

Toyota Motor Corp.

Key Takeaways

- Toyota Motor Corp. seeks to amend its articles to create a new class of shares named "Model AA Class Shares." The company notes that issuance of the new shares is intended to increase the individual shareholder base with a long-term investment horizon. As the proposal will lead to an increase in the proportion of management-friendly stable shareholders, it does not warrant support (see Item 7).

ISS QuickScore

GOVERNANCE

6

Scores indicate decile rank relative to index or region. A decile score of 1 indicates lower governance risk, while a 10 indicates higher governance risk.

Meeting Type: Annual
Meeting Date: 16 June 2015
Record Date: 31 March 2015
Meeting ID: 977980

Tokyo Stock Exchange: 7203
Index: Nikkei 225
Sector: Automobile Manufacturers
GICS: 25102010

Head of Japan Research
 Takeyuki Ishida
jp-research@issgovernance.com

Agenda & Recommendations

Policy: Japan

Incorporated: Japan

Item	Code	Proposal	Board Rec.	ISS Rec.
MANAGEMENT PROPOSALS				
1	M0152	Approve Allocation of Income, with a Final Dividend of JPY 125	FOR	FOR
2.1	M0201	Elect Director Uchiyamada, Takeshi	FOR	FOR
2.2	M0201	Elect Director Toyoda, Akio	FOR	FOR
2.3	M0201	Elect Director Kodaira, Nobuyori	FOR	FOR
2.4	M0201	Elect Director Kato, Mitsuhsa	FOR	FOR
2.5	M0201	Elect Director Sudo, Seiichi	FOR	FOR
2.6	M0201	Elect Director Terashi, Shigeki	FOR	FOR
2.7	M0201	Elect Director Hayakawa, Shigeru	FOR	FOR
2.8	M0201	Elect Director Didier Leroy	FOR	FOR
2.9	M0201	Elect Director Ijichi, Takahiko	FOR	FOR
2.10	M0201	Elect Director Uno, Ikuo	FOR	FOR
2.11	M0201	Elect Director Kato, Haruhiko	FOR	FOR
2.12	M0201	Elect Director Mark T. Hogan	FOR	FOR
3.1	M0280	Appoint Statutory Auditor Kato, Masahiro	FOR	FOR
3.2	M0280	Appoint Statutory Auditor Kagawa, Yoshiyuki	FOR	FOR
3.3	M0280	Appoint Statutory Auditor Wake, Yoko	FOR	FOR
3.4	M0280	Appoint Statutory Auditor Ozu, Hiroshi	FOR	FOR
4	M0281	Appoint Alternate Statutory Auditor Sakai, Ryuji	FOR	FOR
5	M0578	Approve Annual Bonus Payment to Directors	FOR	FOR
6	M0461	Amend Articles to Indemnify Directors - Indemnify Statutory Auditors	FOR	FOR

Report Contents

Corporate Governance Status (企業統治の状況)	3	Governance QuickScore	8
Financial Highlights	4	Vote Results	9
Directors(取締役)	5	Meeting Agenda and Proposals	10
Statutory Auditors(監査役)	6	Equity Ownership Profile	28
Alternate Statutory Auditors(補欠監査役)	8	Additional Information	28

▶7	M0302	Amend Articles to Create Class AA Shares and Approve Issuance of Class AA Shares	FOR	AGAINST
----	-------	--	-----	---------

Shading indicates that ISS recommendation differs from Board recommendation
▶ Items deserving attention due to contentious issues or controversy

ISS-Company Dialogue

Dates	Topic	Initiated By	Outcome
15 May 2015	Capitalization	Issuer	Explanation of Company Practice/ Rationale

Note: ISS engages in ongoing dialogue with issuers in order to ask for additional information or clarification, but not to engage on behalf of its clients. Any draft review which may occur as part of this process is done for purposes of data verification only. All ISS recommendations are based solely upon publicly disclosed information.

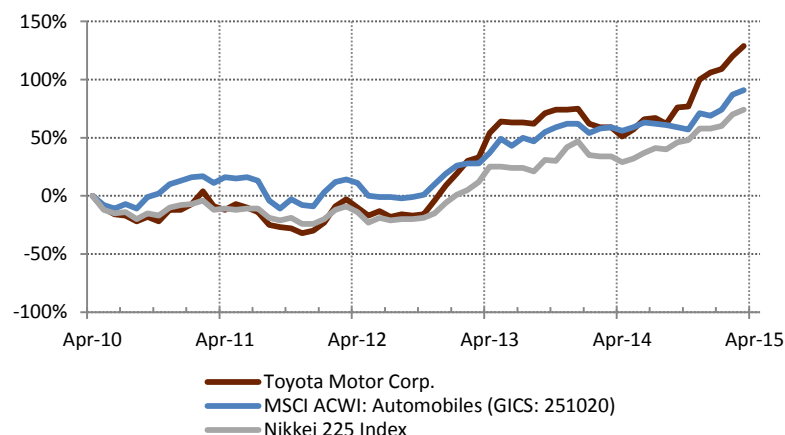
Corporate Governance Status (企業統治の状況)

Toyota Motor Corp.	トヨタ自動車 (株)
Board Structure 取締役会機関設計	Traditional Two-Tier Board with Statutory Auditors 監査役設置会社
As of May 2015	
Directors 取締役	
Term 任期	1 year
Minimum / Maximum Number 員数(最小/最大)	3 / 20
Indemnification 責任減免	All directors 取締役会の決議・社外取締役との責任限定契約
Removal of Directors 解任要件	Simple majority shareholder vote 普通決議
Statutory Auditors 監査役	
Term 任期	4 years
Minimum / Maximum Number 員数(最小/最大)	3 / 7
Indemnification 責任減免	All statutory auditors 取締役会の決議・社外監査役との責任限定契約
Removal of Statutory Auditors 解任要件	Supermajority shareholder vote 特別決議
Audit Firm 会計監査人	
Indemnification 責任減免	No
Latest Internal Control Report (FY ended in 2014) 2013 年度の内部統制報告書	Reported to be effective 有効
Shareholder Rights 株主の権利	
Share Buybacks 自社株式取得	The board can make decisions without shareholder approval. 取締役会で決議可能
Dividend Payments 剰余金処分	The board can make decisions without shareholder approval. 取締役会で決議可能
Shareholder Proposals on Dividends 配当の株主提案	Allowed 提案可能
As of May 2014	
Poison Pill 買収防衛策	
Poison Pill is in Place 買収防衛策の有無	No
Subject to Shareholder Approval 株主総会での承認	N/A N/A
Year Originally Introduced 買収防衛策導入年	N/A
As of April 2015	
Controlling Shareholder 親会社・支配株主	
Controlled Company 親会社・支配株主の有無	No
Name of Controlling Shareholder 親会社・支配株主名	N/A N/A
Attribute 属性	N/A
Holding Percentage 保有割合	N/A
As of May 2015	

Financial Highlights

Company Description: Toyota Motor Corporation designs, manufactures, assembles, and sells passenger cars, commercial vehicles, and related parts and accessories in Japan, North America, Europe, Asia, and internationally. It operates through Automotive, Financial Services, and All Other segments.

