

# **TOYOTA MOTOR CORPORATION**

**Unaudited Consolidated Financial Statements  
For the periods ended  
September 30, 2018**

# TOYOTA MOTOR CORPORATION

## Analysis of Results of Operations

### For the first half ended September 30, 2018

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#### Financial results

Consolidated vehicle unit sales in Japan and overseas increased by 30 thousand units, or 0.7%, to 4,419 thousand units in FY2019 first half (the six months ended September 30, 2018) compared with FY2018 first half (the six months ended September 30, 2017). Vehicle unit sales in Japan decreased by 56 thousand units, or 5.2%, to 1,031 thousand units in FY2019 first half compared with FY2018 first half. Meanwhile, overseas vehicle unit sales increased by 86 thousand units, or 2.6%, to 3,388 thousand units in FY2019 first half compared with FY2018 first half.

The results of operations for FY2019 first half were as follows:

Net revenues	14,674.0 billion yen	(an increase of 482.7 billion yen or 3.4% compared with FY2018 first half)
Operating income	1,261.8 billion yen	(an increase of 165.3 billion yen or 15.1% compared with FY2018 first half)
Income before income taxes and equity in earnings of affiliated companies	1,548.8 billion yen	(an increase of 296.6 billion yen or 23.7% compared with FY2018 first half)
Net income attributable to Toyota Motor Corporation	1,242.3 billion yen	(an increase of 171.0 billion yen or 16.0% compared with FY2018 first half)

The changes in operating income and loss were as follows:

Marketing efforts	an increase of 150.0 billion yen
Effects of changes in exchange rates	a decrease of 20.0 billion yen
Cost reduction efforts	an increase of 30.0 billion yen
Increase or decrease in expenses and expense reduction efforts	an increase of 40.0 billion yen
Other	a decrease of 34.7 billion yen

#### Segment operating results

##### (i) Automotive:

Net revenues for the automotive operations increased by 411.4 billion yen, or 3.2%, to 13,148.3 billion yen in FY2019 first half compared with FY2018 first half, and operating income increased by 152.2 billion yen, or 16.7%, to 1,064.7 billion yen in FY2019 first half compared with FY2018 first half. The increase in operating income was mainly due to the increase in vehicle unit sales, as well as the decrease in expenses and expense reduction efforts.

##### (ii) Financial services:

Net revenues for the financial services operations increased by 53.7 billion yen, or 5.4%, to 1,051.3 billion yen in FY2019 first half compared with FY2018 first half, and operating income increased by 10.2 billion yen, or 7.1%, to 154.9 billion yen in FY2019 first half compared with FY2018 first half. The increase in operating income was mainly due to the increase in financing volume, as well as the decrease in expenses related to credit losses and residual value losses, in sales finance subsidiaries.

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**For the first half ended September 30, 2018**

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(iii) All other:

Net revenues for all other businesses increased by 1.5 billion yen, or 0.2%, to 770.4 billion yen in FY2019 first half compared with FY2018 first half, and operating income increased by 4.3 billion yen, or 11.9%, to 40.8 billion yen in FY2019 first half compared with FY2018 first half.

Geographic information

(i) Japan:

Net revenues in Japan increased by 309.6 billion yen, or 4.1%, to 7,877.8 billion yen in FY2019 first half compared with FY2018 first half, and operating income increased by 109.6 billion yen, or 17.1%, to 750.2 billion yen in FY2019 first half compared with FY2018 first half. The increase in operating income was mainly due to cost reduction efforts and the increase in vehicle unit exports.

(ii) North America:

Net revenues in North America increased by 198.3 billion yen, or 3.8%, to 5,427.5 billion yen in FY2019 first half compared with FY2018 first half. However, operating income decreased by 33.6 billion yen, or 23.3%, to 110.9 billion yen in FY2019 first half compared with FY2018 first half. The decrease in operating income was mainly due to the recording of valuation losses on interest rate swaps stated at fair value in sales finance subsidiaries.

(iii) Europe:

Net revenues in Europe increased by 61.9 billion yen, or 4.1%, to 1,581.7 billion yen in FY2019 first half compared with FY2018 first half, and operating income increased by 23.4 billion yen, or 62.1%, to 61.2 billion yen in FY2019 first half compared with FY2018 first half. The increase in operating income was mainly due to the decrease in expenses and expense reduction efforts.

(iv) Asia:

Net revenues in Asia increased by 150.5 billion yen, or 6.1%, to 2,634.9 billion yen in FY2019 first half compared with FY2018 first half, and operating income increased by 69.2 billion yen, or 32.3%, to 283.4 billion yen in FY2019 first half compared with FY2018 first half. The increase in operating income was mainly due to increases in both production volume and vehicle unit sales, as well as the effects of changes in exchange rates.

(v) Other (Central and South America, Oceania, Africa and the Middle East):

Net revenues in other regions decreased by 30.9 billion yen, or 2.5%, to 1,206.8 billion yen in FY2019 first half compared with FY2018 first half, and operating income decreased by 4.3 billion yen, or 6.2%, to 65.9 billion yen in FY2019 first half compared with FY2018 first half.

**TOYOTA MOTOR CORPORATION**  
**Unaudited Consolidated Balance Sheets**  
**At March 31, 2018 and September 30, 2018**

	Yen in millions	
	March 31, 2018	September 30, 2018
Assets		
Current assets:		
Cash and cash equivalents	3,052,269	3,246,746
Time deposits	901,244	1,213,273
Marketable securities	1,768,360	1,409,930
Trade accounts and notes receivable, less allowance for doubtful accounts	2,219,562	2,161,538
Finance receivables, net	6,348,306	6,569,109
Other receivables	489,338	432,238
Inventories	2,539,789	2,583,535
Prepaid expenses and other current assets	833,788	909,624
Total current assets	<u>18,152,656</u>	<u>18,525,993</u>
Noncurrent finance receivables, net	9,481,618	10,259,345
Investments and other assets:		
Marketable securities and other securities investments	7,999,323	8,513,926
Affiliated companies	3,162,917	3,216,315
Employees receivables	22,562	22,438
Other	1,221,500	1,297,069
Total investments and other assets	<u>12,406,302</u>	<u>13,049,748</u>
Property, plant and equipment:		
Land	1,404,611	1,397,488
Buildings	4,659,753	4,733,951
Machinery and equipment	11,535,381	11,809,909
Vehicles and equipment on operating leases	5,934,393	6,359,528
Construction in progress	509,851	558,088
Total property, plant and equipment, at cost	<u>24,043,989</u>	<u>24,858,964</u>
Less – Accumulated depreciation	<u>(13,776,316)</u>	<u>(14,178,045)</u>
Total property, plant and equipment, net	<u>10,267,673</u>	<u>10,680,919</u>
Total assets	<u><u>50,308,249</u></u>	<u><u>52,516,005</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**TOYOTA MOTOR CORPORATION**  
**Unaudited Consolidated Balance Sheets**  
**At March 31, 2018 and September 30, 2018**

