smile that ultimately leads to a stable base of business.

Toyota’s current management structure is based on the structure introduced in April 2011. In order to fulfill the Toyota Global Vision, Toyota reduced the Board of Directors and decision-making layers, and has endeavored to swiftly communicate the views of customers and information from operations on-ground to management and facilitate rapid management decision making.

In April 2013, Toyota made organizational changes with the aim of further increasing the speed of decision making by clarifying responsibilities for operations and earnings, specifically by dividing the automotive business into the following four units—Lexus International (Lexus business); Toyota No. 1 (North America, Europe and Japan); Toyota No. 2 (China, Asia & the Middle East, East Asia & Oceania; Africa, Latin America & the Caribbean); and Unit Center (engine, transmission, and other “unit”-related operations)—and an Executive Vice President was put in charge of the operations of each unit in order to realize organizational change that supports operations and earnings responsibility.

Additionally, in order to achieve sustainable growth through the continuous development of even-better cars that exceed customer expectations around the world, and 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 “Toyota New Global Architecture (TNGA).”

Management Transparency

With respect to our system regarding directors, we believe that it is important to elect individuals that comprehend and engage in our strengths, including commitment to manufacturing, with an emphasis on front-line operations and problem solving based on the actual on-site situation (genchi genbutsu). At the 109th Ordinary General Shareholders’ Meeting held in June 2013, three Outside Directors were appointed in order to further reflect the opinions of those from outside the Company in management’s decision-making process. While Toyota currently does not have its own standard or policy on independence in appointing Outside Directors, the Company believes that such appointments are appropriate since various rules on independence, such as stock exchange regulations, are used as references in making such appointments. We believe our Outside Directors will advise us in our management decision-making process based on their broad experience and insight in their respective fields of expertise.

Toyota has an “International Advisory Board” consisting of advisors from each region overseas, and, as appropriate, receives advice on a wide range of management issues from a global perspective. Additionally, the Company has a wide variety of conferences and committees for deliberations and the monitoring of management and corporate activities that reflect the views of various stakeholders, including the “Labor-Management Council, the Joint Labor-Management Round Table Conference,” and the “Toyota Environment Committee.” In order to manage and implement important activities for fulfilling social responsibilities, TMC has established the “CSR Committee,” at the core consisting of directors at the executive vice president level and above as well as representatives of the Audit & Supervisory Board.
Corporate Governance

Compliance

The CSR Committee reviews important issues relating to corporate ethics, legal compliance, risk management, and social contribution and also develops action plans concerning these issues. In addition, Toyota has created a number of facilities for employees to make inquiries concerning compliance matters, including the Compliance Hotline, which enables them to consult with an outside attorney, and takes measures to ensure that Toyota is aware of significant information concerning legal compliance as quickly as possible. Toyota will continue to promote the “Toyota Code of Conduct” which is a guideline for the behavior and conduct of employees of Toyota and its consolidated subsidiaries (together “Toyota”) all around the world. Toyota will work to advance corporate ethics through training and education at all levels and in all departments.

Toyota has adopted an auditor system. Seven Audit & Supervisory Board Members (including four Outside Audit & Supervisory Board Members) play a role in Toyota’s corporate governance efforts by undertaking audits in accordance with the audit policies and plans determined by the Audit & Supervisory Board. In addition, Toyota has secured the personnel and framework supporting the audit by Audit & Supervisory Board Members. The Outside Audit & Supervisory Board Members advise Toyota from a fair and neutral perspective, based on their broad experience and insight in their respective fields of expertise. While Toyota currently does not have its own standard or policy on independence in appointing Outside Audit & Supervisory Board Members, the Company believes that such appointments are appropriate since various rules on independence, such as stock exchange regulations, are used as references in making such appointments. The state of internal controls and internal audits are reported to Audit & Supervisory Board Members (including Outside Audit & Supervisory Board Members) through the Audit & Supervisory Board and the “CSR Committee,” and the status of accounting audits is reported by independent External Auditors to the Audit & Supervisory Board Members (including Outside Audit & Supervisory Board Members) through the Audit & Supervisory Board. To enhance the system for internal audits, a specialized organization made independent of direct control by the management evaluates the effectiveness of documents regarding financial calculation and other information in accordance with Section 404 of the U.S. Sarbanes-Oxley Act and Article 24-4-4 (1) of the Financial Instruments and Exchange Law of Japan. In order to enhance the reliability of the financial reporting of Toyota, the three auditing functions—audit by Audit & Supervisory Board Members, internal audit, and accounting audit by Independent External Auditors—aid in conducting an effective and efficient audit through meetings held periodically and as necessary to share information and come to understanding through discussion on audit plans and results.

