TOYOTA MOTOR CORP/
Form 20-F
June 24, 2014
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As filed with the Securities and Exchange Commission on June 24, 2014

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: March 31, 2014

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

+81 565 28-2121

(Address of Principal Executive Offices)

Hiroaki Shimizu

Telephone number: +81 565 28-2121

Facsimile number: +81 565 23-5800

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:	Name of Each Exchange on Which Registered:
American Depositary Shares*	The New York Stock Exchange
Common Stock**	

* 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.

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:
3,169,766,019 Shares of Common Stock (including 83,412,971 Shares of Common Stock in the form of American Depositary Shares) as of March 31, 2014

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes x 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 x

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 x 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 x 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 x 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 x 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 x

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As used in this annual report, the term fiscal 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 ¥102.92 = $1.00. This was the approximate exchange rate in Japan on March 31, 2014.

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 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;

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(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.

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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.

	Year Ended March 31,				
	2010	2011	2012	2013	2014
	(Yen in millions, except share and per share data)				
Consolidated Statement of Income Data:					
Automotive:					
Revenues	17,197,428	17,337,320	16,994,546	20,419,100	23,781,404
Operating income (loss)	(86,370)	85,973	21,683	944,704	1,938,778
Financial Services:					
Revenues	1,245,407	1,192,205	1,100,324	1,170,670	1,421,047
Operating income	246,927	358,280	306,438	315,820	294,891
All Other:					
Revenues	947,615	972,252	1,048,915	1,066,461	1,151,280
Operating income (loss)	(8,860)	35,242	42,062	53,616	64,270
Elimination of intersegment:					
Revenues	(439,477)	(508,089)	(560,132)	(592,039)	(661,820)
Operating income (loss)	(4,181)	(11,216)	(14,556)	6,748	(5,827)
Total Company:					
Revenues	18,950,973	18,993,688	18,583,653	22,064,192	25,691,911
Operating income	147,516	468,279	355,627	1,320,888	2,292,112
Income before income taxes and equity in earnings of affiliated companies	291,468	563,290	432,873	1,403,649	2,441,080
Net income attributable to Toyota Motor Corporation	209,456	408,183	283,559	962,163	1,823,119
Net income attributable to Toyota Motor Corporation per share (yen):					
Basic	66.79	130.17	90.21	303.82	575.30
Diluted	66.79	130.16	90.20	303.78	574.92
Shares used in computing net income attributable to Toyota Motor Corporation per share, basic (in thousands)	3,135,986	3,135,881	3,143,470	3,166,909	3,168,989
Shares used in computing net income attributable to Toyota Motor Corporation per share, diluted (in thousands)	3,135,998	3,135,915	3,143,470	3,167,155	3,170,911

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	Year Ended March 31,				
	2010	2011	2012	2013	2014
	(Yen in millions, except per share and numbers of vehicles sold data)				
Consolidated Balance Sheet Data (end of period):					
Total Assets:	30,349,287	29,818,166	30,650,965	35,483,317	41,437,473
Short-term debt, including current portion of long-term debt	5,497,997	5,951,836	5,963,269	6,793,956	7,780,483
Long-term debt, less current portion	7,015,409	6,449,220	6,042,277	7,337,824	8,546,910
Toyota Motor Corporation shareholders equity	10,359,723	10,332,371	10,550,261	12,148,035	14,469,148
Common stock	397,050	397,050	397,050	397,050	397,050
Other Data:					
Dividends per share (yen)	45.0	50.0	50.0	90.0	165.0
Number of vehicles sold					
Japan	2,162,418	1,913,117	2,070,799	2,278,796	2,365,410
North America	2,097,374	2,031,249	1,872,423	2,468,804	2,529,398
Europe	858,390	795,534	797,993	799,085	844,003
Asia	979,651	1,255,016	1,326,829	1,683,578	1,608,355
Other*	1,139,329	1,313,123	1,283,885	1,640,401	1,768,867
Worldwide total	7,237,162	7,308,039	7,351,929	8,870,664	9,116,033

* 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. Although Toyota s articles of incorporation provide that retained earnings can be distributed as dividends pursuant to the resolution of its board of directors, Toyota s board of directors recommends the payment of year-end dividends to shareholders and pledgees of record as of March 31 in each year. Year-end dividends are usually paid to the shareholders immediately following approval of the dividends at the general shareholders meeting, normally around the middle of June of each year. In addition to these year-end dividends, Toyota may pay interim dividends in the form of cash distributions from its distributable surplus to shareholders and pledgees of record as of September 30 in each year by resolution of its board of directors. Toyota normally pays the interim dividend in late November.

In addition, under the Companies Act of Japan (the Companies Act), dividends may be paid to shareholders and pledgees of record 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. Toyota s articles of incorporation also permit Toyota to pay dividends, in addition to interim dividends mentioned in the preceding paragraph, by a resolution of its board of directors. Toyota has incorporated such a provision into its articles of incorporation in order to enable a flexible capital policy. Under the Companies Act, dividends may be distributed in cash or (except in the case of interim dividends mentioned in the preceding paragraph) in kind, subject to limitations on distributable surplus and to certain other conditions.

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The following table sets forth the dividends declared 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.

	Cash Dividends per Share	
Period Ended	**Yen**	**U.S. dollars**
September 30, 2009	20.0	0.22
March 31, 2010	25.0	0.26
September 30, 2010	20.0	0.24
March 31, 2011	30.0	0.36
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

The payment and the amount of any future dividends are dependent on the amount of Toyota s future earnings, its financial condition and other factors, including statutory restrictions on the payment of dividends.

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 aiming at a consolidated dividend payout ratio of 30% while giving due consideration to factors such as business results for each term, investment plans and its cash reserves. In order to successfully compete in this highly competitive industry, Toyota plans to utilize its internal funds for the early commercialization of next-generation environment and safety technologies, giving priority to customer safety and reliability. Considering these factors, an annual dividend of 165 yen per share was paid for fiscal 2014, consisting of a year-end dividend of 100 yen per share and an interim dividend of 65 yen per share.

In fiscal 2014, Toyota did not repurchase its own shares, excluding shares constituting less than one unit that were purchased by Toyota upon request. Since Toyota began repurchasing shares in fiscal 1997, the cumulative number of shares repurchased as of the end of March 2014 was 736.98 million shares at a total cost of ¥2,868.8 billion. The following table shows the approximate number of shares repurchased and the approximate cost of repurchase of those shares for each of the periods indicated:

	Year Ended March 31,				
	2010	**2011**	**2012**	**2013**	**2014**
Number of shares repurchased	0	0	0	0	0
Amount paid	0	0	0	0	0

Toyota s future share repurchases will be influenced by factors such as Toyota s future earnings and financial position. For a further discussion of Toyota s share repurchases, please see Purchases of Equity Securities by the Issuer and Affiliated Purchasers .

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 ¥102.92 = $1.00. This was the approximate exchange rate in Japan on March 31, 2014.

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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 2014, the noon buying rate was ¥101.77 = $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
2010	93.40	92.49	100.71	86.12
2011	82.76	85.00	94.68	78.74
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 (through May 31, 2014)	101.77	101.96	103.94	101.26

Month Ended	High (¥ per $1.00)	Low (¥ per $1.00)
December 31, 2013	105.25	101.82
January 31, 2014	104.87	102.20
February 28, 2014	102.71	101.11
March 31, 2014	103.38	101.36
April 30, 2014	103.94	101.43
May 31, 2014	102.34	101.26

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 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.

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

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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.

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, the economy gradually recovered due to increasing personal consumption and last-minute demand spurred by the increase of the consumption tax. In the United States, the economy has seen ongoing gradual recovery mainly due to increasing personal consumption and the European economy has shown signs of recovery. Meanwhile, growth in emerging markets slowed down due to weakening currencies of emerging markets stemming from U.S. monetary easing beginning to be curtailed, increases in interest rates of emerging markets to protect the local currency, and political instability in some nations. The 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 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 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.

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

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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

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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 20 and 21 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.

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

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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, 2014, Toyota operated through 542 consolidated subsidiaries (including variable interest entities) and 203 affiliated companies, of which 54 companies were accounted for through the equity method.

See Business Overview Capital Expenditures and Divestitures for a description of Toyota s principal capital expenditures and divestitures between April 1, 2011 and March 31, 2014 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.

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4.B BUSINESS OVERVIEW

Toyota primarily conducts business in the automotive industry. Toyota also conducts business in finance and other industries. Toyota sold 9,116 thousand vehicles in fiscal 2014 on a consolidated basis. Toyota had net revenues of ¥25,691.9 billion and net income attributable to Toyota Motor Corporation of ¥1,823.1 billion in fiscal 2014.

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,		
	2012	2013	2014
Automotive	16,964,378	20,378,762	23,733,855
Financial Services	1,071,737	1,150,042	1,379,267
All Other	547,538	535,388	578,789

Toyota s automotive operations include the design, manufacture, assembly and sale of passenger cars, 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 leasing through the purchase of lease contracts originated by Toyota dealers. Related to Toyota s automotive operations is its development of intelligent transport systems (ITS). Toyota s all other operations business segment includes the design and manufacture of prefabricated housing, information technology related businesses including a web portal for automobile information called GAZOO.com, and sales promotions for KDDI communication related products (predominantly the au brand).

Toyota sells its vehicles in approximately 170 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,		
	2012	2013	2014
Japan	7,293,804	7,910,456	8,532,875
North America	4,644,348	6,167,821	7,938,615
Europe	1,917,408	2,003,113	2,614,070
Asia	3,116,849	4,058,629	4,475,382
Other*	1,611,244	1,924,173	2,130,969

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

During fiscal 2014, 26.0% of Toyota s automobile unit sales on a consolidated basis were in Japan, 27.7% were in North America, 9.3% were in Europe and 17.6% were in Asia. The remaining 19.4% of consolidated unit sales were in other markets.

With regard to the series of product quality related issues that began in early 2010, in March 2010, Toyota established a Special Committee for Global Quality to thoroughly investigate the cause of the product quality issues and review all of Toyota s processes, including design, production, sales, service, and human resource development. Toyota believes it is making steady and solid improvements in these regards.