	Yen in millions	
	March 31, 2018	September 30, 2018
Liabilities		
Current liabilities:		
Short-term borrowings	5,154,913	5,355,210
Current portion of long-term debt	4,186,277	4,465,791
Accounts payable	2,586,657	2,380,962
Other payables	1,048,216	879,149
Accrued expenses	3,104,260	3,153,891
Income taxes payable	462,327	381,199
Other current liabilities	1,254,241	1,365,705
Total current liabilities	<u>17,796,891</u>	<u>17,981,907</u>
Long-term liabilities:		
Long-term debt	10,006,374	11,064,495
Accrued pension and severance costs	931,182	943,000
Deferred income taxes	1,118,165	1,240,865
Other long-term liabilities	533,561	576,548
Total long-term liabilities	<u>12,589,282</u>	<u>13,824,908</u>
Total liabilities	<u>30,386,173</u>	<u>31,806,815</u>
Mezzanine equity		
Model AA Class Shares, no par value, authorized: 150,000,000 shares at March 31, 2018 and September 30, 2018 issued: 47,100,000 shares at March 31, 2018 and September 30, 2018	491,974	495,648
Shareholders' equity		
Toyota Motor Corporation shareholders' equity:		
Common stock, no par value, authorized: 10,000,000,000 shares at March 31, 2018 and September 30, 2018 issued: 3,262,997,492 shares at March 31, 2018 and September 30, 2018	397,050	397,050
Additional paid-in capital	487,502	487,354
Retained earnings	19,473,464	21,456,737
Accumulated other comprehensive income (loss)	435,699	(472,865)
Treasury stock, at cost, 353,073,500 shares at March 31, 2018 and 393,737,193 shares at September 30, 2018	(2,057,733)	(2,356,884)
Total Toyota Motor Corporation shareholders' equity	<u>18,735,982</u>	<u>19,511,392</u>
Noncontrolling interests	694,120	702,150
Total shareholders' equity	<u>19,430,102</u>	<u>20,213,542</u>
Commitments and contingencies		
Total liabilities, mezzanine equity and shareholders' equity	<u>50,308,249</u>	<u>52,516,005</u>

Note: The total number of authorized shares for common stock and Model AA Class Shares is 10,000,000,000 shares.

The accompanying notes are an integral part of these consolidated financial statements.

**TOYOTA MOTOR CORPORATION**  
**Unaudited Consolidated Statements of Income and**  
**Unaudited Consolidated Statements of Comprehensive Income**  
**For the first half ended September 30, 2018**

**Consolidated Statements of Income**

	Yen in millions	
	For the first half ended September 30, 2017	For the first half ended September 30, 2018
Net revenues:		
Sales of products	13,233,974	13,638,830
Financing operations	957,233	1,035,176
Total net revenues	<u>14,191,207</u>	<u>14,674,006</u>
Costs and expenses:		
Cost of products sold	10,989,823	11,290,626
Cost of financing operations	626,259	693,531
Selling, general and administrative	1,478,584	1,428,004
Total costs and expenses	<u>13,094,666</u>	<u>13,412,161</u>
Operating income	<u>1,096,541</u>	<u>1,261,845</u>
Other income (expense):		
Interest and dividend income	92,762	124,778
Interest expense	(13,541)	(11,603)
Foreign exchange gain, net	53,819	64,784
Unrealized gains (losses) on equity securities	—	147,849
Other income (loss), net	22,592	(38,844)
Total other income (expense)	<u>155,632</u>	<u>286,964</u>
Income before income taxes and equity in earnings of affiliated companies	<u>1,252,173</u>	<u>1,548,809</u>
Provision for income taxes	374,247	473,591
Equity in earnings of affiliated companies	235,043	222,587
Net income	<u>1,112,969</u>	<u>1,297,805</u>
Less – Net income attributable to noncontrolling interests	<u>(41,641)</u>	<u>(55,413)</u>
Net income attributable to Toyota Motor Corporation	<u><u>1,071,328</u></u>	<u><u>1,242,392</u></u>

Note: Net income attributable to common shareholders for the first half ended September 30, 2018 and 2017 is 1,234,998 million yen and 1,065,182 million yen, respectively, which is derived by deducting dividend and accretion to Model AA Class Shares of 7,394 million yen and 6,146 million yen, respectively, from Net income attributable to Toyota Motor Corporation.

	Yen	
Net income attributable to Toyota Motor Corporation per common share		
Basic	<u>359.55</u>	<u>427.02</u>
Diluted	<u>355.92</u>	<u>422.68</u>

The accompanying notes are an integral part of these consolidated financial statements.

**TOYOTA MOTOR CORPORATION**  
**Unaudited Consolidated Statements of Income and**  
**Unaudited Consolidated Statements of Comprehensive Income**  
**For the first half ended September 30, 2018**

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**Consolidated Statements of Comprehensive Income**

	Yen in millions	
	For the first half ended September 30, 2017	For the first half ended September 30, 2018
Net income	1,112,969	1,297,805
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	76,126	141,848
Unrealized gains (losses) on securities	174,048	65,855
Pension liability adjustments	3,997	11,160
Total other comprehensive income (loss)	254,171	218,863
Comprehensive income	1,367,140	1,516,668
Less – Comprehensive income attributable to noncontrolling interests	(48,490)	(57,836)
Comprehensive income attributable to Toyota Motor Corporation	1,318,650	1,458,832

The accompanying notes are an integral part of these consolidated financial statements.

**TOYOTA MOTOR CORPORATION**  
**Unaudited Consolidated Statements of Income and**  
**Unaudited Consolidated Statements of Comprehensive Income**  
**For the second quarter ended September 30, 2018**

**Consolidated Statements of Income**

	Yen in millions	
	For the second quarter ended September 30, 2017	For the second quarter ended September 30, 2018
Net revenues:		
Sales of products	6,655,852	6,784,867
Financing operations	487,749	526,406
Total net revenues	<u>7,143,601</u>	<u>7,311,273</u>
Costs and expenses:		
Cost of products sold	5,547,092	5,650,630
Cost of financing operations	315,927	345,376
Selling, general and administrative	758,335	736,109
Total costs and expenses	<u>6,621,354</u>	<u>6,732,115</u>
Operating income	<u>522,247</u>	<u>579,158</u>
Other income (expense):		
Interest and dividend income	26,002	36,890
Interest expense	(9,153)	(8,164)
Foreign exchange gain, net	31,028	25,568
Unrealized gains (losses) on equity securities	—	112,816
Other income (loss), net	2,701	(11,323)
Total other income (expense)	<u>50,578</u>	<u>155,787</u>
Income before income taxes and equity in earnings of affiliated companies	<u>572,825</u>	<u>734,945</u>
Provision for income taxes	188,849	227,428
Equity in earnings of affiliated companies	97,241	106,052
Net income	<u>481,217</u>	<u>613,569</u>
Less – Net income attributable to noncontrolling interests	<u>(22,945)</u>	<u>(28,483)</u>
Net income attributable to Toyota Motor Corporation	<u><u>458,272</u></u>	<u><u>585,086</u></u>

Note: Net income attributable to common shareholders for the second quarter ended September 30, 2018 and 2017 is 581,389 million yen and 455,199 million yen, respectively, which is derived by deducting dividend and accretion to Model AA Class Shares of 3,697 million yen and 3,073 million yen, respectively, from Net income attributable to Toyota Motor Corporation.

