

Corporate Governance

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Toyota's Basic Policy on Corporate Governance

Toyota has positioned the stable long-term growth of corporate value as a top-priority management issue. We believe that in carrying this out, 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 toward 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 a variety of measures designed to further increase our competitiveness as a global company.

Toyota's Corporate Governance System

Toyota formulated and announced the Toyota Global Vision in March 2011, based on what it has learned from the deterioration of the business environment following the Lehman Shock and a series of quality problems.

The Toyota Global Vision, based on Toyota's values that have guided Toyota since its founding, such as "Guiding Principles of Toyota" and "Toyota Way," aims to exceed customer expectations by the development of ever-better cars and enriching lives of societies, and to be rewarded with a smile which ultimately leads to the stable base of business. Toyota is to keep this virtuous cycle by focusing on making ever-better cars.

To fulfill the Toyota Global Vision, Toyota made some changes to its management structure such as reducing the Board of Directors and decision making layers. Toyota will continue to offer products and services that will satisfy evolving needs in every region. Toyota headquarters will provide overall direction and furnish support for the initiatives undertaken by the regional operations.

Specifically, with the aim of faster decision making, Toyota drastically reduced the number of Directors and abolished the position of Senior Managing Director. Furthermore, Toyota will replace the current three-layer arrangement – Executive Vice President, Chief Officer, and Executive responsible for the operations involved – with two layers, eliminating the executive immediately below the Chief Officer. Moving forward with this new structure will support a swifter flow of information from the divisional general managers, who are intimately familiar with their operations, to senior management.

Toyota is to enhance clarity in organizational responsibilities: the Board of Directors decides what Toyota will do as global Toyota, and Chief Officers decide how to implement that decision as chief executives for day-to-day operations, etc. The post of Chief Officer will be filled either by a "Senior Managing Officer" or "Managing Officer" in a flexible manner. Chief Officers responsible for the region or function conduct local operations basically at respective sites under the Executive Vice President responsible for each operational sector to vigorously reflect the voices of local customers in functions of R&D, production, and sales.

Systems for Ensuring Appropriate Management

Toyota has an "International Advisory Board" consisting of advisers from each region overseas, and, as appropriate, receives advice on a wide range of management issues from a global perspective. In addition, Toyota 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."

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 preparation, reporting and assessment of 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.

Compliance

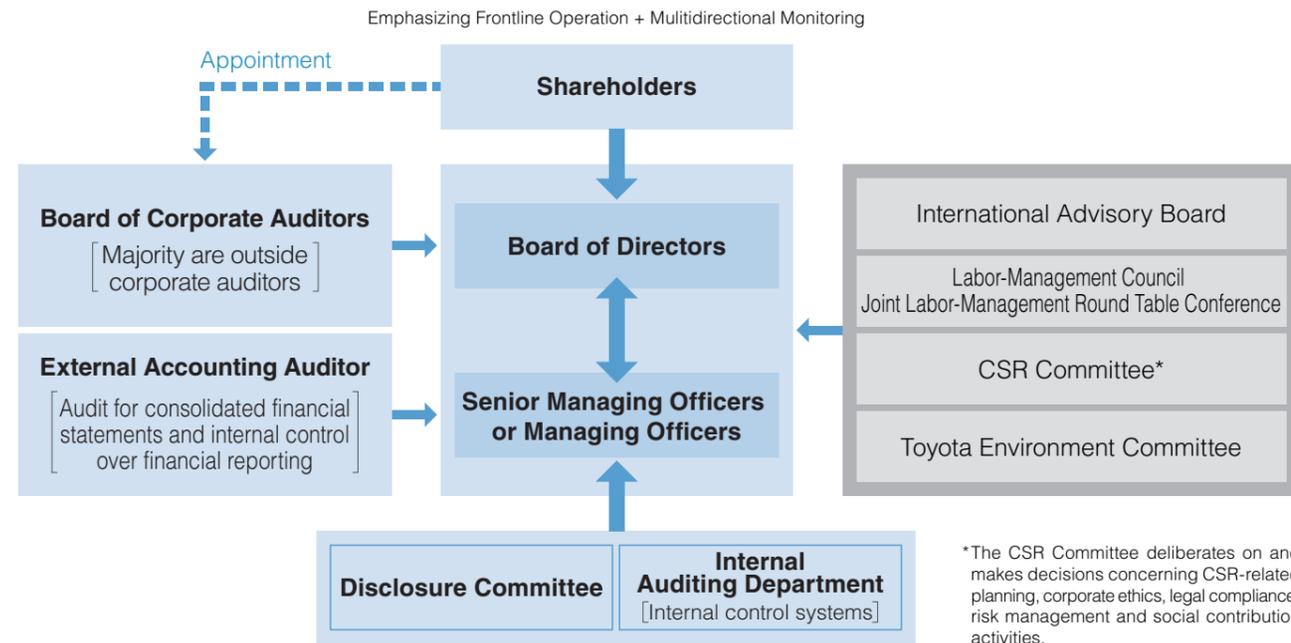
In order to manage and implement important activities for fulfilling social responsibilities, Toyota has established the CSR Committee consisting of directors at the executive vice president level and above as well as representatives of corporate auditors, to review important issues relating to corporate ethics, legal compliance, risk management and social contribution, and also to develop action plans concerning these issues. Toyota has also 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 employees' behavior and conduct for 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 Corporate Auditors including four Outside Corporate Auditors play a role in Toyota's corporate governance efforts by undertaking audits in accordance with the audit policies and plans determined by the Board of Corporate Auditors. In addition, Toyota has secured the personnel and framework supporting the audit by Corporate Auditors. The Outside Corporate Auditors advise Toyota from a fair and neutral perspective, based on their broad experiences and insight in their respective fields of expertise. The state of internal controls and internal audits are reported to Corporate Auditors (including Outside Corporate Auditors) through the Board of Corporate Auditors and the "CSR Committee," and the status of accounting audits is reported by independent External Auditors to the Corporate Auditors (including Outside Corporate Auditors) through the Board of Corporate Auditors. To enhance the system for internal audits, a specialized organization made independent of direct control by the management evaluates the effectiveness of the system to secure the appropriateness 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 Corporate Auditors, internal audit, and accounting audit by Independent External Auditors — aid in conducting an