Building on the work of the Special Committee for Global Quality, each region is implementing comprehensive improvements to the company s operations and strengthening the company s quality improvement activities.

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Further, in order to obtain objective third-party evaluation, in July 2010, Toyota obtained a report concerning Toyota s quality-assurance review-and-improvement measures from the Union of Japanese Scientists and Engineers and external experts recommended by the union. This report evaluated the preventative measures undertaken by Toyota in response to the series of product quality related issues it experienced beginning in early 2010, such as strengthening analysis of customer information and human resource development, and indicated places where these measures should be deepened in order to bring about further improvement. Toyota has received the evaluation with humility, and is making efforts toward further improvements.

Through the quality control approach described above, Toyota and its officers and employees will unite to do their best to make customer safety their first emphasis, ensure that thorough quality control is a constant element of their work, strengthen quality control infrastructure and cultivate customers trust. For further details concerning recalls and other safety measures, see Operating and Financial Review and Prospects Operating Results Results of Operations Fiscal 2013 Compared with Fiscal 2012 Operating Costs and Expenses .

The Worldwide Automotive Market

Toyota estimates that annual worldwide vehicle sales totaled approximately 86 million units in 2013.

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 2014, the global economy experienced strengthening in developed countries including the United States and European countries, while growth in emerging markets slowed down due to weakening currencies of emerging markets stemming from U.S. monetary easing beginning to be curtailed, increases in interest rates of emerging markets to protect the local currency, and political instability in some nations. The automotive industry was also impacted by this trend. In fiscal 2013, with respect to developed countries, markets in the United States expanded. In addition, the prolonged downward pressure from the sovereign debt crisis and fiscal austerity measures has finally bottomed out in Europe. Further, in Japan, the market expanded as the economy picked up due to monetary easing and fiscal policies, among other factors. In emerging markets, the expansion of the Chinese market accelerated, reaching double-digit growth, but markets in other emerging countries slowed from the speed of expansion seen until the prior year.

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 2013, 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 26% for China, 22% for North America (20% excluding Mexico and Puerto Rico), 21% for Europe, and 10% for Asia. In China, new vehicle sales increased to approximately 22.2 million units. In North America, new vehicle sales increased to approximately 18.5 million units. In Europe, new vehicle sales slightly decreased to approximately 18.0 million units. In Asia (including India but excluding Japan and China), new vehicle unit sales remained generally unchanged at approximately 9.0 million units.

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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.

Since 2000, various transactions have promoted consolidation within 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. Recently these have included global business alliances and investments between manufacturers.

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.

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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.

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 expectation.

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 our future business environment, the world economy is expected to benefit from ongoing moderate recovery in the U.S. and a gradual move toward recovery in Europe. Meanwhile, some emerging countries show signs of uncertainty. The Japanese economy is expected to remain on a recovery trend, backed by an improved

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environment for exports and the effects of various policy measures. Attention should be paid, however, to downside risks mainly from the continuing uncertainty of overseas economies especially in emerging countries, and the downturn in consumption following a surge in last-minute demand spurred by the consumption tax increase in Japan.

The automotive market is expected to see expansion mainly in the U.S.; however, amid the change in market structure, as seen in the expansion and diversification of demand for eco-cars backed by rising environmental consciousness and rapid advances in information and communication technology, fierce competition exists on a global scale.

In this severe business environment, the Toyota group is progressing steadily toward the realization of the Toyota Global Vision by strengthening competitiveness and realizing innovations in order to achieve sustainable growth. The Toyota group as a whole will continue to make greater efforts to address the following:

First, we will further pursue the manufacturing of ever-better cars based on the Toyota New Global Architecture (TNGA), a new framework for fundamentally reconsidering work procedures, in order to launch attractive products globally in a timely and efficient manner. For the Toyota brand, we intend to provide customers with attractive products such as next-generation eco-cars in developed countries, and establish a sustainable business base by reinforcing product competitiveness through the development of vehicles matched to various markets in emerging countries. For the Lexus brand, we intend to establish a global premium brand from Japan that is unbound by preconceptions.

Second, we intend to implement innovative activities to lead the future. In the automotive business, we plan to work toward the creation of values such as new lifestyles, and to foray into new fields with a venture spirit in the area of new businesses.

Third, we intend to promote activities to solidify our foundations in order to strengthen our competitiveness. We intend to improve our base for manufacturing ever-better cars through quality improvement, as well as through cost-reduction activities toward building a robust business base that will be little affected by changes in foreign exchange rates or the number of units manufactured or sold, the further promotion of human resource development for the enhancement of our global competitiveness, and business innovations using IT.

Based on these efforts, Toyota will contribute to realize enriching lives of communities through providing ever-better cars that exceed customer expectations. 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 positive cycle, we 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 by carrying out its Corporate Social Responsibility (CSR).

Automotive Operations

Toyota s revenues from its automotive operations were ¥23,781.4 billion in fiscal 2014, ¥20,419.1 billion in fiscal 2013 and ¥16,994.5 billion in fiscal 2012.

Toyota produces and sells passenger cars, 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.

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Vehicle Models

Toyota s vehicles (produced by Toyota, Daihatsu and Hino) can be classified into two categories: hybrid vehicles and conventional engine 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 May 2008, Toyota introduced the hybrid version of the Crown, which is the signature model of the Toyota brand, in Japan. In April 2009, the Lexus RX450h, which is the fully remodeled Lexus RX400h, was successively introduced in Japan, North America and Europe. The Prius, whose name has become synonymous with hybrid vehicles, underwent its second full model change in May 2009. The hybrid vehicles HS250h and SAI were introduced in July 2009 and December 2009, respectively. In December 2009, Toyota began leasing the Prius plug-in hybrid equipped with a lithium ion battery targeted at certain corporate users including electrical power companies. In January 2011, the Lexus hybrid vehicle CT200h was also introduced. Further, Toyota introduced the Prius a (Prius Alpha) wagon in May 2011 and is planning further ways to enhance the Prius series lineup. Furthermore, Toyota has strengthened its hybrid lineup by introducing hybrid versions of the Camry in September 2011, the Alphard and the Vellfire in November 2011, the compact hybrid vehicle Aqua in December 2011, the Prius plug-in and the fully remodeled GS450h in January 2012, the Yaris HV in May 2012, ES300h in July 2012, the Auris HV in November 2012 and the Avalon HV, the fully remodeled Crown HV in December 2012, 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 and the fully remodeled Voxy HV/Noah HV in January 2014. Toyota anticipates strong growth in the hybrid vehicles area and will continue to introduce new models.

Toyota began limited sales of a fuel cell hybrid vehicle in Japan and the United States in December 2002. In June 2005, Toyota s new fuel cell hybrid 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 the vehicle 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 has been working towards the practical use of such solutions.

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.

Conventional Engine Vehicles

Subcompact and Compact

Toyota s subcompact and compact cars include the four-door Corolla sedan, which is one of Toyota s best selling 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 Japan, Toyota introduced the micropremium iQ in November 2008, the remodeled Passo in February 2010, the remodeled Ractis in November 2010, the remodeled Vitz in December 2010, the remodeled Corolla Axio/Fielder in May 2012, the remodeled Porte and its variant, the Spade, in

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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.

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 cars, vans or trucks with engine displacements of 660 cubic centimeters or less. Daihatsu sold approximately 685 thousand mini-vehicles and 217 thousand automobiles on a consolidated basis during fiscal 2014. Daihatsu s largest market is Japan, which accounted for approximately 80% of Daihatsu s unit sales during fiscal 2014. 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 best selling passenger car in the United States for sixteen of the past seventeen calendar years (from 1997 to present) and also for the last twelve consecutive years. The Camry was fully remodeled in August 2011. Camry sales in the United States for 2013 were approximately 408 thousand units (including Camry hybrids). In addition, Toyota s other mid-size models include (i) the REIZ for the Chinese market, (ii) the Avensis, which was remodeled in November 2008 for the European market, and (iii) 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 CT, and the LFA. Lexus models also include the LX, the GX, and the RX sold as luxury sport-utility vehicles in the United States. Toyota commenced sales of its luxury automobiles in Japan under the Lexus brand in August 2005. As of March 31, 2014, the Lexus brand lineup in Japan includes the LS, the GS, the HS, the IS, the CT, the RX, and the LFA. 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.

Recreational and Sport-Utility Vehicles and Pickup Trucks

Toyota sells a variety of sport-utility vehicles and pickup trucks. Toyota sport-utility vehicles available in North America include the Sequoia, the 4Runner, the RAV4, the Highlander, the FJ Cruiser and the Land 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 three types of sport-utility vehicles under the Lexus brand, including the LX, the GX, and the RX. Toyota also manufactures the RX and RAV4 models in Canada. Toyota s pickup truck, the Hilux, has been the best selling model of all Toyota cars sold in Thailand. In December 2008, Toyota introduced the new Venza in North America. The fully remodeled RX was introduced in 2009. In North America, the fully remodeled RAV4 was introduced in December 2012 and the fully remodeled Highlander was introduced in December 2013.

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Minivans and Cabwagons

Toyota offers several basic models for the global minivan market. Its largest minivan, the Alphard was remodeled in May 2008 in Japan at the same time that the Vellfire was introduced. In addition, the Corolla Verso was introduced in December 2008 in Europe, and the Wish was remodeled in April 2009 and the Noah/Voxy was remodeled in January 2014 in Japan. Toyota s other minivan models include, in Japan, the Estima, the Sienta, 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, which 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. As of fiscal 2014, Hino maintains a large share of the large truck market in Japan. Hino s bus lineup includes medium to large buses used primarily as tour buses and public buses, small buses and micro-buses. Toyota and Hino maintain a large share of the small bus (including micro-buses) market in Japan.