STOCK PERFORMANCE



TOTAL SHAREHOLDER RETURNS

	1 Yr	3 Yr	5 Yr
Company TSR (%)	47.54	36.24	19.99
GICS 2510 TSR (%)	5.80	13.86	12.78
Index TSR (%)	14.26	15.10	11.17

Source: Compustat. As of last day of company FY end month: 03/31/2015

COMPANY SNAPSHOT

Market Cap (M)	28,653,073
Closing Price	8383.00
Annual Dividend	200.00
52-Week High	8783.00
52-Week Low	5205.00
Shares Outstanding (M)	3418.00
Average daily trading volume (prior mo)	8,885.37

As of March 31, 2015 (All currency in JPY)

FINANCIAL & OPERATIONAL PERFORMANCE

All currency in JPY	Historical Performance (FY)				
	2010	2011	2012	2013	2014
Earnings					
Revenue (M)	18,993,688	18,583,653	22,064,192	25,691,911	27,234,521
Net Income (M)	408,183	283,559	962,163	1,823,119	2,173,338
EBITDA (M)	1,643,852	1,423,457	2,425,997	3,542,965	4,159,639
EPS (JPY)	130.17	89.54	303.77	575.16	
EPS Y/Y Growth (%)	95	-31	239	89	
Profitability					
Net Margin (%)	3	2	6	10	11
EBITDA Margin (%)	9	8	11	14	15
Return on Equity (%)	4	3	8	13	13
Return on Assets (%)	1	1	3	4	5
ROIC (%)	2	2	5	8	8
Leverage					
Debt/Assets	42	39	40	39	40
Debt/Equity	120	114	116	113	113
Cash Flows					
Operating (M)	2,024,009	1,452,435	2,451,316	3,646,035	3,685,753
Investing (M)	-2,116,344	-1,442,658	-3,027,312	-4,336,248	-3,813,490
Financing (M)	434,327	-355,347	477,242	919,480	306,045
Net Change (M)	214,963	-401,509	39,097	322,873	243,387
Valuation & Performance					
Price/Earnings	25.70	39.90	16.00	10.10	
Annual TSR (%)	-9.14	8.25	39.13	23.19	47.71

Source: Compustat. Note: Compustat standardizes financial data to allow for accurate comparison across companies and industries. Compustat data may differ from companies' disclosed financials. See www.issgovernance.com/policy-gateway/company-financials-faq/ for more information.

Directors (取締役)

Ballot 候補	Name 氏名	Rep 代表	Position 役職	Company Classification 会社分類	ISS Classification ISS 分類	Attendance Concern 出席状況	Gender 性別	Age 年齢	Tenure 在任 年数
2.1	Uchiyamada, Takeshi 内山田 竹志	<input checked="" type="checkbox"/>	Chairman 会長	Insider	Insider		M	68	17
2.2	Toyoda, Akio 豊田 章男	<input checked="" type="checkbox"/>	President 社長	Insider	Insider		M	59	15
2.3	Kodaira, Nobuyori 小平 信因	<input checked="" type="checkbox"/>		Insider	Insider		M	66	5
2.4	Kato, Mitsuhisa 加藤 光久	<input checked="" type="checkbox"/>		Insider	Insider		M	62	3
2.5	Sudo, Seiichi 須藤 誠一	<input checked="" type="checkbox"/>		Insider	Insider		M	64	2
2.6	Terashi, Shigeki 寺師 茂樹	<input checked="" type="checkbox"/>		Insider	Insider		M	60	2
2.7	Hayakawa, Shigeru 早川 茂			Insider	Insider		M	61	New
2.8	Didier Leroy ディディエ ルロワ	<input checked="" type="checkbox"/>		Insider	Insider		M	57	New
2.9	Ijichi, Takahiko 伊地知 隆彦	<input checked="" type="checkbox"/>		Insider	Insider		M	62	New
2.10	Uno, Ikuo 宇野 郁夫			Outsider	Affiliated Outsider		M	80	2
2.11	Kato, Haruhiko 加藤 治彦			Outsider	Independent Outsider		M	62	2
2.12	Mark T. Hogan マーク ホーガン			Outsider	Affiliated Outsider		M	64	2
Average							0.0%F	63	4

Notes

Uchiyamada, Takeshi
内山田 竹志 Uchiyamada, whose total compensation (not counting any retirement bonus) for 2013-14 was JPY 165 million, was one of the 445 executives among more than 40,000 executives of Japanese listed companies who received more than JPY 100 million in the last fiscal year. (Source: Nikkei BP) The Yuho Securities filing containing compensation data for 2014-15 is not yet published.

Toyoda, Akio
豊田 章男 Toyoda, whose total compensation (not counting any retirement bonus) for 2013-14 was JPY 230 million, was one of the 445 executives among more than 40,000 executives of Japanese listed companies who received more than JPY 100 million in the last fiscal year. (Source: Nikkei BP) The Yuho Securities filing containing compensation data for 2014-15 is not yet published.

Kodaira, Nobuyori
小平 信因 Kodaira, whose total compensation (not counting any retirement bonus) for 2013-14 was JPY 110 million, was one of the 445 executives among more than 40,000 executives of Japanese listed companies who received more than JPY 100 million in the last fiscal year. (Source: Nikkei BP) The Yuho Securities filing containing compensation data for 2014-15 is not yet published.

Kato, Mitsuhisa
加藤 光久 Kato, whose total compensation (not counting any retirement bonus) for 2013-14 was JPY 110 million, was one of the 445 executives among more than 40,000 executives of Japanese listed companies who received more than JPY 100 million in the last fiscal year. (Source: Nikkei BP) The Yuho Securities filing containing compensation data for 2014-15 is not yet published.

Uno, Ikuo
宇野 郁夫 As of July 2014, Ikuo Uno served on either the board of directors or the board of statutory auditors at seven Japanese public companies. At that point, Uno served as an outside director of Panasonic Corp, an outside director of Toyota Motor

Corp., an outside statutory auditor of Odakyu Electric Railway Co. Ltd., an outside director of Fuji Kyuko Co. Ltd., an outside statutory auditor of Tohoku Electric Power Co. Inc., an outside statutory auditor of West Japan Railway Co., and an outside statutory auditor of Sumitomo Mitsui Financial Group, Inc.

Board Summary

	Total 計	Insiders 社内	Outsiders 社外			Outsider 社外	Independence 独立性
			Total Outsiders 小計	Affiliated 非独立	Independent 独立		
After This Meeting	12	9	3	2	1	25.0%	8.3%
After Last AGM	15	12	3	2	1	20.0%	6.7%

ISS' evaluations of independence "After Last AGM" are based on information disclosed at the time, so independence designations at this meeting may differ.