	Yen	
Net income attributable to Toyota Motor Corporation per common share		
Basic	<u>154.28</u>	<u>202.20</u>
Diluted	<u>152.87</u>	<u>200.21</u>

The accompanying notes are an integral part of these consolidated financial statements.



**TOYOTA MOTOR CORPORATION**  
**Unaudited Consolidated Statements of Income and**  
**Unaudited Consolidated Statements of Comprehensive Income**  
**For the second quarter ended September 30, 2018**

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**Consolidated Statements of Comprehensive Income**

	Yen in millions	
	For the second quarter ended September 30, 2017	For the second quarter ended September 30, 2018
Net income	481,217	613,569
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments	60,838	91,139
Unrealized gains (losses) on securities	111,154	65,771
Pension liability adjustments	5,327	3,715
Total other comprehensive income (loss)	177,319	160,625
Comprehensive income	658,536	774,194
Less – Comprehensive income attributable to noncontrolling interests	(27,003)	(35,000)
Comprehensive income attributable to Toyota Motor Corporation	631,533	739,194

The accompanying notes are an integral part of these consolidated financial statements.

**TOYOTA MOTOR CORPORATION**  
**Unaudited Condensed Consolidated Statements of Cash Flows**  
**For the first half ended September 30, 2018**

	Yen in millions	
	For the first half ended September 30, 2017	For the first half ended September 30, 2018
Cash flows from operating activities:		
Net income	1,112,969	1,297,805
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	834,275	865,307
Provision for doubtful accounts and credit losses	40,884	28,999
Pension and severance costs, less payments	4,022	10,161
Losses on disposal of fixed assets	18,651	19,093
Unrealized losses (gains) on marketable securities	327	(143,474)
Deferred income taxes	41,212	65,051
Equity in earnings of affiliated companies	(235,043)	(222,587)
Changes in operating assets and liabilities, and other	215,996	(94,167)
Net cash provided by operating activities	<u>2,033,293</u>	<u>1,826,188</u>
Cash flows from investing activities:		
Additions to finance receivables	(7,390,735)	(7,878,662)
Collection of and proceeds from sales of finance receivables	6,915,378	7,358,000
Additions to fixed assets excluding equipment leased to others	(579,173)	(717,435)
Additions to equipment leased to others	(1,192,899)	(1,204,802)
Proceeds from sales of fixed assets excluding equipment leased to others	20,287	26,237
Proceeds from sales of equipment leased to others	593,914	693,712
Purchases of marketable securities and security investments	(1,636,248)	(1,089,727)
Proceeds from sales of and maturity of marketable securities and security investments	1,364,695	1,289,729
Changes in investments and other assets, and other	(31,529)	(331,318)
Net cash used in investing activities	<u>(1,936,310)</u>	<u>(1,854,266)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	2,529,387	3,037,778
Payments of long-term debt	(2,300,693)	(2,201,865)
Increase in short-term borrowings	96,364	13,205
Dividends paid to Toyota Motor Corporation class shareholders	(2,473)	(3,721)
Dividends paid to Toyota Motor Corporation common shareholders	(327,220)	(349,191)
Dividends paid to noncontrolling interests	(48,955)	(42,240)
Reissuance (repurchase) of treasury stock	(248,421)	(299,595)
Net cash provided by (used in) financing activities	<u>(302,011)</u>	<u>154,371</u>
Effect of exchange rate changes on cash and cash equivalents and restricted cash and cash equivalents	19,327	36,933
Net increase (decrease) in cash and cash equivalents and restricted cash and cash equivalents	<u>(185,701)</u>	<u>163,226</u>
Cash and cash equivalents and restricted cash and cash equivalents at beginning of period	<u>3,149,326</u>	<u>3,219,639</u>
Cash and cash equivalents and restricted cash and cash equivalents at end of period	<u><u>2,963,625</u></u>	<u><u>3,382,865</u></u>

Note: Cash and cash equivalents and restricted cash and cash equivalents for the first half ended September 30, 2018 include restricted cash and cash equivalents of 167,370 million yen and 136,119 million yen at the beginning of the period and the end of the period, respectively. Restricted cash and cash equivalents were included in Prepaid expenses and other current assets in the consolidated balance sheets.

The accompanying notes are an integral part of these consolidated financial statements.

# TOYOTA MOTOR CORPORATION

## Notes to Unaudited Consolidated Financial Statements

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### 1. Basis of preparation:

The accompanying unaudited condensed consolidated financial statements of Toyota Motor Corporation (the "parent company") as of and for the periods ended September 30, 2018, have been prepared in accordance with U.S. generally accepted accounting principles ("U.S.GAAP") and on substantially the same basis as its annual consolidated financial statements except for certain required disclosures for interim periods which have been omitted. The unaudited condensed consolidated financial statements should be read in conjunction with the Annual Report on Form 20-F for the year ended March 31, 2018. The unaudited condensed consolidated financial statements reflect all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the result for that period and the financial condition at that date. The consolidated results for the six-month and the three-month periods are not necessarily indicative of results to be expected for the full year.

### 2. Accounting changes, recent pronouncements to be adopted in future periods and other information:

#### Accounting changes -

In May 2014, the Financial Accounting Standards Board ("FASB") issued updated guidance on the recognition of revenue from contracts with customers. This guidance requires an entity to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and supersedes the current revenue recognition guidance. The parent company and its consolidated subsidiaries ("Toyota") applied the modified retrospective method of adoption to contracts that were not completed as of the adoption on April 1, 2018. The adoption of this guidance did not have a material impact on Toyota's consolidated financial statements. See note 7 to the consolidated financial statements for the disclosure by adoption of this guidance.

In January 2016, the FASB issued updated guidance for financial instruments. This guidance addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments and requires entities to measure equity investments at fair value and recognize any changes in fair value in net income. Toyota adopted this guidance on April 1, 2018. Toyota recognized a cumulative-effect adjustment to retained earnings of ¥1,125,109 million as of April 1, 2018 for after-tax unrealized gains (losses) on equity securities previously recognized in accumulated other comprehensive income. Unrealized gains (losses) on equity securities, which is mainly included in "Unrealized gains (losses) on equity securities" of Toyota's consolidated statements of income for the first half ended September 30, 2018, was ¥143,474 million.

In addition, Toyota measures equity securities without readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Toyota did not recognize any material impairment or other adjustments for the first half ended September 30, 2018. The carrying amount of investments without readily determinable fair values was ¥225,708 million as of September 30, 2018.

## **TOYOTA MOTOR CORPORATION**

### **Notes to Unaudited Consolidated Financial Statements**

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In August 2016, the FASB issued updated guidance for classification of statement of cash flows. This guidance clarifies classification of certain cash receipts and cash payments of statement of cash flows. Toyota adopted this guidance on April 1, 2018. The adoption of this guidance did not have a material impact on Toyota's consolidated financial statements.