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effective and efficient audit through meetings held periodically and as necessary to share information and come to understandings through discussion on audit plans and results.

■ Toyota's Corporate Governance



Basic Approach to Internal Control System and Its Development

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.

Accordingly, Toyota has developed its basic policy regarding the following items as stipulated in the Corporation Act:

(1) System to ensure that the Directors execute their responsibilities in compliance with relevant laws and regulations and the Articles of Incorporation

- 1) Toyota will ensure that Directors act in compliance with relevant laws and regulations and the Articles of Incorporation, based on the Code of Ethics and other explanatory documents that include necessary legal information, presented on occasions such as trainings for new Directors.
- 2) Toyota will make decisions regarding business operations after comprehensive discussions at the Board of Directors' meeting and other meetings of various cross-sectional decision-making bodies. Matters to be decided are properly submitted and discussed at the meetings of those decision-making bodies in accordance with the relevant rules.

- 3) Toyota will appropriately discuss significant matters and measures relating to issues such as corporate ethics, compliance, and risk management at the CSR Committee and other meetings. Toyota will also discuss and decide, at the meetings of various cross-sectional decision-making bodies, policies and systems to monitor and respond to risks relating to organizational function.

(2) System to retain and manage information relating to performance of duties by Directors

Information relating to exercising duties by Directors shall be appropriately retained and managed by each division in charge pursuant to the relevant internal rules and laws and regulations.

(3) Rules and systems related to the management of risk of loss

- 1) Toyota will properly manage the capital fund through its budgeting system and other forms of control, conduct business operations, and manage the budget, based on the authorities and responsibilities in accordance with the "Ringi" system (effective consensus-building and approval system) and other systems. Significant matters will be properly submitted and discussed at the Board of Directors' meeting and other meetings of various bodies in accordance with the standards stipulated in the relevant rules.
- 2) Toyota will ensure accurate financial reporting by issuing documentation on the financial flow and the control system, etc., and by properly and promptly disclosing information through the Disclosure Committee.
- 3) Toyota will manage various risks relating to safety, quality, the environment, etc. and compliance by establishing coordinated systems with all regions, establishing rules or preparing and delivering manuals and by other means, as necessary through each relevant division.
- 4) As a precaution against events such as natural disasters, Toyota will prepare manuals, conduct emergency drills, arrange risk diversification and insurance, etc., as needed.