Outsider Independence & Affiliations (社外取締役の属性)

Ballot 候補	Name 氏名	ISS Classification ISS 分類	Organization 所属組織	Affiliation* 関連性	Qualification 資格等
2.10	Uno, Ikuo 宇野 郁夫	Affiliated Outsider	Nippon Life Insurance 日本生命保険	Significant Shareholder (former) (3.82%) Business Partner (former) 大株主 (過去) (3.82%) 取引先 (過去)	Management 会社役員
2.11	Kato, Haruhiko 加藤 治彦	Independent Outsider	Ministry of Finance 財務省		Government Official 官公庁出身
2.12	Mark T. Hogan マーク ホーガン	Affiliated Outsider	General Motors ゼネラルモーターズ	Business Partner (former) Professional Services 取引先 (過去) コンサルティング	Management 会社役員

* (Former) indicates that the individual formerly worked for an organization that has a relationship with the company. Note also that the affiliation information listed for individuals not on this year's ballot may be based on past filings. Share ownership is based on the proxy circular, while the shareholder list in the Equity Ownership Profile at the end of the report draws on a third party data vendor, so discrepancies are possible. ISS' independence valuation is based on the proxy circular, where the ten largest shareholders are typically disclosed.

Outsider Notes

Uno, Ikuo
宇野 郁夫

(Source for Business Partner: 2014 Independent Director/Auditor Notification "独立役員届出書")

Mark T. Hogan
マーク ホーガン

(Source for Business Partner: 2014 Independent Director/Auditor Notification "独立役員届出書")

While at General Motors, Hogan held a senior position at NUMMI, GM's now-dissolved California-based joint venture with Toyota. Hogan has received compensation as an adviser from wholly owned subsidiary Toyota Motor North America, and that Toyota Motor North America plans to continue to seek advice from him in the future.

Statutory Auditors (監査役)

Ballot 候補	Name 氏名	Company Classification 会社分類	ISS Classification ISS 分類	Attendance Concern* 出席状況	Gender 性別	Age 年齢	Tenure 在任 年数
3.1	Kato, Masahiro 加藤 雅大	Insider	Insider		M	62	4
3.2	Kagawa, Yoshiyuki 香川 佳之	Insider	Insider		M	54	New
3.3	Wake, Yoko 和気 洋子	Outsider	Independent Outsider		F	67	4
3.4	Ozu, Hiroshi 小津 博司	Outsider	Independent Outsider		M	65	New
	Nakatsugawa, Masaki 中津川 昌樹	Insider	Insider		M	62	9
	Kitayama, Teisuke 北山 禎介	Outsider	Affiliated Outsider		M	68	1
Average					16.7%F	63	3

* D indicates attendance rate at meetings of the board of directors while SA indicates attendance rate at meetings of the board of statutory auditors.

Notes

Kitayama, Teisuke
北山 禎介 As of July 2014, Teisuke Kitayama served on either the board of directors or the board of statutory auditors at three Japanese public companies. At that point, Kitayama served as an outside director of FUJIFILM Holdings Corp., an outside statutory auditor of Toyota Motor Corp., and an outside statutory auditor of Isetan Mitsukoshi Holdings Ltd.

Board Summary

	Total	Insiders	Outsiders 社外			Outsider	Independence
	計	社内	Total Outsiders 小計	Affiliated 非独立	Independent 独立	社外	独立性
After This Meeting	6	3	3	1	2	50.0%	33.3%
After Last AGM	6	3	3	1	2	50.0%	33.3%

ISS' evaluations of independence "After Last AGM" are based on information disclosed at the time, so independence designations at this meeting may differ.

Outsider Independence & Affiliations (社外監査役の属性)

Ballot 候補	Name 氏名	ISS Classification ISS 分類	Organization 所属組織	Affiliation* 関連性	Qualification 資格等
3.3	Wake, Yoko 和気 洋子	Independent Outsider	Keio University 慶應義塾大学		Academic 大学教員
3.4	Ozu, Hiroshi 小津 博司	Independent Outsider	Public Prosecutors Office 検察庁		Attorney 弁護士
	Kitayama, Teisuke 北山 禎介	Affiliated Outsider	Sumitomo Mitsui Financial Group, Inc. 三井住友フィナンシ ャルグループ	Main Bank (former) 取引銀行 (過去)	Management 会社役員

* (Former) indicates that the individual formerly worked for an organization that has a relationship with the company.

Outsider Notes

Kitayama, Teisuke (Source for Main Bank: 2015 Nikkei Corporate Quarterly)
北山 禎介

Alternate Statutory Auditors (補欠監査役)

Ballot 候補	Name 氏名	Company Classification 会社分類	ISS Classification ISS 分類	Attendance Concern 出席状況	Gender 性別	Age 年齢	Tenure 在任 年数
4	Sakai, Ryuji 酒井 竜児	Outsider	Independent Outsider	N/A	M	57	N/A

Outsider Independence & Affiliations (補欠社外監査役の属性)

Ballot 候補	Name 氏名	ISS Classification ISS 分類	Organization 所属組織	Affiliation* 関連性	Qualification 資格等
4	Sakai, Ryuji 酒井 竜児	Independent Outsider	Law firm Nagashima Ohno & Tsunematsu 長島・大野・常松法 律事務所		Attorney 弁護士


* (Former) indicates that the individual formerly worked for an organization that has a relationship with the company.


ISS QuickScore

As of May 27, 2015

ISS GOVERNANCE QUICKSCORE PILLARS

Board	6
Subcategory & Impact:	
Board Composition	
Composition of Committees	
Board Practices	


Remuneration	6
Subcategory & Impact:	
 Communications & Disclosure	
Other Issues	

Shareholder Rights	4
Subcategory & Impact:	
One Share - One Vote	
Takeover Defenses	
 Meeting and Voting Related Issues	

Audit	6
Subcategory & Impact:	
External Auditor	
Audit & Accounting Controversies	
Other Issues	

ISS Governance QuickScore is derived from publicly disclosed data on the company's governance practices. Scores indicate decile rank relevant to index or region. While company practices that raise concerns in ISS Governance QuickScore are in many cases factors that weigh against the company in analyzing certain proposals, ISS recommendations are based on situational proposals and the related qualitative aspects of our review at a point in time

Scores on the proxy research report are "As of" the date indicated. QuickScore data and scores are dynamic and updated on a daily basis and available year round. Scores are calculated at each pillar by summing the factor scores in that pillar. Not all factors and not all subcategories have equal weight, and not all factors or

 The total number of points in this subcategory is at the top of the possible range.

 The total number of points in this subcategory is at the bottom of the possible range.

No Star or Flag: The total number of points in this subcategory is in the middle of the possible range.