In October 2016, the FASB issued updated guidance that would require entities to recognize the income tax consequences of intercompany asset transfers other than inventory. Toyota adopted this guidance on April 1, 2018. The adoption of this guidance did not have a material impact on Toyota's consolidated financial statements.

In November 2016, the FASB issued updated guidance for the statement of cash flows. This guidance requires that restricted cash and restricted cash equivalents should be included with cash and cash equivalents. It also requires entities to disclose how the statement of cash flows that includes restricted cash with cash and cash equivalents reconciles to the balance sheet. Toyota adopted this guidance on April 1, 2018. The adoption of this guidance did not have a material impact on Toyota's consolidated financial statements. Restricted cash and cash equivalents mainly include customer collections on securitized receivables to be distributed to investors as payments on the related secured debt.

#### **Recent pronouncements to be adopted in future periods -**

In February 2016, the FASB issued updated guidance for leases. This guidance will require lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability. In July 2018, the FASB issued updated guidance that this guidance shall be adopted retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this guidance recognized at the date of initial application. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management is evaluating the impact of adopting this guidance on Toyota's consolidated financial statements.

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

In August 2017, the FASB issued updated guidance for hedge accounting. This guidance simplifies and expands the application of hedge accounting. This guidance is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Management does not expect this guidance to have a material impact on Toyota's consolidated financial statements.

## **TOYOTA MOTOR CORPORATION**

### **Notes to Unaudited Consolidated Financial Statements**

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In August 2018, the FASB issued updated guidance for fair value measurements. This guidance adds, removes and modifies fair value measurement disclosure requirements. This guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Management is evaluating the potential impacts of this guidance on Toyota's disclosures.

#### **Other information -**

On April 1, 2018, Toyota changed the exchange rate used to translate foreign currency-denominated transactions as well as foreign currency-denominated monetary receivables and payables from the Telegraphic Transfer Buying Rate and Telegraphic Transfer Selling Rate to the Telegraphic Transfer Middle Rate. As a result, for the first half ended September 30, 2018, net revenues and operating income increased by 29,868 million yen and 71,408 million yen, respectively, other income (expense) decreased by 46,285 million yen and income before income taxes and equity in earnings of affiliated companies increased by 25,123 million yen.

### **3. Accounting procedures specific to quarterly consolidated financial statements:**

#### **Provision for income taxes -**

The provision for income taxes is computed by multiplying income before income taxes and equity in earnings of affiliated companies for the first half by estimated annual effective tax rates. These estimated annual effective tax rates reflect anticipated investment tax credits, foreign tax credits and other items, including changes in valuation allowances, that are expected to affect estimated annual effective tax rates.

# TOYOTA MOTOR CORPORATION

## Notes to Unaudited Consolidated Financial Statements

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### 4. Derivative financial instruments:

Toyota employs derivative financial instruments, including foreign exchange forward contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements and interest rate options to manage its exposure to fluctuations in interest rates and foreign currency exchange rates. Toyota does not use derivatives for speculation or trading.

#### **Fair value hedges -**

Toyota enters into interest rate swaps and interest rate currency swap agreements mainly to convert its fixed-rate debt to variable-rate debt. Toyota uses interest rate swap agreements in managing interest rate risk exposure. Interest rate swap agreements are executed as either an integral part of specific debt transactions or on a portfolio basis. Toyota uses interest rate currency swap agreements to hedge exposure to currency exchange rate fluctuations on principal and interest payments for borrowings denominated in foreign currencies. Notes and loans payable issued in foreign currencies are hedged by concurrently executing interest rate currency swap agreements, which involve the exchange of foreign currency principal and interest obligations for each functional currency obligations at agreed-upon currency exchange and interest rates.

For the first half and the second quarter ended September 30, 2017 and 2018, the ineffective portion of Toyota's fair value hedge relationships was not material. For fair value hedging relationships, the components of each derivative's gain or loss are included in the assessment of hedge effectiveness.

#### **Undesignated derivative financial instruments -**

Toyota uses foreign exchange forward contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements, and interest rate options, to manage its exposure to foreign currency exchange rate fluctuations and interest rate fluctuations from an economic perspective, and for some of which Toyota is unable to or has elected not to apply hedge accounting.

**TOYOTA MOTOR CORPORATION**  
**Notes to Unaudited Consolidated Financial Statements**

**Fair value and gains or losses on derivative financial instruments -**

The following table summarizes the fair values of derivative financial instruments as of March 31, 2018 and September 30, 2018:

	Yen in millions	
	March 31, 2018	September 30, 2018
<b>Derivative assets</b>		
Derivative financial instruments designated as hedging instruments		
Interest rate and currency swap agreements		
Prepaid expenses and other current assets	154	—
Investments and other assets - Other	668	—
Total	<u>822</u>	<u>—</u>
Undesignated derivative financial instruments		
Interest rate and currency swap agreements		
Prepaid expenses and other current assets	46,425	95,354
Investments and other assets - Other	175,635	161,456
Total	<u>222,060</u>	<u>256,810</u>
Foreign exchange forward and option contracts		
Prepaid expenses and other current assets	34,922	4,359
Investments and other assets - Other	—	—
Total	<u>34,922</u>	<u>4,359</u>
<b>Total derivative assets</b>	<u>257,804</u>	<u>261,169</u>
<b>Counterparty netting</b>	(97,617)	(103,004)
<b>Collateral received</b>	(92,146)	(73,968)
<b>Carrying value of derivative assets</b>	<u>68,041</u>	<u>84,197</u>
<b>Derivative liabilities</b>		
Derivative financial instruments designated as hedging instruments		
Interest rate and currency swap agreements		
Other current liabilities	—	—
Other long-term liabilities	—	—
Total	<u>—</u>	<u>—</u>
Undesignated derivative financial instruments		
Interest rate and currency swap agreements		
Other current liabilities	(34,716)	(25,735)
Other long-term liabilities	(158,830)	(210,333)
Total	<u>(193,546)</u>	<u>(236,068)</u>
Foreign exchange forward and option contracts		
Other current liabilities	(3,610)	(33,768)
Other long-term liabilities	—	—
Total	<u>(3,610)</u>	<u>(33,768)</u>
<b>Total derivative liabilities</b>	<u>(197,156)</u>	<u>(269,836)</u>
<b>Counterparty netting</b>	97,617	103,004
<b>Collateral posted</b>	55,650	118,262
<b>Carrying value of derivative liabilities</b>	<u>(43,889)</u>	<u>(48,570)</u>

# TOYOTA MOTOR CORPORATION

## Notes to Unaudited Consolidated Financial Statements

The following table summarizes the notional amounts of derivative financial instruments as of March 31, 2018 and September 30, 2018:

	Yen in millions			
	March 31, 2018		September 30, 2018	
	Designated derivative financial instruments	Undesignated derivative financial instruments	Designated derivative financial instruments	Undesignated derivative financial instruments
Interest rate and currency swap agreements	12,643	19,895,085	—	22,072,500
Foreign exchange forward and option contracts	—	2,731,534	—	3,521,527
Total	12,643	22,626,619	—	25,594,027

The following table summarizes the gains and losses on derivative financial instruments and hedged items reported in the consolidated statements of income for the first half and the second quarter ended September 30, 2017 and 2018:

	Yen in millions			
	For the first half ended September 30, 2017		For the first half ended September 30, 2018	
	Gains or (losses) on derivative financial instruments	Gains or (losses) on hedged items	Gains or (losses) on derivative financial instruments	Gains or (losses) on hedged items
<b>Derivative financial instruments designated as hedging instruments</b>				
Interest rate and currency swap agreements				
Cost of financing operations	(763)	1,073	(817)	795
<b>Undesignated derivative financial instruments</b>				
Interest rate and currency swap agreements				
Cost of financing operations	47,080		(14,199)	
Foreign exchange gain (loss), net	15,146		43,344	
Foreign exchange forward and option contracts				
Cost of financing operations	(8,843)		273	
Foreign exchange gain (loss), net	247		(80,793)	



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	Yen in millions			
	For the second quarter ended September 30, 2017		For the second quarter ended September 30, 2018	
	Gains or (losses) on derivative financial instruments	Gains or (losses) on hedged items	Gains or (losses) on derivative financial instruments	Gains or (losses) on hedged items
<b>Derivative financial instruments designated as hedging instruments</b>				
Interest rate and currency swap agreements				
Cost of financing operations	(189)	336	(170)	165
<b>Undesignated derivative financial instruments</b>				
Interest rate and currency swap agreements				
Cost of financing operations	1,851		(22,392)	
Foreign exchange gain (loss), net	6,648		16,127	
Foreign exchange forward and option contracts				
Cost of financing operations	(349)		(3,468)	
Foreign exchange gain (loss), net	(1,752)		(36,703)	

Undesignated derivative financial instruments are used to manage economic risks of fluctuations in foreign currency exchange rates and interest rates of certain receivables and payables. Those economic risks are offset by changes in the fair value of undesignated derivative financial instruments.

Cash flows from transactions of derivative financial instruments are included in cash flows from operating activities in the consolidated statements of cash flows.

**Credit risk related contingent features -**

Toyota enters into International Swaps and Derivatives Association Master Agreements with counterparties. These Master Agreements contain a provision requiring either Toyota or the counterparty to settle the contract or to post assets to the other party in the event of a ratings downgrade below a specified threshold.

The aggregate fair value amount of derivative financial instruments that contain credit risk related contingent features that are in a net liability position after being offset by cash collateral as of September 30, 2018 is ¥5,770 million. The aggregate fair value amount of assets that are already posted as cash collateral as of September 30, 2018 is ¥105,554 million. If the ratings of Toyota decline below specified thresholds, the maximum amount of assets to be posted or for which Toyota could be required to settle the contracts is ¥5,770 million as of September 30, 2018.

## **TOYOTA MOTOR CORPORATION**

### **Notes to Unaudited Consolidated Financial Statements**

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#### **5. Contingencies:**

##### **Guarantees -**

Toyota enters into contracts with Toyota dealers to guarantee customers' payments of their installment payables that arise from installment contracts between customers and Toyota dealers, as and when requested by Toyota dealers. Toyota is required to execute its guarantee primarily when customers are unable to make required payments. The maximum potential amount of future payments as of September 30, 2018 is ¥2,984,633 million. Liabilities for guarantees totaling ¥7,753 million have been provided as of September 30, 2018. Under these guarantee contracts, Toyota is entitled to recover any amount paid by Toyota from the customers whose original obligations Toyota has guaranteed.

##### **Legal proceedings -**

From time-to-time, Toyota issues vehicle recalls and takes other safety measures including safety campaigns relating to its vehicles. Since 2009, Toyota issued safety campaigns related to the risk of floor mat entrapment of accelerator pedals and vehicle recalls related to slow-to-return or sticky accelerator pedals. These recalls and other claims resulted in personal injury and wrongful death claims involving allegations of unintended acceleration in several consolidated proceedings in federal and state courts, as well as in individual cases in various other states. The judges in the consolidated federal action and the consolidated California state action have approved an Intensive Settlement Process ("ISP") for such claims in those actions. Under the ISP, all individual claims within the consolidated actions are stayed pending completion of a process to assess whether they can be resolved on terms acceptable to the parties. Cases not resolved after completion of the ISP will then proceed to discovery and toward trial. Toyota has offered the ISP process to plaintiffs in other consolidated actions and in individual cases, as well.

Toyota has been named as a defendant in 33 economic loss class action lawsuits in the United States, which, together with similar lawsuits against Takata and other automakers, have been made part of a multi-district litigation proceeding in the United States District Court for the Southern District of Florida, arising out of allegations that airbag inflators manufactured by Takata are defective. Toyota has reached a settlement with the plaintiffs in the United States economic loss class actions. The court approved the settlement on October 31, 2017, and the subsequent appeals have been withdrawn, making the settlement final. The economic loss class action lawsuits against Toyota have been dismissed. Toyota and other automakers have also been named in certain class actions filed in Mexico, Canada, Australia and Israel, as well as some other actions by states or territories of the United States. Those actions have not been settled and are being litigated.

## **TOYOTA MOTOR CORPORATION**

### **Notes to Unaudited Consolidated Financial Statements**

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

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

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

**TOYOTA MOTOR CORPORATION**  
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**6. Segment data:**

The operating segments reported below are the segments of Toyota for which separate financial information is available and for which operating income/loss amounts are evaluated regularly by executive management in deciding how to allocate resources and in assessing performance.

The major portions of Toyota's operations on a worldwide basis are derived from the Automotive and Financial Services business segments. The Automotive segment designs, manufactures and distributes sedans, minivans, compact cars, sport-utility vehicles, trucks and related parts and accessories. The Financial Services segment consists primarily of financing, and vehicle leasing operations to assist in the merchandising of the parent company and its affiliated companies products as well as other products. The All Other segment includes the design, manufacturing and sales of housing, telecommunications and other businesses.

The following tables present certain information regarding Toyota's industry or geographic segments and overseas revenues by destination for the first half and the second quarter ended September 30, 2017 and 2018.