Accountability

Toyota has engaged in timely and fair disclosure of corporate and financial information as stated in the CSR Policy “Contribution towards Sustainable Development.” In order to ensure the accurate, fair, and timely disclosure of information, Toyota has established the Disclosure Committee chaired by an officer of the Accounting Division. The Committee holds regular meetings for the purpose of preparing, reporting, and assessing its annual securities report, quarterly report under the Financial Instruments and Exchange Law of Japan, and Form 20-F under the U.S. Securities Exchange Act, and also holds extraordinary committee meetings from time to time whenever necessary.

Basic Policy Regarding the System to Secure the Appropriateness of Business

Toyota, together with its subsidiaries, has created and maintained a sound corporate climate based on the “Guiding Principles at Toyota” and the “Toyota Code of Conduct.” Toyota integrates the principles of problem identification and continuous improvement into its business operation process and makes continuous efforts to train employees who will put these principles into practice.

Toyota’s Corporate Governance

Emphasizing Front-line Operations + Multidirectional Monitoring

- Shareholders
- Audit & Supervisory Board (more than half of the members are outside Audit & Supervisory Board members)
- Board of Directors (including Outside Directors)
- Officers Responsible for Business Operations (by center, region, function, and process)
- Disclosure Committee
- International Advisory Board
- CSR Committee
- Labor-Management Council Joint Labor-Management Board and Task Conference
- Toyota Environment Committee
- Internal Auditing (departmental internal control systems)
Management Team (As of June 14, 2013)

Board of Directors

Chairman of the Board

Takeshi Uchiyamada
- '69 Joined Toyota Motor Corporation ("TMC")
- '98 Director
- '01 Managing Director
- '03 Senior Managing Director
- '05 Executive Vice President
- '09 President

President, Member of the Board

Akio Toyoda
- '84 Joined TMC
- '98 Director
- '01 Managing Director
- '03 Senior Managing Director
- '05 Executive Vice President
- '09 President

Executive Vice President, Member of the Board

Satoshi Ozawa
- '74 Joined Toyota Motor Sales Co., Ltd.
- '03 Managing Officer
- '07 Senior Managing Director
- '10 Executive Vice President

Nobuyori Kodaira
- '70 Joined Ministry of International Trade and Industry
- '04 Director-General, Agency for Natural Resources and Energy
- '06 Retired from the same
- '08 Advisor to TMC
- '09 Managing Officer
- '11 Senior Managing Director
- '12 Director and Senior Managing Officer

Executive Vice President, Member of the Board

Mitsuhisa Kato
- '70 Joined TMC
- '04 Managing Officer
- '08 Advisor
- '10 Senior Managing Director
- '12 Executive Vice President

Masamoto Maekawa
- '71 Joined Toyota Motor Sales Co., Ltd.
- '03 Managing Officer of TMC
- '07 President of Toyota Administration Corporation
- '12 Advisor to TMC
- '10 Senior Managing Director
- '11 Senior Managing Officer
- '12 Executive Vice President

Yasumori Ihara
- '71 Joined Toyota Motor Sales Co., Ltd.
- '04 Managing Officer
- '07 Advisor
- '09 Senior Managing Director
- '11 Director and Senior Managing Officer

Seiichi Sudo
- '71 Joined Toyota Motor Sales Co., Ltd.
- '04 Managing Officer
- '07 Advisor
- '12 Senior Managing Officer

Member of the Board

Mamoru Furuhashi
- '73 Joined TMC
- '03 Managing Officer
- '07 Senior Managing Director
- '11 Director and Senior Managing Officer

Kiyotaka Ise
- '80 Joined TMC
- '07 Managing Director
- '13 Senior Managing Officer

Shigeki Terashi
- '80 Joined TMC
- '08 Managing Officer
- '13 Senior Managing Officer