Vote Results for Annual General Meeting 17 June 2014

Proposal	Mgmt Rec	ISS Rec	Disclosed Result	% For	% Against	% Abstain
1 Approve Allocation of Income, with a Final Dividend of JPY 100	For	For	Pass	99.8	0.0	0.1
2.1 Elect Director Uchiyamada, Takeshi	For	For	Pass	96.3	3.4	0.2
2.2 Elect Director Toyoda, Akio	For	For	Pass	98.9	0.9	0.2
2.3 Elect Director Ozawa, Satoshi	For	For	Pass	98.4	1.1	0.5
2.4 Elect Director Kodaira, Nobuyori	For	For	Pass	98.4	1.2	0.5
2.5 Elect Director Kato, Mitsuhi	For	For	Pass	98.4	1.1	0.5
2.6 Elect Director Maekawa, Masamoto	For	For	Pass	98.4	1.1	0.5
2.7 Elect Director Ihara, Yasumori	For	For	Pass	98.4	1.1	0.5
2.8 Elect Director Sudo, Seiichi	For	For	Pass	98.4	1.1	0.5
2.9 Elect Director Saga, Koei	For	For	Pass	98.3	1.2	0.5
2.10 Elect Director Fukuichi, Tokuo	For	For	Pass	98.2	1.3	0.5
2.11 Elect Director Terashi, Shigeki	For	For	Pass	98.3	1.2	0.5
2.12 Elect Director Ishii, Yoshimasa	For	For	Pass	98.3	1.2	0.5
2.13 Elect Director Uno, Ikuo	For	Against	Pass	78.8	20.6	0.6
2.14 Elect Director Kato, Haruhiko	For	For	Pass	99.3	0.6	0.1
2.15 Elect Director Mark T. Hogan	For	For	Pass	89.4	10.4	0.2
3.1 Appoint Statutory Auditor Nakatsugawa, Masaki	For	For	Pass	92.5	7.1	0.4
3.2 Appoint Statutory Auditor Kitayama, Teisuke	For	Against	Pass	77.8	22.0	0.2
4 Appoint Alternate Statutory Auditor Sakai, Ryuuji	For	For	Pass	99.4	0.5	0.1
5 Approve Annual Bonus Payment to Directors	For	For	Pass	97.5	2.3	0.2
6 Approve Disposal of Treasury Shares for a Private Placement	For	For	Pass	98.9	1.0	0.1

Meeting Agenda & Proposals

Item 1. Approve Allocation of Income, with a Final Dividend of JPY 125

FOR

VOTE RECOMMENDATION

A vote FOR this proposal is warranted because:

- There are no particular concerns with the level of the proposed dividend.

Proposal 剰余金配当

Toyota Motor seeks approval of its dividend plans for the year under review. The proposed dividend amount, combined with an interim dividend of JPY 75 per share, will result in a payout ratio of 29.0 percent for the fiscal year ended on March 31, 2015.

Analysis

Dividend payouts in Japan are often lower than would be justified given the company's financial results and level of reserves. Our analysis starts with reviewing the payout ratio based on the firm's dividends for the whole year including interim dividends, if any. If the dividend payout ratio is within a range of 15 percent to 100 percent, ISS generally supports the resolution. (If the payout ratio is less than 15 percent, ISS will evaluate the proposal on a case-by-case basis, and will advise shareholders to vote against the resolution if the payout ratio has been consistently low without adequate justification.)

In this case, there are no particular concerns with the level of the proposed dividend.

Item 2.1. Elect Director Uchiyamada, Takeshi

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 取締役選任

BOARD STRUCTURE - BOARD WITH STATUTORY AUDITORS (監査役設置会社)

Toyota Motor seeks to appoint an inside director. Takeshi Uchiyamada first joined the board of directors in 1998 and became the chairman of the company in 2013. Uchiyamada is also known for his key role in creating the Toyota Prius.

ISS Methodology

POLICY CALLS FOR ONE OUTSIDER

ISS recommends a vote against a company's top executive if the board after the shareholder meeting has no outside directors. Electing a single outsider (who may not even be independent) is of course not sufficient to enable practical board independence, and falls short of board independence practices in most markets, but, given

that Japanese companies have long been criticized for lack of outside director oversight, it is a meaningful step in the right direction.

There is no obligation to appoint outsiders to the board of directors at the 98 percent of Japanese companies, including Toyota Motor, that retain Japan's traditional board system (featuring two tiers, with a statutory auditor board with limited powers separate from the board of directors). Nomination committees are not legally required at companies with the statutory auditor board system. As such, top executives bear responsibility for board composition as key director nomination decision makers.

POLICY AFTER 2016 REQUIRES TWO OUTSIDERS

Given that more than 70 percent of Japanese boards already have at least one outsider, and Japan's Corporate Governance Code is expected to encourage companies to have multiple outside independent directors, having outsiders on boards is no longer an alien concept in Japan. In fact, a majority of large Japanese companies already have at least two outside directors. Of Nikkei 225 index member companies, 72 percent have multiple outsiders, and of companies constituting the JPX-Nikkei 400 index, 55 percent have multiple outsiders (as of September 2014).

In light of the improvement in board independence in Japan in recent years, ISS believes it appropriate to make our current board policy more stringent. Specifically, beginning in 2016, ISS will recommend a vote against a company's top executive(s) if the board does not include at least two outside directors. The new policy may initially be applied only to large companies (i.e., those in major indices), but details will be determined in our policy formation process in late 2015. By announcing the policy a year in advance, companies are given reasonable time to consider taking this step and to recruit qualified outside director candidates.

CAPITAL EFFICIENCY POLICY

ISS recommends that shareholders oppose the top executive at a company that has underperformed in terms of capital efficiency (i.e., when the company has posted average return on equity (ROE) of less than five percent over the last five fiscal years), unless an improvement (defined as ROE of five percent or greater for the most recent fiscal year) is observed. This policy will not be applied to companies which have been public for less than five years. For fiscal years which do not cover 12 months, annualized ROE is used for calculation.

Japanese boards are often criticized for shareholder-unfriendly decisions, such as hoarding cash, or tying up assets in cross-shareholdings. In other cases, they appear reluctant to sell or shut down unprofitable businesses. At the same time, Japanese corporate managers are often criticized for not taking risks in making value-enhancing strategic investment decisions for future growth, due to a consensus-based decision-making process on boards dominated by insiders.

As Japanese boards in practice function as management committees, rather than as supervisory organs, it is reasonable for shareholders to oppose top executives when capital efficiency performance is poor. Exceptions may be considered for cases such as where the top executive has recently joined the company in connection with a bailout or restructuring.

OUTSIDER INDEPENDENCE

ISS does not recommend a vote against outside directors merely for a lack of independence because this could have the effect of actually increasing management domination of the board. A nominee who is voted down may not be replaced, and the board may end up losing one outsider.

As of Dec. 31, 2014, the average board at a TOPIX index company has 8.7 directors with outsiders accounting for 15.9 percent, and 55.4 percent of those outsiders are considered independent based on ISS's independence definition for Japanese companies.

ATTENDANCE OF INCUMBENT OUTSIDERS

ISS reviews attendance at board meetings during the year under review for outside director nominees seeking reappointment, and recommends opposing nominees who fail to meet ISS guidelines, which call for an attendance

rate of at least 75 percent unless a legitimate reason for the poor attendance is disclosed. (The attendance of inside directors is not disclosed in Japan.)

ISS believes that the job of an outside director is not merely to offer advice, but to participate in the board's deliberations. If the outsiders do not attend board meetings, in person or remotely, then critical decisions on matters such as whether to proceed with a potential acquisition or whether to overhaul the executive compensation system will be made by insiders only. Attendance via webcast or teleconference will be deemed equivalent to attendance in person under ISS policy on attendance.