**Segment operating results -**

For the first half ended September 30, 2017:

	Yen in millions				
	Automotive	Financial Services	All Other	Inter-segment Elimination	Consolidated
Net revenues					
Sales to external customers	12,713,334	957,233	520,640	—	14,191,207
Inter-segment sales and transfers	23,552	40,339	248,213	(312,104)	—
Total	12,736,886	997,572	768,853	(312,104)	14,191,207
Operating expenses	11,824,354	852,851	732,368	(314,907)	13,094,666
Operating income	912,532	144,721	36,485	2,803	1,096,541

For the first half ended September 30, 2018:

	Yen in millions				
	Automotive	Financial Services	All Other	Inter-segment Elimination	Consolidated
Net revenues					
Sales to external customers	13,130,498	1,035,176	508,332	—	14,674,006
Inter-segment sales and transfers	17,812	16,124	262,069	(296,005)	—
Total	13,148,310	1,051,300	770,401	(296,005)	14,674,006
Operating expenses	12,083,557	896,309	729,581	(297,286)	13,412,161
Operating income	1,064,753	154,991	40,820	1,281	1,261,845

**TOYOTA MOTOR CORPORATION**  
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For the second quarter ended September 30, 2017:

	Yen in millions				Consolidated
	Automotive	Financial Services	All Other	Inter-segment Elimination	
Net revenues					
Sales to external customers	6,356,581	487,749	299,271	—	7,143,601
Inter-segment sales and transfers	11,640	6,055	131,596	(149,291)	—
Total	6,368,221	493,804	430,867	(149,291)	7,143,601
Operating expenses	5,945,067	424,383	408,027	(156,123)	6,621,354
Operating income	423,154	69,421	22,840	6,832	522,247

For the second quarter ended September 30, 2018:

	Yen in millions				Consolidated
	Automotive	Financial Services	All Other	Inter-segment Elimination	
Net revenues					
Sales to external customers	6,505,842	526,406	279,025	—	7,311,273
Inter-segment sales and transfers	9,037	8,039	133,289	(150,365)	—
Total	6,514,879	534,445	412,314	(150,365)	7,311,273
Operating expenses	6,052,667	453,010	382,956	(156,518)	6,732,115
Operating income	462,212	81,435	29,358	6,153	579,158

**TOYOTA MOTOR CORPORATION**  
**Notes to Unaudited Consolidated Financial Statements**

**Geographic information -**

For the first half ended September 30, 2017:

	Yen in millions						Consolidated
	Japan	North America	Europe	Asia	Other	Inter-segment Elimination	
Net revenues							
Sales to external customers	4,339,830	5,117,319	1,403,433	2,172,347	1,158,278	—	14,191,207
Inter-segment sales and transfers	3,228,391	111,881	116,374	312,057	79,543	(3,848,246)	—
Total	7,568,221	5,229,200	1,519,807	2,484,404	1,237,821	(3,848,246)	14,191,207
Operating expenses	6,927,702	5,084,587	1,482,010	2,270,158	1,167,478	(3,837,269)	13,094,666
Operating income	640,519	144,613	37,797	214,246	70,343	(10,977)	1,096,541

For the first half ended September 30, 2018:

	Yen in millions						Consolidated
	Japan	North America	Europe	Asia	Other	Inter-segment Elimination	
Net revenues							
Sales to external customers	4,414,521	5,317,988	1,500,719	2,276,465	1,164,313	—	14,674,006
Inter-segment sales and transfers	3,463,328	109,577	81,006	358,524	42,533	(4,054,968)	—
Total	7,877,849	5,427,565	1,581,725	2,634,989	1,206,846	(4,054,968)	14,674,006
Operating expenses	7,127,644	5,316,603	1,520,460	2,351,500	1,140,874	(4,044,920)	13,412,161
Operating income	750,205	110,962	61,265	283,489	65,972	(10,048)	1,261,845

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

**TOYOTA MOTOR CORPORATION**  
**Notes to Unaudited Consolidated Financial Statements**

For the second quarter ended September 30, 2017:

	Yen in millions					Inter-segment Elimination	Consolidated
	Japan	North America	Europe	Asia	Other		
Net revenues							
Sales to external customers	2,229,033	2,515,417	704,782	1,112,941	581,428	—	7,143,601
Inter-segment sales and transfers	1,652,862	52,316	53,508	174,674	43,987	(1,977,347)	—
Total	3,881,895	2,567,733	758,290	1,287,615	625,415	(1,977,347)	7,143,601
Operating expenses	3,560,592	2,512,348	740,814	1,177,721	593,771	(1,963,892)	6,621,354
Operating income	321,303	55,385	17,476	109,894	31,644	(13,455)	522,247

For the second quarter ended September 30, 2018:

	Yen in millions					Inter-segment Elimination	Consolidated
	Japan	North America	Europe	Asia	Other		
Net revenues							
Sales to external customers	2,267,637	2,582,179	753,158	1,121,043	587,256	—	7,311,273
Inter-segment sales and transfers	1,744,720	54,285	42,668	197,670	21,132	(2,060,475)	—
Total	4,012,357	2,636,464	795,826	1,318,713	608,388	(2,060,475)	7,311,273
Operating expenses	3,658,132	2,589,050	757,647	1,181,556	585,671	(2,039,941)	6,732,115
Operating income	354,225	47,414	38,179	137,157	22,717	(20,534)	579,158

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

Revenues are attributed to geographies based on the country location of the parent company or the subsidiary that transacted the sale with the external customer.

Transfers between industry or geographic segments are made at terms and conditions in the ordinary course of business. In measuring the reportable segments' income or losses, operating income consists of revenue less operating expenses.

# TOYOTA MOTOR CORPORATION

## Notes to Unaudited Consolidated Financial Statements

### Overseas revenues by destination -

The following information shows revenues that are attributed to countries based on location of customers, excluding customers in Japan. In addition to the disclosure requirements under U.S.GAAP, Toyota discloses this information in order to provide financial statements users with valuable information.

For the first half ended September 30, 2017:

	Yen in millions				
	North America	Europe	Asia	Other	Total
Overseas sales	5,128,595	1,299,843	2,292,685	2,060,334	10,781,457
Consolidated sales	—	—	—	—	14,191,207
Ratio of overseas sales to consolidated sales	36.1%	9.2%	16.2%	14.5%	76.0%

For the first half ended September 30, 2018:

	Yen in millions				
	North America	Europe	Asia	Other	Total
Overseas sales	5,357,745	1,411,404	2,519,403	1,977,336	11,265,888
Consolidated sales	—	—	—	—	14,674,006
Ratio of overseas sales to consolidated sales	36.5%	9.6%	17.2%	13.5%	76.8%

For the second quarter ended September 30, 2017:

	Yen in millions				
	North America	Europe	Asia	Other	Total
Overseas sales	2,522,249	653,574	1,171,162	1,031,774	5,378,759
Consolidated sales	—	—	—	—	7,143,601
Ratio of overseas sales to consolidated sales	35.3%	9.2%	16.4%	14.4%	75.3%

For the second quarter ended September 30, 2018:

	Yen in millions				
	North America	Europe	Asia	Other	Total
Overseas sales	2,602,362	698,212	1,242,409	993,233	5,536,216
Consolidated sales	—	—	—	—	7,311,273
Ratio of overseas sales to consolidated sales	35.6%	9.5%	17.0%	13.6%	75.7%

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



# TOYOTA MOTOR CORPORATION

## Notes to Unaudited Consolidated Financial Statements

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### 7. Net revenues

In general, performance obligations are considered to be satisfied when completed vehicles and parts are delivered to the agreed locations with dealers. For parts for overseas production, it is when they are loaded on a ship to foreign manufacturing companies.