Product Development

New cars introduced in Japan during fiscal 2014 and thereafter include the Corolla Axio HV/Fielder HV. Remodeled cars in Japan during fiscal 2014 and thereafter include the Crown Majesta, Noah/Voxy, and Harrier. New vehicles developed during fiscal 2014 and thereafter and introduced outside of Japan include the GS300h introduced in Europe. Remodeled cars outside of Japan during fiscal 2014 and thereafter include the Corolla and Highlander in both the United States and Europe.

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, 2014, the Hilux, Fortuner, and Innova, one or all of which are available in all regions except for Japan.

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.

	Year Ended March 31,									
	2010		2011		2012		2013		2014	
	Units	%	Units	%	Units	%	Units	%	Units	%
Market										
Japan	2,162,418	29.9%	1,913,117	26.2%	2,070,799	28.2%	2,278,796	25.7%	2,365,410	26.0%
North America	2,097,374	29.0	2,031,249	27.8	1,872,423	25.5	2,468,804	27.8	2,529,398	27.7
Europe	858,390	11.9	795,534	10.9	797,993	10.8	799,085	9.0	844,003	9.3
Asia	979,651	13.5	1,255,016	17.2	1,326,829	18.0	1,683,578	19.0	1,608,355	17.6
Other*	1,139,329	15.7	1,313,123	17.9	1,283,885	17.5	1,640,401	18.5	1,768,867	19.4
Total	7,237,162	100.0%	7,308,039	100.0%	7,351,929	100.0%	8,870,664	100.0%	9,116,033	100.0%

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

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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,				
	2010	**2011**	**2012**	**2013**	**2014**
Japan:					
Total market sales (excluding mini-vehicles)	3,184	2,975	3,067	3,242	3,433
Toyota sales (retail basis, excluding mini-vehicles)	1,535	1,407	1,396	1,570	1,605
Toyota market share	48.2%	47.3%	45.5%	48.4%	46.7%

	(Thousands of Units) Calendar Year Ended December 31,				
	2009	**2010**	**2011**	**2012**	**2013**
North America:					
Total market sales	12,705	14,058	15,417	17,153	18,514
Toyota sales (retail basis)	2,053	2,008	1,880	2,360	2,520
Toyota market share	16.2%	14.3%	12.2%	13.8%	13.6%
Europe:					
Total market sales	18,314	18,368	19,074	18,171	18,009
Toyota sales (retail basis)	905	808	820	838	848
Toyota market share	4.9%	4.4%	4.3%	4.6%	4.7%
Asia (excluding China):					
Total market sales	5,951	7,430	7,861	8,986	8,899
Toyota sales (retail basis)	779	991	1,055	1,487	1,427
Toyota market share	13.1%	13.3%	13.4%	16.5%	16.0%

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 2014 was 2,365 thousand units, an increase of 86 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 45.5% in fiscal 2012, 48.4% in fiscal 2013 and 46.7% in fiscal 2014.

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 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.

In January 2011, Central Motor Co., Ltd., Toyota s subsidiary, began production at its Tohoku plant, implementing innovative production technology that realizes cost reductions. The Tohoku plant produces

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compact vehicles such as the Yaris sedan and the Corolla Axio. In addition, Kanto Auto Works, Ltd. became a wholly-owned subsidiary of Toyota in January 2012. In July 2012, Toyota integrated Central Motor Co., Ltd., Kanto Auto Works, Ltd. and Toyota Motor Tohoku Corporation to establish Toyota Motor East Japan, Inc. as a new company. This integration is intended to enable Toyota Motor East Japan, Inc. to design, develop, and produce globally competitive compact cars, manufacture auto parts, and support Toyota s overseas operations. Toyota has established three domestic production bases, each of which are in the Tokai, Kyushu, and Tohoku regions.

In January 2012, Toyota Auto Body Co., Ltd. became a wholly-owned subsidiary of Toyota. Toyota Auto Body Co., Ltd. is primarily responsible for integrating the planning, development, and production of minivans, commercial vehicles, SUVs, etc.

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.

In Japan, there are five major domestic manufacturers, five specialized domestic producers 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 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 24.8% in the luxury market in fiscal 2012. 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. While the automotive market struggled in the aftermath of the financial crisis beginning in 2008, Toyota has since 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 2,529 thousand vehicles on a consolidated basis in fiscal 2014. This represents approximately 28% 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 2014 were 102.5% of those in the previous fiscal year.

Toyota commenced sales of the first-generation Prius hybrid model in North America in 2000. The Prius became Toyota s best selling model behind the Corolla and Camry, having gained particular support among

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customers concerned with the environment. Toyota introduced the first hybrid model under the Lexus brand, the RX400h, and the Highlander hybrid in 2005. Toyota began sales of the HS250h in 2009 and the CT200h and Prius V in 2011. Further, Toyota continued expanding its hybrid models with the introduction of models such as the Prius C, ESh and Avalon HV in 2012.

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, etc. In 2012, Toyota introduced the all-new GS and ES models, and unit sales reached 244 thousand units. Toyota is seeking to further increase sales through the introduction of the new IS model in 2013.

Toyota is continuing to revise its production in North America in response to changes in market conditions. Toyota discontinued the joint production of the Tundra in its Indiana and Texas plants, and designated the Texas plant as the sole production facility for the Tundra in November 2008. Also in November 2008, Toyota s Kentucky plant commenced production of the new Venza model, and a decision was made to commence production of the Lexus ES350 for sale in the North America market starting by summer of 2015. At the Indiana plant, local production of the Highlander began in October 2009 and in November 2013, Toyota increased production capacity at the plant to coincide with the shift to the next generation model. Toyota also increased production capacity of auto parts at its automatic transmission plant in West Virginia in January 2014, and increased production capacity of engine plants in Kentucky and Alabama in August 2013 and January 2014, respectively, to meet the expanded production capacities of vehicles in the U.S. The Woodstock plant in Canada commenced production of the RAV4 in November 2008 and the production capacity at the Woodstock plant increased from 150 to 200 thousand units per year in January 2013. Also, Toyota commenced production of the RX450h hybrid model at its Cambridge plant in April 2014.

On the other hand, due to the termination of the NUMMI joint venture with GM in the middle of 2009, Toyota ceased placing orders for the Tacoma and Corolla with NUMMI and production was stopped at the NUMMI plant in April 2010. Equipment utilized in the production of the Tacoma model was transferred to the Texas plant, where production of the Tacoma began in July 2010. The Corolla was produced and supplied by the Cambridge plant in Canada, and finished vehicles were exported into North America from the Takaoka plant and Kanto Auto Works, Ltd. in Japan. Starting October 2011, Toyota, instead of importing from Japan, has begun production of the Corolla at its Mississippi plant. Furthermore, in November 2012, Toyota came to an agreement with Mazda Motor Corporation under which Toyota-brand light vehicles for sale mainly in North America will be produced at Mazda s new plant in Mexico.

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. As a measure towards local self-reliance, Toyota plans to increase the number of staff present at the Center, and 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 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 and plans to expand to other models in the future. Toyota also began sales of light commercial vehicles supplied by PSA from mid-2013. In addition, Toyota is

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actively promoting production and sales measures that meet local demand by reevaluating its sales network periodically and strengthening its value chain including used car dealerships, after-sales services and finance and insurance services.

In 2013, while the European market continued a downturn in the first half of the year, the market performance recovered starting mid-year mainly in Western European countries.

Sales in 2013 in Europe exceeded the previous year s figures due to the introduction of new models, recovery in Western Europe and sales increases in Russia and other emerging markets. Toyota aims to further increase its sales with the expansion of its product lineup while being attentive to market risks. Toyota s consolidated vehicle sales in Europe in fiscal 2014 was 844 thousand units, an increase of 5.6% from fiscal 2013.

Toyota has in the past increased local 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 as vehicle supply factories to Europe. Further, in 2005, Toyota Peugeot Citroën Automobile was formed as a result of a joint venture with PSA Peugeot Citroën, allowing for the expansion of local production. However, in response to the downturn of the market resulting from the economic crisis in Europe, Toyota promptly reduced personnel and made adjustments to its plant operations. In addition, in light of the current levels of demand in the United Kingdom, TMUK limited its production to one production line at its Burnaston plant. At the same time, due to the weakening market, other operations also conducted measures such as adoption of a one-shift production system at TMMT and change from a three-shift to a two-shift production system 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 opened Toyota Motor Manufacturing Russia (TMMR) in 2007 as a base for its manufacturing operations in the Russian market, where future growth is expected. A two-shift production system started in September 2012 and the 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 and TMMR were merged into one company at the end of 2013 to strengthen the business base and promote coordination of manufacturing and sales operations. In addition, Toyota commenced contract assembly of SUVs by Sollers Bussan in Vladivostok in the spring of 2013. Toyota commenced complete knock down, or CKD, production of SUVs in Kazakhstan beginning in the spring of 2014 and held a line-off ceremony in June 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 2014 was 1,609 thousand units, a decrease of 4.5% from fiscal 2013.

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.

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In this region, Toyota plans to further strengthen and solidify its business foundations by improving its product line-up, expanding local procurement, and increasing production capacities. For example, Toyota began producing IMV models (the Hilux, Fortuner and Innova) in Thailand, Indonesia, India, the Philippines and Malaysia in fiscal 2005 and in Vietnam in fiscal 2006. Furthermore, with increased production capacity, the Thailand plant now produces IMV models (the Hilux and Fortuner) for sale outside of Asia, including in Australia and in the Middle East, and has contributed greatly to the expansion of Toyota s automotive business. Furthermore, as part of Toyota s efforts to expand business going forward, Toyota Motor Thailand Co., Ltd., Toyota s vehicle production base in Thailand, commenced production of the Camry hybrid in May 2009 and Prius in November 2011. Toyota also started operation of its second Gateway plant in 2013, which increased production capacity by 80 thousand units, and increased production capacity in Thailand to 810 thousand units. In India, Toyota has expanded its business by constructing a second plant with an annual production capacity of 70 thousand units, Toyota has also commenced production and sales of the Etios compact model designed specifically for the Indian market in December 2010. Furthermore, Toyota increased production capacity in India during 2012 and 2013 to 210 thousand units. Toyota began exporting the gasoline-fueled model of the Etios to South Africa from India in April 2012. Moreover, Toyota commenced operation of a second plant in Karawang, Indonesia, at the beginning of 2013 in order to meet the diverse customer needs and the expanding market. Toyota increased the initial production capacity of 70 thousand units per year to 120 thousand units per year in the beginning of 2014. In addition, in 2012 Toyota began production and sales of the Camry hybrid in Taiwan, to accommodate the spread of environmentally-friendly vehicles. In light of the Korea-USA FTA conclusion, moreover, Toyota has begun sales of the U.S. produced Camry in Korea since January 2012.