Analysis

BOARD COMPOSITION GUIDELINE - PASS

The board of Toyota Motor will have three outsiders after this meeting. The board profile meets the policy condition on minimum outside oversight.

ROE GUIDELINE - PASS

The company meets ISS guidelines on ROE.

Item 2.2. Elect Director Toyoda, Akio

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 取締役選任

Toyota Motor seeks to appoint an inside director. Akio Toyoda, a grandson of founder Kiichiro Toyoda, has been president of Toyota Motor since June 2009.

Item 2.3. Elect Director Kodaira, Nobuyori

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 取締役選任

Toyota Motor seeks to appoint an inside director.

Item 2.4. Elect Director Kato, Mitsuhiisa

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 取締役選任

Toyota Motor seeks to appoint an inside director.

Item 2.5. Elect Director Sudo, Seiichi

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 取締役選任

Toyota Motor seeks to appoint an inside director.

Item 2.6. Elect Director Terashi, Shigeki

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 取締役選任

Toyota Motor seeks to appoint an inside director.

Item 2.7. Elect Director Hayakawa, Shigeru

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 取締役選任

Toyota Motor seeks to appoint an inside director.

Item 2.8. Elect Director Didier Leroy

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 取締役選任

Toyota Motor seeks to appoint an inside director. Didier Leroy is new to the board. He is a former executive of Renault, who joined Toyota's French affiliate in 1998.

Item 2.9. Elect Director Ijichi, Takahiko

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 取締役選任

Toyota Motor seeks to appoint an inside director.

Item 2.10. Elect Director Uno, Ikuo

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- The appointment of this outside director candidate, even though the individual cannot be regarded as independent, still appears meaningful because outside directors are not required under the law.

Proposal 取締役選任

Toyota Motor seeks to appoint a director who will be designated as an outside director. Ikuo Uno is an adviser to Nippon Life Insurance, of which he was the president from 1997 to 2005. Nippon Life Insurance is a major shareholder of Toyota Motor with a 3.8 percent stake.

ISS does not currently have a policy on overboarded directors in Japan, it is worthy of note that Uno serves on either the board of directors or the board of statutory auditors at seven public companies. He serves as

1. Outside director at Panasonic Corp,
2. Outside director at Toyota Motor Corp.
3. Outside director at Fuji Kyuko Co. Ltd.
4. Outside statutory auditor at Odakyu Electric Railway Co. Ltd.
5. Outside statutory auditor at Tohoku Electric Power Co. Inc.
6. Outside statutory auditor at West Japan Railway Co.
7. Outside statutory auditor at Sumitomo Mitsui Financial Group, Inc.

Given the relatively large number of board meetings at a typical Japanese company, compared with non-Japanese counterparts, it is almost inevitable that scheduling conflicts will arise for an individual who sits on so many boards.

Analysis

NOMINEE CONSIDERED AFFILIATED OUTSIDER

The outside director nominee cannot be regarded as independent because of the nominee's affiliation with the company. (See the Outsider Independence & Affiliations (社外取締役の属性) section.)

However, voting against this nominee merely for lack of independence may run the risk of actually increasing management dominance of the board, as Toyota Motor faces no legal requirement to appoint outside directors, even if an outside director nominee is voted down. Accordingly, shareholder opposition to outside director nominees merely for lack of independence is not recommended.

ATTENDANCE GUIDELINE - PASS

Last year, Toyota disclosed that Uno had attended only 66.7 percent of the board meetings held in the previous fiscal year, failing to meet our guidelines on attendance. However, he attended all board meetings held in the year under review (17 board meetings). Support for his election is warranted at this time.

Item 2.11. Elect Director Kato, Haruhiko

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- The appointment of this outside director candidate, even though the individual cannot be regarded as independent, still appears meaningful because outside directors are not required under the law.

Proposal 取締役選任

Toyota Motor seeks to appoint a director who will be designated as an outside director. Haruhiko Kato is the president of Japan Securities Depository Center Inc. (known as JASDEC), and is a former official of the Ministry of Finance where he worked from 1975 to 2010. He also serves as an outside director at Canon Inc.

Analysis

NOMINEE CONSIDERED AFFILIATED OUTSIDER

The outside director nominee cannot be regarded as independent because of the nominee's affiliation with the company. (See the Outsider Independence & Affiliations (社外取締役の属性) section.)

However, voting against this nominee merely for lack of independence may run the risk of actually increasing management dominance of the board, as Toyota Motor faces no legal requirement to appoint outside directors, even if an outside director nominee is voted down. Accordingly, shareholder opposition to outside director nominees merely for lack of independence is not recommended.

ATTENDANCE GUIDELINE - PASS

The nominee meets ISS guidelines on attendance.

Item 2.12. Elect Director Mark T. Hogan

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- The appointment of this outside director candidate, even though the individual cannot be regarded as independent, still appears meaningful because outside directors are not required under the law.

Proposal 取締役選任

Toyota Motor seeks to appoint a director who will be designated as an outside director. Mark T. Hogan is the president of Dewey Investments LLC, a consulting firm to auto-related companies. Prior to that post, he was the president of Vehicle Production Group LLC, the president of Magna International Inc., and a group vice president of General Motors Co. While at General Motors, Hogan held a senior position at NUMMI, GM's now-dissolved California-based joint venture with Toyota. Hogan is only the second foreigner ever to serve on Toyota's board.

Toyota Motor notes that Hogan has received compensation as an adviser from wholly owned subsidiary Toyota Motor North America, and that Toyota Motor North America plans to continue to seek advice from him in the future.

Analysis

NOMINEE CONSIDERED AFFILIATED OUTSIDER

The outside director nominee cannot be regarded as independent because of the nominee's affiliation with the company. (See the Outsider Independence & Affiliations (社外取締役の属性) section.)

However, voting against this nominee merely for lack of independence may run the risk of actually increasing management dominance of the board, as Toyota Motor faces no legal requirement to appoint outside directors, even if an outside director nominee is voted down. Accordingly, shareholder opposition to outside director nominees merely for lack of independence is not recommended.

ATTENDANCE GUIDELINE - PASS

The nominee meets ISS guidelines on attendance.

Item 3.1. Appoint Statutory Auditor Kato, Masahiro

FOR

VOTE RECOMMENDATION

A vote FOR this statutory auditor nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 監査役選任

Toyota Motor seeks to appoint a statutory auditor, who is an insider.

ISS Methodology

ISS opposes any statutory auditor nominees presented as outsiders who do not meet criteria for independence. In addition, ISS reviews attendance at board meetings during the year under review for outside statutory auditor nominees seeking reappointment, and recommends opposing nominees who fail to attend at least 75 percent of meetings of both the board of directors and the board of statutory auditors, unless a legitimate reason for poor attendance is disclosed. Where companies fail to disclose the information necessary to calculate the attendance rate, negative vote recommendations will be made. The attendance of inside statutory auditors is not disclosed in Japan

Under Japan's governance system, statutory auditors should not be confused with external auditors. Statutory auditors must attend board of directors meetings (although they are not authorized to vote), and they have to decide whether to sign off on the external auditor's work. They have no formal say in removing directors from office. At companies with no outside directors, the board of directors essentially functions as an executive committee and plays a minimal role in management oversight, but such companies often argue that the statutory auditor board provides a form of oversight.