Member of the Board

Yoshinobu Ishii
- '76 Joined Toyota Motor Sales Co., Ltd.
- '05 Managing Officer of TMC
- '09 Senior Managing Director
- '11 Senior Managing Officer

Kohei Saga
- '77 Joined TMC
- '08 Managing Officer
- '12 Senior Managing Officer

Mark T. Hogan*
- '73 Joined General Motors Corporation
- '02 Vice President of General Motors Group
- '04 President of Magna International Inc.
- '08 President and CEO of The Vehicle Production Group LLC
- '10 President of Dewey Investments LLC

Member of the Board

Ikuo Uno*
- '78 Joined Nippon Life Insurance Company
- '79 President and Representative Director of the same
- '89 Chairman and Representative Director of the same
- '11 Advisor to the same

Haruhiko Kato*
- '75 Joined Ministry of Finance (Japan)
- '09 Director-General of National Tax Administration Agency
- '11 President and CEO of Japan Securities Depository Center, Inc.

* Outside Director
Management Team (As of June 14, 2013)

Outside Audit & Supervisory Board Members

Full-Time Audit & Supervisory Board Member

Yoichiro Ichimaru
- ‘71 Joined Toyota Motor Sales Co., Ltd.
- ‘01 Director of TMC
- ‘03 Managing Officer
- ‘05 Senior Managing Director
- ‘09 Executive Vice President
- ‘11 Audit & Supervisory Board Member

Masaki Nakatsugawa
- ‘76 Joined Toyota Motor Sales Co., Ltd.
- ‘06 Audit & Supervisory Board Member of TMC

Masahiro Kato
- ‘75 Joined TMC
- ‘09 Managing Officer
- ‘11 Audit & Supervisory Board Member

Outside Audit & Supervisory Board Member

Yoichi Morishita
- ‘57 Joined Matsushita Electric Industrial Co., Ltd.
- ‘83 President of the same
- ‘90 Chairman of the same
- ‘96 Outside Audit & Supervisory Board Member of TMC
- ‘98 Executive Advisor to Matsushita Electric Industrial Co., Ltd.
- ‘12 Special Corporate Advisor to Panasonic Corporation

Akishige Okada
- ‘63 Joined Mitsui Bank, Ltd.
- ‘97 President of Sakura Bank, Ltd.
- ‘01 Chairman of Sumitomo Mitsui Banking Corporation
- ‘02 Chairman of Sumitomo Mitsui Financial Group Inc.
- ‘05 Special Advisor to Sumitomo Mitsui Banking Corporation
- ‘06 Outside Audit & Supervisory Board Member of TMC
- ‘10 Honorary Advisor to Sumitomo Mitsui Banking Corporation

Kunihiro Matsuo
- ‘68 Prosecutor of Tokyo District Public Prosecutors Office
- ‘04 Prosecutor General of Supreme Public Prosecutors Office
- ‘06 Registered as attorney
- ‘10 Outside Audit & Supervisory Board Member of TMC

Yoko Wake
- ‘70 Joined The Fuji Bank, Limited
- ‘90 Professor of Faculty of Business and Commerce of Keio University
- ‘11 Outside Audit & Supervisory Board Member of TMC
Risk Factors

Operational and other risks faced by Toyota that could significantly influence the decisions of investors are set out below. However, the following does not encompass all risks related to the operations of Toyota. There are risk factors other than those given below. Any such risk factors could influence the decisions of investors. The forward-looking statements included below are based on information available as of June 24, 2013, the filing date of Form 20-F.

Industry and Business Risks

The worldwide automotive industry is highly competitive.

The worldwide automotive industry is highly competitive. Toyota faces intense competition from automotive manufacturers in the markets in which it operates. Although the global economy is gradually recovering, 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 further industry reorganization. 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.

Toyota’s future success depends on its ability to offer new innovative 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. 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.

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 social, political and economic 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. In Japan, while there continues to be some signs of weakness, the economic environment is gradually recovering. In the United States, economic conditions are moderately recovering due to factors such as increased consumer spending. However, in Europe, the economic environment continues to remain stagnant due to the ongoing sovereign debt crisis, and the rate of economic growth is slowing down in emerging economies. Such shifts in demand for automobiles is 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 continue 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 regulations 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 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. 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.
Risk Factors

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.

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...
Risk Factors

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.

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

The 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.

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.

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.