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

China

Toyota has been conducting its 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 nine car models in China, including the Land Cruiser Prado, Land Cruiser, Corolla, Crown, REIZ, Coaster, RAV4 and Prius. With regard to increasing production capacity, in May 2007, Toyota commenced production of the new Corolla on the third line of the Tianjin Teda plant, which has an annual production capacity of 200 thousand units, and commenced production of the RAV4 on the same line in March 2009. At a new factory in Changchun, China, which has an annual production capacity of 100 thousand units, Toyota began producing the Corolla in May 2012 and the RAV4 in August 2013. Toyota also plans to increase the annual production capacity of the plant in Sichuan from 30 thousand units to 50 thousand units in the spring of 2015 to increase the production of Prado. Guangzhou Toyota Motor Co., Ltd., a joint venture between Toyota and Guangzhou Automobile Group Co., Ltd., commenced production of the Camry in May 2006 with an annual production capacity of 100 thousand units on a single shift basis and, by late 2006, it expanded its annual production capacity to 200 thousand units on a double shift basis. In addition, it commenced production of the Yaris in May 2008, and the second Guangzhou line commenced production of the Highlander in May 2009 and the E z in June 2011. In 2014, Toyota opened a plant in Changshu in Jiangsu, China for the production of the CVT. Toyota also plans to open a plant to produce hybrid vehicle batteries in 2015.

Total vehicle sales in the Chinese market increased 14% from 19.43 million in 2012 to 22.19 million in 2013. In this market, Toyota s sales in 2013 were 920 thousand vehicles, up 9% from the previous year. In the passenger vehicle market (15.99 million units), Toyota had a market share of 6%. In the 2013 market, favorable conditions in the less-than-1.6 liter market continued, and the SUV market expanded as a result of customers

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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 2014 was 1,769 thousand units, an increase of 7.8% from fiscal 2013. The increase was due to factors such as the strong sales of the Etios. The core models in this region are global models such as the Corolla, IMV (the Hilux) and Camry, which are designed to satisfy regional demands, while keeping production costs down by using common platforms and core parts and components with vehicle models in other regions. Furthermore, in order to increase production of IMV models, Toyota expanded the annual production capacity of its Argentina factory from 70 thousand units to 90 thousand units during the second half of 2011. 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 September 2012, began production and sales of the compact vehicles introduced to the Indian market. Further, Toyota began local production of the Fortuner in Egypt in April 2012.

Toyota decided to end production of vehicles and engines at Toyota Motor Corporation Australia Ltd. by the end of 2017. Specific measures will be evaluated through discussions with employees, suppliers, government entities and local communities.

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 27 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 3 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 May 2010, Toyota announced its production strategy aimed at achieving an optimal supply system in the global market. For example, Toyota will increase its local production capacities to meet a wide range of growing customer demands in a timely manner in emerging countries such as China and India. On the other hand, in developed countries with mature markets, Toyota will reconsider production models to respond to changes in market demand and establish a flexible and efficient production system that can withstand currency fluctuations. In 2013, 76.3% of Toyota vehicles sold in overseas markets were manufactured in overseas plants by Toyota and its unconsolidated affiliated companies. In 2013,

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approximately 73.7% of Toyota vehicles sold in North America were produced in North America. Of the vehicles sold in Europe in 2013, approximately 69.4% were produced in Europe. In fiscal 2014, Toyota produced on a consolidated basis 4,345 thousand vehicles in Japan and 4,687 thousand vehicles overseas, compared to 4,276 thousand vehicles in Japan and 4,422 thousand vehicles overseas in fiscal 2013.

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,				
	2010	2011	2012	2013	2014
Units Produced	6,809,440	7,169,721	7,435,781	8,698,454	9,032,165

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.

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

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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 computer 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 with the local management. 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, elemental task training, to standard task training, which is a sure method of 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.

Currently, 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, 2014, this network consisted of 281 dealers employing approximately 34 thousand sales personnel and operating approximately 4.7 thousand sales and service outlets. Toyota owns 15 of these dealers and the remainder are 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.

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Sales of Toyota vehicles in Japan are conducted through four sales channels Toyota , Toyopet , Corolla and Netz . In addition, Toyota introduc the Lexus brand to the Japanese market in August 2005, and currently distributes the Lexus brand vehicles through a network of 173 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, 2014.

	Dealers			
Channel	**Toyota Owned**	**Independent**	**Total**	**Market Focus**
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	103	106	Sales channel targeting customers with new values for the 21st century

Brand	**Sales Outlets**	**Market Focus**
Lexus	173	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, 2014 by country and region:

Country/Region	**Number of Countries**	**Number of Distributors**
North America	3	5
Europe	56	30
China	1	4
Asia (excluding China)	17	12
Oceania	17	15
Middle East	17	16
Africa	54	45
Central and South America	30	41

Improve Efficiency

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

- working with suppliers 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 and 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 at the elimination of waste in all processes from design to production while ensuring the reliability and safety of each part,

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

increasing the focus on global purchasing opportunities to optimize purchasing from suppliers,

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 divided between 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. Toyota is promoting company-wide activities to reevaluate the way it does business from the ground up in order to continue to produce high-quality, profitable and attractive cars.

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 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 sensing technologies to create vehicles with intelligent features. Information service functions can improve the convenience and enrich the driving experience by means of information communication technologies, which add new functions connected to the basic vehicle functions of running, turning and stopping . Examples include the following:

Advanced car navigation systems are equipped with functions such as displaying maps and detailed information about the car parking space and the VICS (Vehicle Information and Communication System) that provides real-time information about road traffic such as congestion, accidents, traffic restrictions and parking. These car navigation systems play an important role in providing drivers with various types of information on safety, smooth traveling, comfort and convenience.

G-BOOK is the latest information network service that merges the latest network technologies and car multimedia, prior to the arrival of the ubiquitous network society. G-BOOK provides various types of

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information useful for driving a car as well as safety and security services that detect unusual conditions in the vehicle, which supports a lifestyle using automobiles anytime and anywhere through a network. In 2005, Toyota started G-BOOK ALPHA and G-Link that is a telematics service exclusive to Lexus, which added various features including the traffic congestion forecast service. In 2007, Toyota launched G-BOOK mX, which has matured as a comprehensive telematics service and is built on the proven reliability and security of G-BOOK with the addition of services allowing drivers to use more convenient navigation systems 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.

HELPNET emergency call service is an emergency notification system that transmits necessary information such as the vehicle location either automatically or through the touch of a button in the event of a traffic accident or medical emergency. It immediately contacts police and fire departments through the HELPNET Operation Center. This system is integrated into 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, preventing secondary disasters and easing 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 a membership Internet 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 capabilities. As an interactive portal for automobiles, in addition to information on Toyota vehicles, Gazoo currently provides information on other automobile companies and also offers a rich blogging feature. 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 interactive motor sports that enable customers to experience the enjoyment that cars offer to further complement its content 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, operator support service as standard to enhance services aiming to provide safety, security and comfort for 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. Also, 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 G-BOOK by equipping all Lexus models and certain Crown models with the G-BOOK as a standard feature. Toyota has also licensed its 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 have been available in China since March 2009, and its unique telematics services in the United States was 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 (UAE, Qatar and Lebanon) in January 2014. In June 2014, Toyota announced T-Connect, a next-generation service to follow G-BOOK, and plans to launch this new service in August 2014. In addition to conventional telematics services, T-Connect plans to provide additional services and functions through the distribution of applications to vehicle equipment, as well as destination and other information searches through the adoption of a voice recognition system.

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 of 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

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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.

Also, Toyota 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 in Rokkasho Village in Aomori, a demonstration project aimed to reduce overall CO_2 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 for PHV and TOYOTA friend services. In May 2013, Toyota utilized the latest version of Microsoft s SharePoint to comprehensively redesign GAZOO, the automobile information portal site. Toyota is also developing its Big Data Traffic Information Service, a new kind of traffic-information service utilizing big data including vehicle locations and speeds, road conditions and other parameters collected and stored via telematics services. Based on such data, traffic information, statistics and other related information can be provided to local governments, universities and businesses to aid traffic flow improvement, provide map information services and assist disaster prevention measures. In June 2013, Toyota started accepting applications to use the service from local governments and businesses across Japan. Going forward, 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 in the future.

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 pleasure of driving to everyone. Toyota is proceeding with enhancements to commercialize various functions that assist the driver in sensing external information, avoiding danger and making appropriate maneuvers. These functions have started to be incorporated in some Toyota vehicles. 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, the VDIM achieves a high level of active safety and improves driving performance, namely running, turning and stopping.

Pre-collision System is a system that perceives possibilities of a crash with obstacles or the car in front through a millimeter-wave radar sensor that can precisely detect objects even in bad weather conditions. If collision seems to be unavoidable, it proceeds to activate safety devices at an early stage to reduce any damage. Toyota is also developing an advanced system that detects pedestrians using a stereo camera and a driver monitoring camera that detects the driver s face orientation and the opening and closing of eyes, which enable the determination of the likelihood of a collision at an earlier stage.

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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, resuming the system.

Lane Keeping Assist System is a system that uses a camera to detect white or yellow lane markers while driving on a highway. The system assists the driver s operation of the steering wheel in order to help keep the vehicle traveling between the lane markers by controlling electric power steering, and also warns the driver if it detects possible deviation. This system does not automatically control the steering to maintain travel between lane markers, but requires the driver to steer.