For statutory auditor nominees who are insiders, we usually support the appointments unless there are particular concerns about the nominees.

Item 3.2. Appoint Statutory Auditor Kagawa, Yoshiyuki

FOR

VOTE RECOMMENDATION

A vote FOR this statutory auditor nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 監査役選任

Toyota Motor seeks to appoint a statutory auditor, who is an insider.

Item 3.3. Appoint Statutory Auditor Wake, Yoko

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 監査役選任

Toyota Motor seeks to appoint an outside statutory auditor. Yoko Wake is a professor emeritus at Keio University.

Analysis

OUTSIDER CONSIDERED INDEPENDENT

The outside statutory auditor candidate meets ISS criteria on independence.

ATTENDANCE GUIDELINE - PASS

The nominee meets ISS guideline on attendance.

Item 3.4. Appoint Statutory Auditor Ozu, Hiroshi

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 監査役選任

Toyota Motor seeks to appoint an outside statutory auditor. Hiroshi Ozu is a prosecutor-turned-attorney.

Analysis

OUTSIDER CONSIDERED INDEPENDENT

The outside statutory auditor candidate meets ISS criteria on independence.

Item 4. Appoint Alternate Statutory Auditor Sakai, Ryuji

FOR

VOTE RECOMMENDATION

A vote FOR this nominee is warranted because:

- There are no particular concerns about the nominee.

Proposal 補欠監査役選任

Toyota Motor seeks to appoint an alternate statutory auditor who will be designated as an outsider. Ryuji Sakai is an attorney at the law firm of Nagashima Ohno & Tsunematsu.

ISS Methodology

Japan's Corporate Law allows companies to appoint alternate statutory auditors who will only serve if a statutory auditor becomes unable to complete his or her term in office. We hold alternate statutory auditors who will be designated as outsiders to the same standards as other nominees for outside statutory auditor. As to alternate statutory auditors who will not be designated as outsiders, we generally support their nominations unless there are particular concerns about their qualifications as a statutory auditor.

Analysis

OUTSIDER CONSIDERED INDEPENDENT

The alternate outside statutory auditor candidate meets ISS criteria on independence.

Item 5. Approve Annual Bonus Payment to Directors

FOR

VOTE RECOMMENDATION

A vote FOR the proposal is warranted because:

- The total proposed amount of the bonuses is reasonable.

Proposal 役員賞与

Toyota Motor asks for shareholder approval to pay annual bonuses. Details of the company's proposal are as follows:

	Number of Recipients 対象者数	Aggregate Payment Amount 支給総額	Average per Capita* 一人当たり平均
Directors 取締役	12	JPY 885.3 million	JPY 73.8 million

* Individual amounts are left to the discretion of the board of directors.

Outside directors are not eligible for the payments.

Analysis

Japan's Corporate Law does not require companies to seek shareholder approval to pay annual bonuses to their directors or statutory auditors, and companies usually make such payments without consulting shareholders.

However, in this case, Toyota Motor voluntarily seeks shareholder approval for the payments. This move itself should be viewed as positive. Moreover, the amounts cannot be regarded as excessively high. Accordingly, this resolution warrants support.

Item 6. Amend Articles to Indemnify Directors - Indemnify Statutory Auditors

FOR

VOTE RECOMMENDATION

A vote FOR this proposal is warranted because:

- There are no particular concerns resulting from the change to the articles.

Proposal 定款変更

Toyota Motor seeks to make the following change(s) to its articles of incorporation.

- **Indemnify Directors 取締役の責任減免:** The company seeks shareholder approval to authorize it to impose limits on the legal liability of the following individuals.

- Non-executive directors: 1) outsiders, and 2) insiders without executive roles

Non-executive directors are a new category of directors who can now be indemnified under the revised Corporate Law (effective of May 1, 2015). This mainly reflects a change in another part of the law which now prohibits executives of parent companies from being designated as outsiders. With the addition of the new category of directors to the list of directors allowed for indemnification, executives of parent companies who used to be indemnified as outside directors under the previous law will continue to be indemnified under the revised law.

These limitations would apply only where the individual in question acted in good faith, and would not apply in cases of gross negligence or criminal behavior. The company believes that the limitations are necessary in order to attract qualified candidates to serve in these positions.

- **Indemnify Statutory Auditors 監査役の責任減免:** Shareholders are asked to authorize the company to impose limits on the legal liability of the following individuals.

- All statutory auditors

These limitations would apply only where the individual in question acted in good faith, and would not apply in cases of gross negligence or criminal behavior. The company believes that the limitations are necessary in order to attract qualified candidates to serve in these positions

Analysis

The proposal is routine.

Item 7. Amend Articles to Create Class AA Shares and Approve Issuance of Class AA Shares

AGAINST

VOTE RECOMMENDATION

A vote AGAINST the proposal is warranted because:

- The company fails to present specific reasons why the issuance of Class AA shares is beneficial to common shareholders.
- Increasing the number of stable shareholders, in addition to the Toyota Mobility Foundation, would reduce market discipline on Toyota Motor's management and the company's incentives to reach out to common shareholders, which will not be beneficial to the company over the long term.

Proposal 定款変更および募集株式の募集事項決定の取締役会への委任

In this resolution, Toyota Motor Corp. first seeks to amend the articles to create a new class of shares named "Model AA Class Shares," (Class AA shares). Based on this authority, the company next seeks shareholder approval to issue the Class AA shares. The company notes that the issuance of Class AA shares is intended to increase the individual shareholder base with a long-term investment horizon.

ARTICLE AMENDMENT

In the first half of this resolution, Toyota Motor proposes to create five series of "Class AA shares," named after the first passenger car developed and manufactured by Toyoda Automatic Loom Works, the predecessor of Toyota Motor, in 1936.

Class AA shares have unusual features. First, the shares will not be traded on an exchange, and cannot be transferred without board approval. Second, five years after issuance, Class AA shareholders can convert Class AA shares into common shares, or ask the company to purchase the Class AA shares for cash at the original issuance price. The dividend initially will be set at 0.5 percent of the issue price, but will increase by 0.5 percentage points per year during the five years after issuance. The dividend will be fixed at 2.5 percent in and after five years from issuance. Class AA shares therefore can be regarded as fixed income instruments with conversion rights. However, Class AA shares have voting rights, so they could also be described as "non-transferable convertible bonds with voting rights."

In Japan, shareholder approval is required for all article amendments. Bonds are not set forth in the articles of incorporation in Japan, so the creation and issuance of bonds are not on shareholder meeting agendas. However, in this case, because the company chose to use the legal framework of class shares to create a financial instrument which functions like a bond (albeit with voting rights), and the creation of class shares requires article amendments under Japanese law, this proposal was put to a shareholder vote. The maximum number of Class AA shares the company can issue will be capped at 150 million, which represents 4.8 percent of outstanding shares as of March 31, 2015.