(4) System to ensure that Directors exercise their duties efficiently

- 1) Toyota will manage consistent policies by specifying the policies at each level of the organization based on the medium- to long-term management policies and the Company's policies for each fiscal term.
- 2) The Directors will promptly determine the management policies based on precise on-the-spot information and, in accordance with Toyota's advantageous "field-oriented" approach, delegate a high level of authority to Chief Officers (Senior Managing Officers and Managing Officers) who take responsibility for business operations in each region and function. The Chief Officers will proactively compose business plans for the regions and functions under their leadership and execute them in a swift and timely manner in order to carry out Toyota's management policies. The Directors will supervise the execution of duties by the Chief Officers.
- 3) Toyota, from time to time, will make opportunities to listen to the opinions of various stakeholders, including external experts in each region, and reflect those opinions in Toyota's management and corporate activities.

(5) System to ensure that employees conduct business in compliance with relevant laws and regulations and the Articles of Incorporation

- 1) Toyota will clarify the responsibilities of each organization unit and maintain a basis to ensure continuous improvements in the system.

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- 2) Toyota will continuously review the legal compliance and risk management framework to ensure effectiveness. For this purpose, each organization unit shall confirm the effectiveness by conducting self-checks among others, and report the result to the CSR Committee and other committees.
- 3) Toyota will promptly obtain information regarding legal compliance and corporate ethics and respond to problems and questions related to compliance through its corporate ethics inquiry office and other channels.

(6) System to ensure the appropriateness of business operations of the corporation and the business group consisting of the parent company and subsidiaries

- 1) Toyota will expand the "Guiding Principles at Toyota" and the "Toyota Code of Conduct" to its subsidiaries as Toyota's common charter of conduct, and develop and maintain a sound environment of internal controls for Toyota. Toyota will also promote the "Guiding Principles at Toyota" and the "Toyota Code of Conduct" through personnel exchanges.
- 2) Toyota will manage its subsidiaries in a comprehensive manner appropriate to their positioning by clarifying the roles of the division responsible for the subsidiaries' financing and management and the roles of the division responsible for the subsidiaries' business activities. Those divisions will confirm the appropriateness and legality of the operations of the subsidiaries by exchanging information with those subsidiaries, periodically and as needed.

(7) System concerning employees who assist the Corporate Auditors when required

Toyota will establish a Corporate Auditors Department and assign a number of full-time staff to support this function.

(8) Independence of the employees described in the preceding item (7) from Directors

Any changes in personnel in the Corporate Auditors Department will require prior consent of the Board of Corporate Auditors or a full-time Corporate Auditor selected by the Board of Corporate Auditors.

(9) System for Directors and employees to report to Corporate Auditors, and other related systems

- 1) Directors, from time to time, will properly report to the Corporate Auditors any major business operations through the divisions in charge. If any fact that may cause significant damage to the Company is discovered, they will report the matter to the Corporate Auditors immediately.
- 2) Directors, Senior Managing Officers, Managing Officers, and employees will report to Corporate Auditors on the business upon requests by the Corporate Auditors, periodically and as needed.

(10) Other systems to ensure that the Corporate Auditors conducted audits effectively

Toyota will ensure that the Corporate Auditors attend major Board of Directors' meetings, inspect important Company documents, and make opportunities to exchange information between the Corporate Auditors and Accounting Auditor periodically and as needed, as well as appoint external experts.

Basic Policy and Preparation towards the Elimination of Antisocial Forces

(1) Establishment of divisions overseeing measures against antisocial forces and posts in charge of preventing undue claims

Toyota established divisions that oversee measures against antisocial forces ("Divisions Overseeing Measures Against Antisocial Forces") in its major offices as well as assigned persons in charge of preventing undue claims. Toyota also established a system whereby undue claims, organized violence and criminal activities conducted by antisocial forces are immediately reported to and consulted with Divisions Overseeing Measures Against Antisocial Forces.

(2) Liaising with specialist organizations

Toyota has been strengthening its liaison with specialist organizations by joining liaison committees organized by specialists such as the police. It has also been receiving guidance on measures to be taken against antisocial forces from such committees.

(3) Collecting and managing information concerning antisocial forces

By liaising with experts and the police, Divisions Overseeing Measures Against Antisocial Forces share up-to-date information on antisocial forces and utilize such information to call Toyota's employees' attention to antisocial forces.

(4) Preparation of manuals

Toyota compiles cases concerning measures against antisocial forces and distributes them to each department within Toyota.

(5) Training activities

Toyota promotes training activities to prevent damages caused by antisocial forces by sharing information on antisocial forces within the company as well as holding lectures at Toyota and its group companies.