Intelligent Parking Assist is the world s first parking assistance system that enables the vehicle to be automatically steered by electric steering when backing into a parking spot or when parallel-parking. The driver presets the parking position on the display monitor. The system allows the driver to set the parking position more easily, reducing driver maneuvering by using a spatial cognition feature that detects the parking space through ultrasonic sensors.

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.

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 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 Vehicle-Infrastructure Cooperative Systems that Support Safety Driving, 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 (traffic lights and signs, etc.) and other local information from road infrastructures to automobiles.

Systems aimed at further reducing accidents, improving fuel efficiency and reducing CO_2 emissions are in development. Through direct and continuous exchange of information between vehicles and the road, other vehicles and pedestrians, these systems aim to mitigate side collisions and accidents involving pedestrians, which have been difficult to mitigate to date. This also includes systems such as C-ACC (Co-operative Adaptive Cruise Control) which supports smooth acceleration and deceleration when following behind another vehicle, and fuel efficient driving.

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.

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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 has been carrying 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 2014, Toyota will launch an experimental ultra-compact electric vehicle sharing program in Grenoble, France, together with the city of Grenoble and local companies.

In February 2013, Toyota established the F-Grid Ohira, Miyagi Limited Liability Partnership, a smart community business which operates the F-Grid in the Sendai Hokubu Industrial Park in the village of Ohira, Miyagi, together with Toyota affiliated companies. 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, 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 plans to expand 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 35 countries and regions, which support its automotive operations globally.

Toyota s revenues from its financial services operations were ¥1,421.0 billion in fiscal 2014, ¥1,170.6 billion in fiscal 2013 and ¥1,100.3 billion in fiscal 2012. In fiscal 2013, with strengthening economies predominantly in the United States and emerging markets such as Asia, Toyota collaborated with dealers in various countries and regions, and the balance of loan receivables increased steadily. In fiscal 2014, amid a gradual recovery in markets including the United States, Europe and Japan, Toyota s share of financing provided for new car sales of Toyota and Lexus vehicles in regions where TFSC operates hit 36%, its highest level ever, and the balance of loan receivables, mainly in markets including the United States, China and Thailand, continued to increase steadily as a result of the continued collaboration with dealers in various countries and regions and efforts to expand products and services that meet customer needs. 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 0.28% and 0.23% in fiscal years 2014 and 2013, respectively. Toyota continues to work towards improving its risk management measures in connection with credit and residual value risks.

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Toyota Motor Credit Corporation is Toyota s principal financial services subsidiary in the United States. Toyota also provides financial services in 34 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, and

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

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 May 2011, Toyota established Toyota Financial Services India Limited, a financial services company, in India. Toyota Financial Services India Limited began its operations in June 2012 and has since expanded its business to major cities such as Bangalore, Delhi and Mumbai. In January 2013, Toyota established a new leasing company, Toyota Motor Leasing (China) Co., Ltd., in China, which began its operations in April 2013. In addition, in April 2013, Toyota established Toyota Financial Services Kazakhstan MFO LLP, a financial services company, in Kazakhstan, which began its operations in January 2014.

Net finance receivables for all of Toyota s dealer and customer financing operations were ¥13,731.2 billion as of March 31, 2014, representing an increase of approximately 13.8% as compared to the previous year. The majority of Toyota s financial services are provided in North America. As of March 31, 2014, 57.1% of Toyota s finance receivables were derived from financing operations in North America, 11.4% from Asia, 10.8% from Europe, 8.9% from Japan and 11.8% from other areas.

Approximately 52% of Toyota s unit sales in the United States during fiscal 2014 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.

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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.

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, 2014, Toyota Finance Corporation has 12.7 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 ¥1,151.2 billion in fiscal 2014, ¥1,066.4 billion in fiscal 2013 and ¥1,048.9 billion in fiscal 2012. Sales to external customers of all other operations in fiscal 2014 represented 2.2% of Toyota s net revenues for fiscal 2014. Substantially all of Toyota s revenues from other operations were derived in Japan.

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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.

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 cars, light trucks and heavy-duty vehicles. The EPA decided in February 2000 to adopt more stringent vehicle emission and fuel economy standards applicable to passenger cars and light 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 cars and light trucks operating at cold temperatures became effective. The new emissions 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 will be phased in from 2012 to 2015. In March 2014,

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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 emissions 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 cars, 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 cars and light 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 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.

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 model years 2001 and later vehicles. The Alliance of Automobile Manufacturers (The Alliance), of which Toyota Motor North America is a member, has stated that current vehicles are only guaranteed to function on fuel up to 10% ethanol and the EPA s permission is invalid. The Alliance created the Engine Products Group together with the Global Automakers, the National Marine Manufacturers Association and the Outdoor Power Equipment Institute, and in December 2010 the Engine Products Group brought suit against the EPA. The lawsuit was dismissed in January 2013 on the grounds that the Engine Products Group lacked standing, and in March 2013, the Engine Products Group appealed the decision to the Supreme Court of the United States.

California Standards

Under the federal Clean Air Act, states are permitted to establish their own vehicle emission control standards if they receive 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 trucks and passenger cars are required to meet the same emissions 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 cars and light trucks sold in California for all model years 1998 and after be zero-emission vehicles (vehicles producing no emissions of regulated pollutants). The CARB subsequently eliminated the zero-emission vehicles mandate for model years before 2005, and decided to adopt a zero-emission vehicles requirement for model years 2005 and beyond. This zero-emission vehicles requirement also permitted certain advanced

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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). Toyota s battery-powered RAV4 EV compact sport-utility vehicle and the Toyota FCHV qualify as zero-emission vehicles. The current Prius plug-in hybrid, Prius model 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 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.

In February 2010, the CARB enacted regulations that deem automobile manufacturers that produced vehicles in model years 2012 through 2016 that are in compliance with the greenhouse gas emission regulations of the EPA to be in compliance with California s greenhouse gas emission regulations. Toyota is currently developing plans to comply with the EPA regulations.

In January 2012, the CARB approved a new emission control program for model years 2017 to 2025 called Advanced Clean Cars. The program covers greenhouse gas standards for cars and light trucks, reductions of smog-forming emissions, zero-emission vehicles regulations and clean fuels outlet regulations. The CARB is in the process of developing specific rules for the program.

Other States Standards

The states of New York, Massachusetts, Connecticut, Maine, Maryland, New Jersey, New Mexico, Oregon, Pennsylvania, Rhode Island, Vermont, Washington, Delaware and Colorado have either adopted, or plan to adopt, regulations substantially similar to California s zero-emission vehicles requirement and greenhouse gas emissions 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 cars and light trucks in model years 2004 and beyond. In addition, in response to the strengthening of the federal standards in the United States applicable to model years 2017 and beyond, Canada is currently considering the introduction of equivalent vehicle emission standards and plans to announce proposed standards in July 2014. In October 2010, the Canadian government also established its proposed greenhouse gas emission regulations that are similar to those enacted by the EPA. Furthermore, certain Canadian provinces are currently considering enacting their own regulations on vehicle emissions of greenhouse gases.

European Standards

The European Union adopted a directive that establishes increasingly stringent emissions standards for passenger vehicles and light commercial vehicles in October 1998. Under this directive, the standards adopted

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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 cars 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.

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. As 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 equipped with on-board diagnostics. As 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 January 2014. In connection with such delay, the implementation of the Level 5 Emissions Regulations has been postponed. As 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 approximate 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. With respect to passenger vehicles, pursuant to GB18352.5-2013, the Level 5 Emissions Regulations corresponding to Euro 5 is to be implemented throughout China for all models that are sold and registered after January 2018. Beijing has already independently implemented its own Level 5 Emissions Regulations from March 2013. Shanghai has also decided to implement Level 5 Emissions Regulations pursuant to GB18352.5-2013 from May 2014 in advance of other parts of China.

Compliance with new emission control 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 emission regulations. Countries in Eastern Europe and Asia, as well as Australia, Taiwan and Hong Kong, have considered or implemented emission regulations.

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Vehicle Fuel Economy

Japanese Standards

The Law Concerning the Rational Use 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) or fiscal 2021 (April 2020-March 2021).

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 75-2 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 2016.

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 trucks for model year 2008 and beyond. These CAFE standards aimed to shift 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.

In addition to the CAFE standards, there are multiple standards in the United States including the EPA s emission regulations and the California standard. Automobile manufacturers had called for uniform standards, as they would need to comply with standards that varied by state if all standards became effective. On April 1, 2010

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the EPA and the NHTSA issued a joint final rule to reduce the emission of greenhouse gases from passenger cars, 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 CAFE standards for passenger cars and light 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 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 proposed rule, these vehicles would be 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. At the same time, the NHTSA also issued proposed CAFE standards for passenger vehicles and light 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 final rule applying to model years 2017 to 2025 was announced on August 28, 2012. 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

The European Union has signed the Kyoto Protocol and agreed to reduce carbon dioxide emissions by 8% during the years 2008 to 2012, as measured from the 1990 base year. In early 1999, the European Commission and the European Automotive Manufacturers Association (ACEA) reached a voluntary agreement which establishes an average emissions target of 140 grams of carbon dioxide per kilometer for new cars sold in the European Union in 2008 (the voluntary agreement applied to the 15 states who were members of the European Union at that time). The Japan Automobile Manufacturers Association and the Korean Automobile Manufacturers Association have also reached a voluntary agreement, similar to that entered into by the European Commission, with the year 2009 as a target year.

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 will phase 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.

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An increasing number of European Union 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.

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. As 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. As 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 if 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, discussions on the next Level 4 Fuel Consumption Regulations have commenced in order to achieve the national target for average fuel efficiency for 2020.

Standards of Other Countries

As fuel prices increase and momentum gathers to 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 and India have already decided to introduce fuel consumption regulations. Canada and Vietnam are also actively considering the introduction of new fuel consumption regulations using the regulations of Japan, Europe and the United States as a base, and may implement them by approximately 2015. 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 CO_2.