Details of the Class AA shares are as follows.

Class AA Shares Features

Listed security?	No
Transferable?	No; Board approval is needed for transfer. However, that does not hold true for

	exceptional cases, including tender offers and inheritance.
Authorized capital	<ul style="list-style-type: none"> • Series 1: 50 million Class AA shares • Series 2: 50 million Class AA shares • Series 3: 50 million Class AA shares • Series 4: 50 million Class AA shares • Series 5: 50 million Class AA shares <p>However, the maximum number of Class AA shares to be issued, regardless of series, will be capped at 150 million.</p>
Voting rights?	Yes
Rights to submit shareholder proposals?	Yes
Shareholder right to exchange for common shares?	Yes; five years after issuance at a rate of one to one
Company right to Redeem for Common Shares?	No
Shareholder Right to Exchange for Cash?	Yes; five years after issuance at issue price
Company Right to Redeem for Cash?	Yes; five years after issuance at issue price
Dividends	<p>Dividend amount shall be calculated by multiplying issue price by dividend rate as follows.</p> <ul style="list-style-type: none"> • 0.5 percent in the first year after issuance • 1.0 percent in the second year • 1.5 percent in the third year • 2.0 percent in the fourth year • 2.5 percent in the fifth year • 2.5 percent in the sixth and later years <p>Dividends are cumulative, meaning that if no dividends are paid in a given year, accrued dividends will be paid in later years. Class AA dividends will be paid to AA shareholders before common dividend payments.</p>
Issue price	120 percent or more of the closing price of common shares on the date of the board resolution on issuance of Class AA shares.
Liquidation	Holders have the right to receive cash equivalent to the issue price and accrued dividends prior to common shareholders.

APPROVE ISSUANCE OF CLASS AA SHARES

In the latter half of this resolution, Toyota Motor seeks shareholder approval for the issuance of up to 50 million Series 1 Class AA shares in a public offering. The issue price will be set at 20 percent higher than the common share price at issuance. In Japan, a share issuance can be carried out with board approval, but the company seeks shareholder approval for it at this time. However, for Series 2 Class AA shares and subsequent series, Toyota currently does not plan to seek shareholder approval. In order to avoid dilution for common shareholders, the company intends to carry out a common share buyback of the same number of shares as the number of Class AA shares to be issued.

RATIONALE

Matching research and development to investment period

Toyota notes that the issuance of Class AA shares is intended to better match the duration of the period during which research and development efforts for next generation technologies bear fruit, contributing to corporate performance, to the investment period. Therefore, Class AA shares are designed for shareholders who are willing to be mid-to-long term shareholders of Toyota, and thus accept the restrictions on transfer. Toyota states that

feedback from such mid-to-long term shareholders would enable the automaker to increase value for the years to come.

Toyota argues that research and development activities need to be carried out from a long-term perspective. In December 2014, the company launched the all new "MIRAI," which is the first mass-production hydrogen fuel cell vehicle. The development of MIRAI began over twenty years ago, so the company stresses the importance of running research and development from a long-term perspective, in order to stay competitive and create cutting-edge innovative technologies.

The company notes "Through Model AA Class Shares, TMC [Toyota Motor Corporation] proposes shares that will reward shareholders who support and advance with TMC from a medium to long term perspective, and by incorporating in its operations the views of shareholders who hold the shares over a medium to long term, TMC will promote balanced management towards sustainable growth and challenge for the future, and aims to further enhance its corporate value over a medium to long term."

In the spirit of Corporate Governance Code

The company states that "By issuing Model AA Class Shares, TMC aims to cultivate new shareholders who hold the shares for a medium to long term." It cites Japan's Corporate Governance Code, published in March 2015, which aims to promote a mid- to long-term investment culture. The code also provides that shareholders who hold shares for a medium to long term can become important partners for companies. Toyota argues that the issuance of Class AA shares is in line with the spirit of the code.

Analysis

In reviewing a proposal of this sort which requires a case-by-case approach, ISS reviews publicly available information and evaluates the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors. The features of the proposed Class AA shares are unique. Nonetheless, the proposal can be interpreted as seeking the ability to raise funds by issuing a new financial instrument, so the primary factors in analyzing the proposal boil down to the validity of the rationale for issuance and the impact for common shareholders.

VALIDITY OF RATIONALE

Toyota Motor notes that in order to raise funds enabling it to conduct research and development activities from a mid-to-long term perspective for next generation technologies, such as those for hydrogen fuel cell vehicles, it needs to increase the base of individual shareholders with long-term investment horizons. Toyota states that the issuance of Class AA shares should match the duration of the research and development period for cutting edge technology with the investment horizon of mid-to-long term shareholders.

ISS does not dispute the importance of developing such technology given the challenge of climate change and the likelihood of further restrictions on internal combustion engines, and as technology development takes time, the argument appears to make sense conceptually at a glance. If the company could succeed in developing a breakthrough technology, common shareholders, along with other stakeholders, will obviously benefit from it, but a fundamental question is how the net proceeds raised from the issuance of Class AA shares could specifically be used in a way that achieves that goal, and why this goal cannot be achieved through the issuance of common shares, non-voting preferred shares, or bonds.

Lack of disclosure on specific merits for common shareholders

It is cause for concern that the company fails to present any specific argument addressing why the issuance of Class AA shares could better serve that purpose. It may be unrealistic to expect disclosure of the quantifiable benefits common shareholders could expect for the issuance of Class AA shares, given the unpredictable nature of research and development. However, as detailed below, the company has failed to specifically address the logical concerns of common shareholders about the issuance of Class AA shares.

Net proceeds

In order to avoid dilution to common shareholders, the company intends to repurchase a number of common shares equal to the number of Class AA shares to be issued. Under the proposed articles, the maximum number of Class AA shares to be issued, regardless of series, is capped at 150 million, so a maximum of 4.8 percent of outstanding common shares (as of March 31, 2015) will be repurchased. However, as the issue price of Class AA shares is set at 20 percent higher than the common share price, net fund raising will amount to 20 percent of the market capitalization of common shares to be repurchased. Assuming that a share repurchase of 4.8 percent is carried out, net fund raising will come to about 1 percent of market capitalization (JPY 29,039 billion as of May 27), which will be JPY 290 billion.

The first question is how the JPY 290 billion is meaningful for Toyota's research development efforts for next generation technology. The company spent JPY 1004 billion on research and development for the year ended in March 2015, and JPY 910 billion in the previous year. However, this expenditure includes the company's R&D for its existing technologies, and the company does not disclose an estimate for research and development for next generation technologies, preventing shareholders from even comparing the relative size of the net proceeds with the estimated scale of future technology investments.