Toyota's sales incentive programs principally consist of cash payments to dealers calculated based on vehicle volume or a model sold by a dealer during a certain period of time. Toyota accrues these incentives as revenue reductions upon the sale of a vehicle corresponding to the program by the amount determined in the related incentive program.

The sale of certain vehicles includes a determinable amount for the contract, which entitles customers to free vehicle maintenance. Such revenues from free maintenance contracts are deferred and recognized as revenue over the period of the contract, which approximates the pattern of the related costs.

Revenues from the sales of vehicles under which Toyota conditionally guarantees the minimum resale value are recognized on a pro rata basis from the date of sale to the first exercise date of the guarantee in a manner similar to operating lease accounting. The underlying vehicles of these transactions are recorded as assets and are depreciated in accordance with Toyota's depreciation policy.

Revenues from retail financing contracts and finance leases are recognized using the effective yield method. Revenues from operating leases are recognized on a straight-line basis over the lease term.

All other operations business of Toyota includes the design, manufacture and sales of housing. Certain revenues from the housing business, such as those of ordered housing are recognized as performance obligations are satisfied.

# TOYOTA MOTOR CORPORATION

## Notes to Unaudited Consolidated Financial Statements

### (1) Summary by business segments and products

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

	Yen in millions	
	For the first half ended September 30, 2017:	For the first half ended September 30, 2018:
Sales of products		
Automotive		
Vehicles	10,903,882	11,219,218
Parts and components for overseas production	248,614	299,018
Parts and components for after service	1,011,433	1,014,063
Other	549,405	598,199
Total automotive	12,713,334	13,130,498
All other	520,640	508,332
Total sales of products	13,233,974	13,638,830
Financial services	957,233	1,035,176
Total net revenues	14,191,207	14,674,006
	Yen in millions	
	For the second quarter ended September 30, 2017	For the second quarter ended September 30, 2018
Sales of products		
Automotive		
Vehicles	5,457,421	5,537,552
Parts and components for overseas production	120,969	160,278
Parts and components for after service	499,714	513,080
Other	278,477	294,932
Total automotive	6,356,581	6,505,842
All other	299,271	279,025
Total sales of products	6,655,852	6,784,867
Financial services	487,749	526,406
Total net revenues	7,143,601	7,311,273

The majority of sales of products are revenues recognized from contracts with customers based on ASC 606 "Revenue from Contracts with customers", and receivables related to such revenues are recognized as "Trade accounts and notes receivable, less allowance for doubtful accounts".

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### (2) Contract liabilities

Contract liabilities consist of the following:

	Yen in millions	
	April 1, 2018	September 30, 2018
Contract liabilities	519,422	652,308

Contract liabilities are mainly related to advances received from customers. On the consolidated financial statements, contract liabilities are included in "Other current liabilities" or "Other long-term liabilities". For the six months period ended September 30, 2018, the amount reclassified from contract liabilities at the opening balance to net revenues was ¥207,558 million.

### (3) Performance obligations

As of September 30, 2018, which is the end of the reporting period, the aggregate amount of transaction price allocated to unsatisfied performance obligations related to contracts that have original expected durations in excess of one year was ¥473,415 million. Of that, ¥242,986 million is planned to be recognized as net revenues within one year. Sales of products unsatisfied performance obligations related to the contracts that have original expected durations of one year or less have been excluded from this disclosure.

**TOYOTA MOTOR CORPORATION**  
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**8. Per share amounts:**

Reconciliations of the differences between basic and diluted net income attributable to Toyota Motor Corporation per common share for the first half and the second quarter ended September 30, 2017 and 2018 are as follows:

	<u>Yen in millions</u>	<u>Thousands of shares</u>	<u>Yen</u>
	<u>Net income attributable to Toyota Motor Corporation</u>	<u>Weighted-average common shares</u>	<u>Net income attributable to Toyota Motor Corporation per common share</u>
<b>For the first half ended September 30, 2017</b>			
Net income attributable to Toyota Motor Corporation	1,071,328		
Accretion to Mezzanine equity	(2,425)		
Dividends to Toyota Motor Corporation Model AA Class Shareholders	(3,721)		
Basic net income attributable to Toyota Motor Corporation per common share	1,065,182	2,962,528	359.55
Effect of dilutive securities			
Model AA Class Shares	6,146	47,100	
Assumed exercise of dilutive stock options	(3)	367	
Diluted net income attributable to Toyota Motor Corporation per common share	<u>1,071,325</u>	<u>3,009,995</u>	<u>355.92</u>
<b>For the first half ended September 30, 2018</b>			
Net income attributable to Toyota Motor Corporation	1,242,392		
Accretion to Mezzanine equity	(2,425)		
Dividends to Toyota Motor Corporation Model AA Class Shareholders	(4,969)		
Basic net income attributable to Toyota Motor Corporation per common share	1,234,998	2,892,141	427.02
Effect of dilutive securities			
Model AA Class Shares	7,394	47,100	
Assumed exercise of dilutive stock options	(0)	80	
Diluted net income attributable to Toyota Motor Corporation per common share	<u>1,242,392</u>	<u>2,939,321</u>	<u>422.68</u>

**TOYOTA MOTOR CORPORATION**  
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	Yen in millions	Thousands of shares	Yen
	Net income attributable to Toyota Motor Corporation	Weighted-average common shares	Net income attributable to Toyota Motor Corporation per common share
<b>For the second quarter ended September 30, 2017</b>			
Net income attributable to Toyota Motor Corporation	458,272		
Accretion to Mezzanine equity	(1,212)		
Dividends to Toyota Motor Corporation Model AA Class Shareholders	(1,861)		
Basic net income attributable to Toyota Motor Corporation per common share	455,199	2,950,438	154.28
Effect of dilutive securities			
Model AA Class Shares	3,073	47,100	
Assumed exercise of dilutive stock options	(0)	307	
Diluted net income attributable to Toyota Motor Corporation per common share	458,272	2,997,845	152.87
<b>For the second quarter ended September 30, 2018</b>			
Net income attributable to Toyota Motor Corporation	585,086		
Accretion to Mezzanine equity	(1,213)		
Dividends to Toyota Motor Corporation Model AA Class Shareholders	(2,484)		
Basic net income attributable to Toyota Motor Corporation per common share	581,389	2,875,278	202.20
Effect of dilutive securities			
Model AA Class Shares	3,697	47,100	
Assumed exercise of dilutive stock options	—	28	
Diluted net income attributable to Toyota Motor Corporation per common share	585,086	2,922,406	200.21

On May 9, 2018, the Board of Directors of the parent company resolved to distribute year-end cash dividends of ¥ 349,190 million, ¥120 per common share, to common shareholders effective on May 25, 2018. On November 6, 2018, the Board of Directors of the parent company resolved to distribute interim cash dividends of ¥286,926 million, ¥100 per common share, to common shareholders effective on November 27, 2018.

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**9. Fair value measurements:**

In accordance with U.S.GAAP, Toyota classifies fair value into three levels of input as follows which are used to measure it.