Vehicle Safety

Japanese Standards

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

With respect to standards that were previously brought in line with the UNECE standards, the safety standards applicable to electric vehicles were amended by adding requirements relating to Rechargeable Energy Storage Systems (REESS) such as a testing requirement for fire resistance. The new requirements will apply to vehicles that obtain new model codes or are converted into electric vehicles on or after July 2016.

With respect to standards that were newly brought in line with the UNECE standards, standards for braking systems in buses, trucks and trailers will apply gradually to new vehicle models beginning in November 2014 and to existing vehicle models beginning in February 2017. Standards for the location and identification of control systems of vehicles other than two-wheeled vehicles and others will apply gradually to vehicles to be manufactured on or after February 2017. Standards for lane departure warning systems in buses and medium or heavy trucks will apply to vehicles beginning in August 2015. Standards for advanced emergency braking systems will gradually apply to new vehicle models beginning in November 2014 and to existing vehicle models beginning in September 2017. Standards for the forward field of vision of the vehicle driver will apply to new vehicle models beginning in November 2016 and to existing vehicle models beginning in November 2018.

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Standards for child restraint systems were implemented in January 2014. Standards for motor vehicles using compressed natural gas will apply to new vehicle models beginning in February 2017 and to existing vehicle models beginning in February 2019.

With respect to standards that are scheduled to be newly brought in line with the UNECE standards, standards for glass windows will apply to new vehicle models beginning in June 2017 and to existing vehicle models beginning in June 2019. Standards for temporary-use spare units and tire pressure monitoring systems will apply to vehicles to be manufactured on or after February 2018. Standards for steering systems will apply gradually to new vehicle models to be manufactured on or after July 2016 and to existing vehicle models on or after July 2018.

In addition to the above, preparations for the introduction of the UNECE safety standards for interior fittings (internal projections) have commenced.

Furthermore, in Japan, considerations regarding the standardization of brake override systems, the strengthening of anti-spinal injury measures, and anti-drunk driving measures are currently under consideration.

Standards for motor vehicles using compressed hydrogen gas will be brought in line with the Global Technical Regulation (No. 13) on Hydrogen and Fuel Cell Vehicles, and will apply to vehicles to be manufactured on or after February 2017.

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

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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.

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

In January 2014, the NHTSA proposed a regulation upgrading the federal motor vehicle safety standard for child-restraint systems to protect child passengers in the case of side crashes. The proposed upgrades would include a side impact test for car seats sold in the United States that are designed for children weighing up to 40 pounds. The NHTSA proposed that the regulation would go into effect three years after final rule publication.

Toyota actively invests in technology development designed to increase the safety of its vehicles. Toyota is developing technologies to increase the availability of existing safety systems to all types of its vehicles. These technologies include supplemental restraint system (SRS) airbags, anti-lock braking systems, side airbags, curtain shield airbags, vehicle stability control and other safety features.

European Standards

In Europe, following the White Paper European Transport Policy for 2010: Time to Decide adopted in 2001, which targets halving the number of deaths caused by road accidents by 2010, various groups in different fields have conducted research and analyses.

The European Commission and the ACEA have established CARS 21, a High Level Group that aims to strengthen the competitiveness of the European automotive industry, and examined the recommendations with the legal framework of a decade later in mind. The CARS 21 final report issued at the end of 2005 contains recommendations relating to the simplification of legislation and road safety, among other issues, and indicates a Ten Year Roadmap, and in February 2007, the European Commission issued a communication regarding the CARS 21 final report, in which concrete action plans for future legislation were announced, and much legislation had proceeded.

In 2009, based on the CARS 21 final report released in February 2007, the European Commission enacted a new regulation and established 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 UNECE standards. The new regulation also requires the adoption of advanced safety systems. The EU Regulation directly incorporating the UNECE standards commenced in 2012 and requires advanced safety systems, including requiring new type vehicle 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 (the technical requirements for advanced emergency braking in medium-duty passenger vehicles are under consideration by 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

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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, alcohol interlock devices, 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 intended to present for adoption in March 2014.

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 is expected to become mandatory beginning in October 2015 for light-duty passenger vehicles and light-duty commercial vehicles using the framework of Whole Vehicle Type Approval. A proposed amendment is currently being considered between the European Council and the European Parliament, and detailed regulations setting forth the technical standards of eCall are scheduled to be proposed by the end of 2014. 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 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 braking systems which detect pedestrians, and the adoption of blind spot monitors, reverse system which detect pedestrians, reverse cameras and Evert Data Recorders on trucks are also expected to be considered.

From April 2009, the applicable scope for Whole Vehicle Type Approval (WVTA) was extended to cover all vehicle categories, and are being phased in over five years depending on vehicle category. 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 2014, WVTA is scheduled to be amended for further enhancement and improvement together with the revision of overall requirements based on a comprehensive review of the requirements for vehicle structures, including the strengthening of the market surveillance requirements and general product safety requirements, as well as revisions to the vehicle type definitions.

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): While originally based on the European regulations, the UNECE standards 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 UNECE standards into their own domestic policies (The EU and Japan have directly included the UNECE standards into their domestic legislations). While automotive parts and vehicle systems are regulated by the UN regulations, there are currently no regulations with

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respect to International Whole Vehicle Type Approval such as those in Europe. Japan proposed legislation establishing WVTA under the United Nations in 2016, and the matter is being deliberated by the United Nations. If IWVTA (International Whole Vehicle Type Approval) is established, integration of global administrative regulations of each country, and simplification of registration procedures are expected. Going forward, amendments to each UNECE standard to reflect the objectives of the establishment of IWVTA will commence.

Due to the EU s incorporation of the UN safety regulations since 2012, the UNECE standards are likely to be further influenced by the EU s needs.

On the other hand, an amendment to the 1958 Agreement is being considered with an aim towards implementation in March 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. Furthermore, the amendment also includes a provision that permits voting by proxy for voting in connection with proposed UNECE standards, which is not permitted under the current 1958 Agreement. The percentage of required votes will also be considered. 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.

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): As a US-led agreement, the 1998 agreement aims to harmonize the technical regulations, and defines each regulation as a Global Technical Regulation (GTR). At present, there are 14 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 1998 agreement includes China and India that were not a part of the 1958 agreement, therefore, the direction taken by the GTRs will also influence those countries.

In 2012, discussions including the development of the GTRs for EVs started due to the needs in Japan, the United States and Europe.

Chinese Standards

Vehicle safety regulations in China were drafted with reference to the UNECE standards and cover almost the same matters as the UNECE standards. 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 UNECE standards. 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 similar to those in the United States. In regions outside of North America, adoption and conformity with the UNECE standards 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 UNECE standards 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 UNECE standards or to adopt new regulations consistent with the UNECE standards.

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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.

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 2014, Toyota achieved a recycling rate of 96% for automobile shredder residue (the legal requirement being 50%) and 94% 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 2014. 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.

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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 vehicles 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 European Union member states. Currently, there are uncertainties surrounding the implementation of the applicable regulations in different European Union member states, particularly regarding automotive manufacturer responsibilities and resultant expenses that may be incurred.

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 European Union. Toyota accommodated, in offering its products, any measures the European Union member states will choose to take in order to comply with this directive.

Based on the legislation that has been enacted to date, Toyota has provided for its estimated liability related to covered vehicles in existence as of March 31, 2014. The amount of estimated liability may change depending on future legislation to be enacted and subject to other circumstances. Although Toyota does not expect its compliance with the directive to result in significant cash expenditures, Toyota is continuing to assess the impact of this future legislation on its financial position, results of operations and cash flows.

The European Union 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 European Union 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 once the proposal is finalized. In April 2014, the European Council adopted this proposal and the European Parliament endorsed the Council s position.

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.

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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 life cycles, Toyota, as a manufacturer, strives to take all possible measures in each life stage of a product, from development through production and sales, 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

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added Section 13(r) to the Securities Exchange Act of 1934, as amended. Section 13(r) requires an issuer to disclose in its annual or quarterly reports, as applicable, whether it or any of its affiliates knowingly engaged in certain activities, transactions or dealings relating to Iran or with designated natural persons or entities involved in terrorism or the proliferation of weapons of mass destruction. Pursuant to Section 13(r), Toyota is disclosing the following information.

During the fiscal year ended March 31, 2014:

Toyota Tourist International, Inc., a majority-owned subsidiary of Toyota, obtained eight visas from the Iranian embassy in Japan in connection with certain travel arrangements.

Tokyo Toyota Motor Co., Ltd., a wholly-owned indirect subsidiary of Toyota, performed maintenance services for Toyota vehicles owned by the Iranian embassy in Japan.

Altogether, the above activities contributed an insignificant amount in gross revenues and net profit to Toyota. Toyota believes that none of the above transactions subject it or its affiliates to U.S. sanctions. Toyota Tourist International intends to cease conducting the activities described above. Tokyo Toyota Motor may, if requested by the Iranian embassy in Japan, continue to perform maintenance services relating to vehicles owned by such embassy, in accordance with applicable laws and regulations, in order to honor Toyota s commitment to the safety and reliability of its vehicles.

Research and Development

Toyota s research and development activities focus on the environment and energy, safety, IT/ITS technology and product development. For a detailed discussion of the company s research and development policies for the last three years, see Operating and Financial Review and Prospects Research and Development, Patents and Licenses .

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

Facility	Principal Activity
Japan	
Toyota Technical Center	Product planning, style, design and evaluation
Tokyo Design Research & Laboratory	Research of advanced styling designs
Higashi-Fuji Technical Center	Advanced research and development
Shibetsu Proving Ground	Vehicle testing and evaluation
Tokyo Development Center	Advanced development of electronics
United States	
Toyota Motor Engineering and Manufacturing North America, Inc.	North American production and product planning, upper body planning, evaluation
Calty Design Research, Inc.	Design
Toyota Research Institute of North America (TRI-NA)	Advanced research relating to energy and environment , safety and mobility infrastructure
Europe	
Toyota Motor Europe NV/SA	Upper body planning for European production, advanced research
Toyota Europe Design Development S.A.R.L.	Design
Toyota Motorsport GmbH	Development of motor sports vehicles
Asia Pacific	
Toyota Motor Asia Pacific Engineering and Manufacturing Co., Ltd.	Production, planning and evaluation of vehicles that are produced in Australia and Asia
Toyota Technical Center Asia Pacific Australia Pty, Ltd.	Production, planning and evaluation of vehicles that are produced in Australia and Asia
China	
Toyota Motor Engineering and Manufacturing (China) Co., Ltd.	Research of new, low-energy vehicle technology, vehicle evaluation and quality assurance in China

The success of Toyota s research and development activities is a key element of Toyota s strategy. The effectiveness of Toyota s research and development activities is subject to a number of factors, some of which are not in Toyota s control. These factors include the introduction of innovations by Toyota s competitors that may reduce the value of Toyota s initiatives and Toyota s ability to convert its research and development into commercially successful technologies and products.

Components and Parts, Raw Materials and Sources of Supply

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. No single supplier accounted for more than 5% of Toyota s consolidated purchases of raw materials and parts during fiscal 2014, except for Denso Corporation, an affiliated company of Toyota, which supplied approximately 10% of Toyota s purchases during fiscal 2014. Toyota plans to continue purchases based on the same principle and does not anticipate any difficulty in obtaining stable supplies in the foreseeable future.

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Because Toyota had more than 50 overseas operations in 27 countries and regions as of December 31, 2013, 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 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 purchase parts and materials from the most competitive suppliers among Toyota factories located in various areas worldwide. By doing so, Toyota aims to boost the efficiency of its sourcing from external suppliers. In addition, 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. Urgent VA (value analysis) Activities began in fiscal 2008 and developed into All-Toyota VA Activities in 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 both product appeal and cost reductions by sharing more parts and components, as well as through various other perspectives.

In fiscal 2014, market prices of raw materials such as steel generally increased in comparison to the prior fiscal year due in part to the depreciation of the yen. 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.

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Capital Expenditures and Divestitures

Set forth below is a chart of Toyota s principal capital expenditures between April 1, 2011 and March 31, 2014, the approximate total costs of such activity, as well as the location and method of financing of such activity, presented on a by 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
Japan			
Investment primarily in technology and products by Toyota Motor Corporation	582.5	Japan	Internal funds, financing from issuance of bonds, etc.
Investment primarily in technology and products by Hino Motors, Ltd.	89.3	Japan	Internal funds
Investment primarily in technology and products by Daihatsu Motor Co., Ltd.	64.2	Japan	Internal funds
Investment primarily in technology and products by Toyota Auto Body Co., Ltd.	56.7	Japan	Internal funds
Investment primarily in technology and products by Toyota Motor Hokkaido, Inc.	39.3	Japan	Internal funds
Outside of Japan			
Investment primarily to promote localization by Toyota Motor Thailand Co., Ltd.	123.7	Thailand	Internal funds
Investment primarily to promote localization by Toyota Motor Manufacturing Canada Inc.	86.1	Canada	Internal funds
Investment primarily to promote localization by Toyota do Brasil Ltda.	80.0	Brazil	Internal funds
Investment primarily to promote localization by P.T. Toyota Motor Manufacturing Indonesia	79.5	Indonesia	Internal funds
Investment primarily to promote localization by Toyota Motor Manufacturing, Indiana, Inc.	62.6	United States	Internal funds
Investment primarily to promote localization by P.T. Astra Daihatsu Motor	59.5	Indonesia	Internal funds
Investment primarily to promote localization by Toyota Motor Manufacturing, Kentucky, Inc.	55.7	United States	Internal funds
Investment primarily to promote localization by Siam Toyota Manufacturing Co., Ltd.	43.5	Thailand	Internal funds
Investment primarily to promote localization by Toyota Motor Europe NV/SA	40.8	Belgium	Internal funds
Investment primarily in leased automobiles by Toyota Motor Credit Corporation	3,077.8	United States	Internal funds,

	financing from issuance of bonds, etc.

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Set forth below is information with respect to Toyota s material plans to construct, expand or improve its facilities between April 2014 and March 2015, presented on a by 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
Japan			
Investment primarily in manufacturing facilities by Toyota Motor Corporation	260.0	Japan	Internal funds
Investment primarily in manufacturing facilities by Hino Motors, Ltd.	45.0	Japan	Internal funds and borrowings
Outside of Japan			
Investment primarily in manufacturing facilities by Toyota Motor Manufacturing, Kentucky, Inc.	49.6	United States	Internal funds
Investment primarily in manufacturing facilities by Toyota Motor Manufacturing, Texas, Inc.	33.7	United States	Internal funds
Investment primarily in manufacturing facilities by Toyota Argentina S.A.	30.5	Argentina	Internal funds and borrowings
Investment primarily in manufacturing facilities by Toyota Motor Europe NV/SA	27.7	Belgium	Internal funds

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

Tohoku Region Plant. In April 2008, Toyota decided to build an engine plant in Kurokawa, Miyagi Prefecture, Japan. However, while the commencement of production at this plant, which was initially expected to occur at the end of 2010, was postponed, Toyota Motor Tohoku Corporation (Toyota Tohoku) commenced assembly of small-size engines from the end of 2012. Toyota Tohoku merged with Kanto Auto Works, Ltd. and Central Motor Co., Ltd. in July 2012 and became Toyota Motor East Japan, Inc.

Sorocaba Plant. In August 2010, Toyota decided to construct a vehicle plant in Sorocaba, Brazil. This plant is producing the Etios small vehicle introduced in India with an annual production capacity of 70 thousand units. The plant commenced production in September 2012.

Karawang No. 2 Plant. In November 2011, Toyota decided to establish a vehicle plant in Karawang, West Java, Indonesia. Production at the facility commenced in March 2013. Production capacity at the time of launch of the plant was 70 thousand units, and this was increased to 120 thousand units in 2014. The plant is also expected to produce new vehicles that meet market demand.

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.

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Seasonality

Toyota has historically experienced slight seasonal fluctuations in unit sales. For each of the past three fiscal years, Toyota s unit sales levels have been highest in March, with approximately 10% to 12% of annual unit sales generated during that month, and for each of the remaining months, its unit sales have generated approximately 6% to 9% of its annual unit sales.

Legal Proceedings

Product Recalls

From time-to-time, Toyota issues vehicle recalls and takes other safety measures including safety campaigns relating to its vehicles. In November 2009, Toyota announced a safety campaign in North America for certain models of Toyota and Lexus vehicles related to floor mat entrapment of accelerator pedals, and later expanded it to include additional models. In January 2010, Toyota announced a recall in North America for certain models of Toyota vehicles related to sticking and slow-to-return accelerator pedals. Also in January 2010, Toyota recalled in Europe, China and other regions certain models of Toyota vehicles related to sticking accelerator pedals. In February 2010, Toyota announced a worldwide recall related to the software program that controls the antilock braking system (ABS) in certain vehicle models including the Prius. Set forth below is a description of the remaining claims, lawsuits and government investigations involving Toyota in the United States relating to these recalls and other safety measures.

Class Action and Consolidated Litigation

Approximately 200 putative class actions and more than 500 individual product liability personal injury cases have been filed since November 2009 alleging that certain Toyota, Lexus and Scion vehicles contain defects that lead to unintended acceleration. All of the class actions and many of the product liability personal injury, warranty and lemon law cases were consolidated either in a consolidated action in the United States District Court for the Central District of California or in a consolidated action in California state court.

In December 2012, Toyota and the plaintiffs announced that they had reached an agreement to settle the economic loss claims in the consolidated federal action. In fiscal 2013, Toyota recorded a $1.1 billion pre-tax charge against earnings to cover the estimated costs of this economic loss resolution and other potential recall-related resolutions. In July 2013, the court signed the order and judgment granting final approval of the settlement and dismissing the economic loss cases. Various objectors appealed the court s rulings, but all of these appeals have been dismissed and the settlement is final.

Although the settlement does not cover product liability personal injury claims in the consolidated federal action or pending in various state courts in the United States, the judges overseeing the federal and California consolidated actions have approved an Intensive Settlement Process (ISP) for the product liability personal injury claims in those actions. Under the ISP, all cases 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.

Beginning in February 2010, Toyota was sued in approximately 20 putative class actions alleging defects in the antilock braking system in various hybrid vehicles that cause the vehicles to fail to stop in a timely manner when driving in certain road conditions. These cases were consolidated into two actions, one in the United States District Court for the Central District of California and one in the Los Angeles County Superior Court. In January 2013, the Court in the federal case issued an order denying the plaintiff s motion for class certification and granting summary judgment in favor of Toyota on the claims of the principal named plaintiff for the cases relating to recalled vehicles. In July 2013, the court denied the motion for class certification for claims related to vehicles that were not recalled, and that ruling has been appealed.

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While Toyota has resolved or is attempting to resolve many of the outstanding matters, Toyota believes that it has meritorious defenses to all of them and will vigorously defend those matters not resolved.

Government Investigations

In February 2010, Toyota received a subpoena from the U.S. Attorney for the Southern District of New York and a voluntary request and subpoena from the SEC primarily seeking documents related to unintended acceleration and certain financial records. This began as a coordinated investigation and has included interviews of Toyota and non-Toyota witnesses, as well as production of documents. In March 2014, Toyota announced that it entered into a deferred prosecution agreement (DPA) with the U.S. Attorney s Office for the Southern District of New York to resolve its investigation. The matter was resolved pursuant to the DPA, which provided for a $1.2 billion payment to the U.S. government, and Toyota recorded a $1.2 billion charge against earnings in fiscal 2014. The agreement also 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 April 2014, the staff of the SEC notified Toyota that it has concluded its investigation and it does not intend to recommend that the SEC institute an enforcement action regarding this matter.

Beyond the amounts accrued for the recall-related matters, Toyota is unable to estimate a range of reasonably possible loss, if any, for the other recall-related 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. Toyota continues to evaluate these matters and expects that it may have resolution discussions from time to time in some of them. Although Toyota cannot estimate a reasonable range of loss based on currently available information, the resolution of these matters could have an adverse effect on Toyota s financial position, results of operations or cash flows.