Level 1: Quoted prices in active markets for identical assets or liabilities

Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; valuation of assets or liabilities using inputs, other than quoted prices, that are observable

Level 3: Valuation of assets or liabilities using unobservable inputs which reflect the reporting entity's assumptions

The following table summarizes the fair values of the assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 and September 30, 2018. Transfers between levels of the fair value are recognized at the end of their respective reporting periods:

	Yen in millions			
	March 31, 2018			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	44,897	774,209	—	819,106
Time deposits	—	400,000	—	400,000
Marketable securities and other securities investments				
Public and corporate bonds	4,778,019	1,523,227	7,488	6,308,734
Common stocks	2,582,115	—	—	2,582,115
Other	169,282	50,746	—	220,028
Investments measured at net asset value	—	—	—	516,951
Derivative financial instruments	—	257,795	9	257,804
Total	<u>7,574,313</u>	<u>3,005,977</u>	<u>7,497</u>	<u>11,104,738</u>
<b>Liabilities</b>				
Derivative financial instruments	—	(194,935)	(2,221)	(197,156)
Total	<u>—</u>	<u>(194,935)</u>	<u>(2,221)</u>	<u>(197,156)</u>

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	Yen in millions			
	September 30, 2018			
	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	642,316	574,901	—	1,217,217
Time deposits	—	570,000	—	570,000
Marketable securities and other securities investments				
Public and corporate bonds	4,806,845	1,489,995	8,574	6,305,414
Common stocks	2,651,635	—	—	2,651,635
Other	188,244	357	—	188,601
Investments measured at net asset value	—	—	—	521,642
Derivative financial instruments	—	261,169	—	261,169
Total	<u>8,289,040</u>	<u>2,896,422</u>	<u>8,574</u>	<u>11,715,678</u>
<b>Liabilities</b>				
Derivative financial instruments	—	(263,154)	(6,682)	(269,836)
Total	<u>—</u>	<u>(263,154)</u>	<u>(6,682)</u>	<u>(269,836)</u>

Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

The following is description of the assets and liabilities measured at fair value, information about the valuation techniques used to measure fair value, key inputs and significant assumptions:

**Cash equivalents and time deposits -**

Cash equivalents include money market funds and other investments with original maturities of three months or less. Cash equivalents classified in Level 2 include negotiable certificates of deposit with original maturities of three months or less. These are measured at fair value using primarily observable interest rates in the market. Time deposits consist of negotiable certificates of deposit with original maturities over three months. These are measured at fair value using primarily observable interest rates in the market.

**Marketable securities and other securities investments -**

Marketable securities and other securities investments include public and corporate bonds, common stocks and other investments. Public and corporate bonds include government bonds. Japanese bonds and foreign bonds including U.S., European and other bonds represent 16% and 84% (as of March 31, 2018) and 16% and 84% (as of September 30, 2018) of public and corporate bonds, respectively. Listed stocks on the Japanese stock markets represent 93% and 93% of common stocks as of March 31, 2018 and September 30, 2018, respectively. Toyota uses primarily quoted market prices for identical assets to measure fair value of these securities. "Other" includes investment trusts. Generally, Toyota uses quoted market prices for similar assets or quoted non-active market prices for identical assets to measure fair value of these securities. These assets are classified in Level 2.

## **TOYOTA MOTOR CORPORATION**

### **Notes to Unaudited Consolidated Financial Statements**

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#### **Derivative financial instruments -**

See note 4 to the consolidated financial statements about derivative financial instruments. Toyota primarily estimates the fair value of derivative financial instruments using industry-standard valuation models that require observable inputs including interest rates and foreign exchange rates, and the contractual terms. The usage of these models does not require significant judgment to be applied. These derivative financial instruments are classified in Level 2. In other certain cases when market data is not available, key inputs to the fair value measurement include quotes from counterparties, and other market data. Toyota assesses the reasonableness of changes of the quotes using observable market data. These derivative financial instruments are classified in Level 3. Toyota's derivative fair value measurements consider assumptions about counterparty and Toyota's own non-performance risk, using such as credit default probabilities.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the first half and second quarter ended September 30, 2017 and 2018 were not material.

Certain assets and liabilities are measured at fair value on a nonrecurring basis. The assets and liabilities measured at fair value on a nonrecurring basis for the first half and second quarter ended September 30, 2017 and 2018 were not material.



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**10. Accumulated other comprehensive income:**

Changes in accumulated other comprehensive income (loss) are as follows:

	Yen in millions			
	Foreign currency translation adjustments	Unrealized gains (losses) on securities	Pension liability adjustments	Accumulated other comprehensive income (loss)
<b>For the first half ended September 30, 2017</b>				
Balance at March 31, 2017	(560,108)	1,426,003	(224,973)	640,922
Other comprehensive income (loss) before reclassifications	81,371	187,567	1,156	270,094
Reclassifications	(5,245)	(13,519)	2,841	(15,923)
Other comprehensive income (loss), net of tax	76,126	174,048	3,997	254,171
Less – Other comprehensive income attributable to noncontrolling interests	(5,563)	(1,376)	90	(6,849)
Balance at September 30, 2017	(489,545)	1,598,675	(220,886)	888,244
<b>For the first half ended September 30, 2018</b>				
Balance at March 31, 2018	(679,085)	1,329,584	(214,800)	435,699
Effect of change in accounting policy	105	(1,125,109)	—	(1,125,004)
Other comprehensive income (loss) before reclassifications	141,848	74,160	7,519	223,527
Reclassifications	—	(8,305)	3,641	(4,664)
Other comprehensive income (loss), net of tax	141,848	65,855	11,160	218,863
Less – Other comprehensive income attributable to noncontrolling interests	(2,178)	17	(262)	(2,423)
Balance at September 30, 2018	(539,310)	270,347	(203,902)	(472,865)

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Reclassifications consist of the following:

	Yen in millions		
	For the first half ended September 30, 2017	For the first half ended September 30, 2018	Affected line items in the consolidated statements of income
Foreign currency translation adjustments:			
	(5,245)	—	Other income (loss), net
	(5,245)	—	Income before income taxes and equity in earnings of affiliated companies
	(5,245)	—	Net income
Unrealized gains (losses) on securities:			
	(4,689)	72	Financing operations
	(11,553)	(13,315)	Foreign exchange gain, net
	(3,398)	1,191	Other income (loss), net
	(19,640)	(12,052)	Income before income taxes and equity in earnings of affiliated companies
	6,127	3,747	Provision for income taxes
	(6)	0	Equity in earnings of affiliated companies
	(13,519)	(8,305)	Net income
Pension liability adjustments:			
Recognized net actuarial loss	6,434	6,812	*1
Amortization of prior service costs	(1,962)	(1,755)	*1
	4,472	5,057	Income before income taxes and equity in earnings of affiliated companies
	(1,631)	(1,416)	Provision for income taxes
	2,841	3,641	Net income
Total reclassifications, net of tax	(15,923)	(4,664)	

Amounts of reclassifications in parentheses indicate gains in the consolidated statements of income.

\*1: These components are included in the computation of net periodic pension cost.