Other Proceedings

Toyota has various other legal actions, other governmental proceedings and other claims pending against it, including other product liability claims in the United States. For the same reasons discussed above relating to the recall-related legal proceedings, Toyota is unable to estimate a range of reasonably possible loss, if any, beyond the amounts accrued, with respect to these other proceedings. Based upon information currently available to Toyota, however, Toyota believes that its losses from these matters, if any, would not have a material adverse effect on Toyota s financial position, results of operations or cash flows.

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4.C ORGANIZATIONAL STRUCTURE

As of March 31, 2014, Toyota Motor Corporation had 264 Japanese subsidiaries and 278 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.

Name of Subsidiary	Country of Incorporation	Percentage Ownership Interest	Percentage Voting Interest
Toyota Financial Services Corporation	Japan	100.00	100.00
Hino Motors, Ltd.	Japan	50.21	50.42
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 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 Kreditbank GmbH	Germany	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	86.39	86.39
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

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4.D PROPERTY, PLANTS AND EQUIPMENT

As of December 31, 2013, Toyota and its affiliated companies produce automobiles and related components through more than 50 overseas manufacturing organizations in 27 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, 2014, 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
Japan (Toyota Motor Corporation)				
Tahara Plant	Tahara City, Aichi Pref.	4,029	7,576	Automobiles
Higashi-Fuji Technical Center	Susono City, Shizuoka Pref.	2,041	2,876	Research and Development
Toyota Head Office and Technical Center	Toyota City, Aichi Pref.	1,930	21,323	Research and Development
Motomachi Plant	Toyota City, Aichi Pref.	1,594	7,160	Automobiles
Takaoka Plant	Toyota City, Aichi Pref.	1,311	3,635	Automobiles
Tsutsumi Plant	Toyota City, Aichi Pref.	937	4,644	Automobiles
Kamigo Plant	Toyota City, Aichi Pref.	868	2,942	Automobile parts
Kinu-ura Plant	Hekinan City, Aichi Pref.	836	3,006	Automobile parts
Honsha Plant	Toyota City, Aichi Pref.	551	1,838	Automobile parts
Nagoya Office	Nagoya City, Aichi Pref.	3	2,212	Office
Japan (Subsidiaries)				
Daihatsu Motor Co., Ltd.	Ikeda City, Osaka, etc.	8,533	11,788	Automobiles
Hino Motors, Ltd.	Hino City, Tokyo, etc.	5,820	11,686	Automobiles
Toyota Motor East Japan, Inc.	Kurokawa-gun, Miyagi Pref., etc.	2,616	7,274	Automobiles
Toyota Auto Body Co., Ltd.	Kariya City, Aichi Pref., etc.	2,257	11,609	Automobiles
Toyota Motor Kyushu, Inc.	Miyawaka City, Fukuoka Pref., etc.	1,988	7,179	Automobiles
Outside Japan (Subsidiaries)				
Toyota Motor Thailand Co., Ltd.	Samutprakarn, Thailand	4,340	9,627	Automobiles
Toyota Motor Manufacturing Canada, Inc.	Ontario, Canada	4,756	6,591	Automobiles
Toyota Motor Sales, U.S.A., Inc.	California, U.S.A.	3,774	6,503	Sales facilities
Toyota do Brasil Ltda.	Sao Paulo, Brazil	6,237	5,224	Automobiles
Toyota Motor Manufacturing, Indiana, Inc.	Indiana, U.S.A.	4,348	4,466	Automobiles

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

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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, 2014, property, plant and equipment having a net book value of approximately ¥64.9 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

All 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 90% of Toyota s total revenues before the elimination of intersegment revenues for fiscal 2014. Toyota s primary markets based on vehicle unit sales for fiscal 2014 were: Japan (26%), North America (28%), Europe (9%) and Asia (18 %).

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 2014, automotive markets progressed in a steady manner, especially in the U.S., although some markets in emerging countries have slowed down. Efforts toward building a low-carbon society and improvements in safety, such as the technical development of eco-cars and automated-driving, were promoted worldwide.

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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,		
	2012	**2013**	**2014**
Japan	2,071	2,279	2,365
North America	1,872	2,469	2,529
Europe	798	799	844
Asia	1,327	1,684	1,609
Other*	1,284	1,640	1,769
Overseas total	5,281	6,592	6,751
Total	7,352	8,871	9,116

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

During fiscal 2014 and 2013, Toyota s consolidated vehicle unit sales in Japan increased as compared with each prior fiscal year, primarily as a result of the active introduction of new products and the efforts of dealers nationwide. For fiscal 2014, Toyota and Lexus brands market share excluding mini-vehicles was 46.7%, and market share (including Daihatsu and Hino brands) including mini-vehicles was 42.2%, each remaining at a high level continuing from the prior fiscal year. Overseas consolidated vehicle unit sales increased during fiscal 2013 and 2014. During fiscal 2013, total overseas vehicle unit sales increased in every region. During fiscal 2014, total overseas vehicle unit sales increased as a whole, due to increased sales in North America, Europe and other regions.

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.

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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. The European Union has enforced a directive on end-of-life vehicles. See Legislation Regarding End-of-Life Vehicles , Information on the Company Business Overview Governmental Regulation, Environmental and Safety Standards and note 23 to the consolidated financial statements for a more detailed discussion of these laws, regulations and policies.

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. In November 2009, Toyota announced a safety campaign in North America for certain models of Toyota and Lexus vehicles related to floor mat entrapment of accelerator pedals, and later expanded it to include additional models. In January 2010, Toyota announced a recall in North America for certain models of Toyota vehicles related to sticking and slow-to-return accelerator pedals. Also in January 2010, Toyota recalled in Europe, China and other regions certain models of Toyota vehicles related to sticking accelerator pedals. In February 2010, Toyota announced a worldwide recall related to the software program that controls the antilock braking system in certain vehicle 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 23 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 increased during fiscal 2014 mainly due to the favorable impact of fluctuations in foreign currency translation rates and an increase in retail receivables.

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

	Yen in millions March 31,	
	2013	2014
Finance Receivables		
Retail	9,047,782	10,523,364
Finance leases	1,029,887	1,071,179
Wholesale and other dealer loans	2,615,728	2,875,650
	12,693,397	14,470,193
Deferred origination costs	135,398	161,956
Unearned income	(628,340)	(754,539)
Allowance for credit losses		
Retail	(83,858)	(89,439)
Finance leases	(28,928)	(30,585)
Wholesale and other dealer loans	(26,243)	(26,358)
	(139,029)	(146,382)
Total finance receivables, net	12,061,426	13,731,228
Less Current portion	(5,117,660)	(5,628,934)
Noncurrent finance receivables, net	6,943,766	8,102,294
Operating Leases		
Vehicles	2,999,294	3,674,969
Equipment	104,351	129,029
Less Deferred income and other	(65,634)	(94,438)
	3,038,011	3,709,560
Less Accumulated depreciation	(749,238)	(808,764)
Less Allowance for credit losses	(8,020)	(7,220)
Vehicles and equipment on operating leases, net	2,280,753	2,893,576

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 20 and 26 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

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include general economic conditions, prevailing interest rates and Toyota s financial strength. Funding costs decreased during fiscal 2013 and 2014, mainly as a result of lower interest rates.

Toyota launched its credit card business in Japan in April 2001. As of March 31, 2013, Toyota had 11.8 million cardholders, an increase of 0.9 million cardholders compared with March 31, 2012. As of March 31, 2014, Toyota had 12.7 million cardholders, an increase of 0.9 million cardholders compared with March 31, 2013. Credit card receivables as of March 31, 2013 increased by ¥30.5 billion from March 31, 2012 to ¥338.1 billion. Credit card receivables as of March 31, 2014 increased by ¥42.8 billion from March 31, 2013 to ¥380.9 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 and, to a lesser extent, 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 2012 and 2013, Toyota produced 75.4% and 76.3%, respectively, of its non-domestic sales outside Japan. In North America, 75.3% and 73.7% of vehicles sold in calendar 2012 and 2013, respectively, were produced locally. In Europe, 58.5% and 69.4% of vehicles sold in calendar 2012 and 2013, 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 20 and 26 to the consolidated financial statements for additional information.

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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 fiscal 2013 and 2014, the Japanese yen was on average and at the end of the fiscal year weaker against the U.S. dollar in comparison to fiscal 2012 and 2013, respectively. Although, in fiscal 2013, the Japanese yen was on average stronger against the euro in comparison to the prior fiscal year, it was on average weaker in fiscal 2014. The Japanese yen was weaker at the end of fiscal 2013 and 2014 against the euro in comparison to the end of fiscal 2012 and 2013, respectively. See further discussion in Quantitative and Qualitative Disclosures about Market Risk Market Risk Disclosures Foreign Currency Exchange Rate Risk .

During fiscal 2013 and 2014, the average exchange rate of the Japanese yen against the U.S. dollar and the euro compared to the prior fiscal year fluctuated as described above. The operating results excluding the impact of currency fluctuations described in Results of Operations Fiscal 2014 Compared with Fiscal 2013 and Results of Operations Fiscal 2013 Compared with Fiscal 2012 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 2013 and 2014, 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 of 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,		
	2012	**2013**	**2014**
Japan	7,293,804	7,910,456	8,532,875
North America	4,644,348	6,167,821	7,938,615
Europe	1,917,408	2,003,113	2,614,070
Asia	3,116,849	4,058,629	4,475,382
Other*	1,611,244	1,924,173	2,130,969

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

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Results of Operations Fiscal 2014 Compared with Fiscal 2013

	Yen in millions			
	Year ended March 31,		2014 v. 2013 Change	
	2013	2014	Amount	Percentage
Net revenues:				
Japan	12,821,018	14,297,470	1,476,452	11.5%
North America	6,284,425	8,117,099	1,832,674	29.2
Europe	2,083,113	2,724,959	641,846	30.8
Asia				