A second question is whether the issuance of AA shares is a more cost-effective way of raising funds for research than the issuance of bonds or non-voting preferred shares. Given Toyota's creditworthiness and Japan's low interest rate environment, the firm could raise funds on more favorable terms by issuing other financial instruments. Moreover, the company has cash and cash-equivalents, marketable securities, and other investment securities, amounting to JPY 12.8 trillion as of the last fiscal year end (March 31, 2015), which represents an increase of 16 percent from the previous year. A fundamental question is why the company needs to issue AA shares to raise just JPY 290 billion (based on the assumption presented above), when it already has financial resources amounting to JPY 12.8 trillion. The company does not address these questions at all.

CONCERNS FOR COMMON SHAREHOLDERS

Targeted placement to Japanese individual shareholders?

Our next concern is selectivity. As Class AA shares are unlisted and non-transferable, typical mainstream institutional shareholders investing in equities will find it difficult to purchase the shares. This may particularly hold true for non-Japanese investors, as the offering will not be conducted outside Japan. In its "Q&A on Model AA Class Shares" published on April 28, the company notes that "Because institutional investors focus on liquidity of shares, TMC believes that it is likely that investors investing in Model AA Class Shares will mainly be individual investors in Japan." The company adds that "...investors such as Japanese subsidiaries of overseas investors may participate in the public offering in Japan." Given the trading restriction and offering location, the scheme could be described as a targeted placement to Japanese individual shareholders.

A well-known Japanese strategist, Takashi Hiroki with Monex Securities in Tokyo, is quoted in Bloomberg news (May 8, 2015) that "As long as you're a listed company, you can't select your shareholders. But Toyota's new class of shares is a new approach to choose their investors. Toyota is expressing who they want to be purchased by." It is difficult to escape the impression that the company wants to increase stable and silent investors by replacing common shareholders with Class AA shareholders.

Long term investment is not meant to equate to investors' inability to dispose of shares in the short term

The company cites Japan's Corporate Governance Code, published in March 2015, which aims to promote a mid- to long-term investment culture. The code also provides that shareholders who hold shares for a medium to long term can become important partners for companies. Toyota Motor argues that the issuance of Class AA shares is in line with the spirit of the code, and should cultivate an investor base with a long term perspective.

However, long-term investment does not mean a long-term ban on disposing of shares. An investment initially started with a long time horizon anticipated could turn out to be a short-term investment for unforeseen reasons which emerge after the investment has been made. Long-term investment occurs as a result of investors' monitoring, dialogue, and engagement with companies whose outcome justifies continued investment. If investors come to judge that continued investment is not beneficial, they will dispose of their shares regardless of the investment horizon initially anticipated. For issuers, the term "long-term investor" may sound attractive, but long

term investment results only when investors are convinced of the merits of owning shares over the long term, not as a result of the binding nature of an agreement. In other words, the burden is on issuers to convince would-be long-term investors of the merits of continued investment.

Discipline by Class AA shareholders over management is questionable

Class AA shareholders will have rights to vote and to submit shareholder proposals, and the company notes that it aims to proactively seek input from Class AA shareholders. The company states "Through Model AA Class Shares, TMC proposes shares that will reward shareholders who support and advance with TMC from a medium to long term perspective, and by incorporating in its operations the views of shareholders who hold the shares over a medium to long term, TMC will promote balanced management towards sustainable growth and challenge for the future, and aims to further enhance its corporate value over a medium to long term."

However, it is difficult to imagine how Class AA shareholders could bring about meaningful discipline on the management of Toyota Motor, to the extent that mainstream institutional shareholders could do. The targeted investors for Class AA shares will be individual shareholders residing in Japan, and because Class AA shares share certain attributes with bonds (where the principal is guaranteed and the dividend rate is fixed), investors attracted to the shares are likely to be risk-averse investors, many of whom will be pensioners. It is difficult to imagine that Japanese individual pensioners could engage with Toyota Motor, working for the betterment of the company, let alone giving useful advice to develop next generation cutting-edge technologies in preparation for the advent of a hydrogen society, where internal combustion engine vehicles will be replaced by emission-free fuel cell vehicles.

From these observations, it is difficult to escape the impression that Toyota Motor intends to change its shareholder composition, by replacing part of its common shareholder base, which may include vocal shareholders, with Class AA shareholders, who are likely to be Japanese pensioners, who tend to be silent and passive shareholders. Or worse, if the company believes that Class AA shareholders are stable shareholders who tend to side with management, that perception could reduce the company's incentive to reach out to common shareholders and seek their input, which is not in the interests of common shareholders.

Reduced appeal of common shares?

Meanwhile, the institutional investors who have the motivation to exercise discipline over management as well as the knowledge of how to do so, may find Toyota a less attractive investment. Institutions are unlikely to purchase Class AA shares due to the transfer restrictions, and may be less likely to purchase common shares if they believe there will be less cash available for common share dividends, or if they perceive an increased risk of management entrenchment. At the same time, the Class AA shares may turn out to be less attractive to retail investors than the company anticipates. Based on the proposed dividend for FY 2014 and the current share price, Toyota common shares have a dividend yield of nearly 2.4 percent. The yield on Class AA shares will not exceed that level until the fifth year, at which point it hits a plateau. Notwithstanding the guarantee against capital losses, investors may not believe that the prospect of a higher yield is worth the wait.

2014 PROPOSAL TO ESTABLISH FOUNDATION

At its last AGM in June 2014, the company sought shareholder approval to place 30 million treasury shares with Sumitomo Mitsui Trust Bank, for the benefit of a newly-established foundation named Toyota Mobility Foundation, with an issue price of JPY 1 per share. The trust bank will pay dividend proceeds from the shares held in trust to the Toyota Mobility Foundation, which will use the proceeds to fund its activities. Sumitomo Mitsui Trust Bank would exercise voting rights for the shares held in trust, based on the bank's proxy voting guidelines.

Toyota noted that it planned to buy back up to 60 million common shares and would cancel 30 million treasury shares. The net effect of these transactions therefore was to be a reduction of 30 million in the number of shares outstanding (0.4 percent of then-outstanding shares before the transactions).

RATIONALE FOR THE 2014 PROPOSAL

The company noted that the main purpose of the Toyota Mobility Foundation was to improve transportation systems in developing markets, by financially supporting non-profit organizations, research organizations, universities, and international organizations tackling transportation problems globally. Toyota argued that in

developing countries, transportation conditions, such as roads and traffic signals, are widely different between urban and rural areas, leading to mobility disparities in such countries. If such problems are unaddressed, other environmental problems will occur. Under such a scenario, there would be only a limited upside potential to sell automobiles in developing markets, and therefore by helping to solve such problems the foundation was expected to contribute to Toyota's revenue expansion.

In a conversation with ISS in 2014, a Toyota spokesperson noted that endowing the foundation in the form of shares, rather than a cash grant, is more advantageous from a tax perspective, and that the amount of the company's annual contributions to the foundation, in the form of dividends on the shares, will be comparable to the amount (1 percent of profits) that many other Japanese companies spend on social and charitable activities. The company stated that dividends are a stable, sustainable way of funding the foundation, at a time when returns on other assets in which a foundation might invest a cash endowment (especially Japanese government bonds) are very low.

At that time, Toyota already had 278.2 million shares held as treasury shares, and could have used some of these shares to endow the foundation, but treasury shares are treated as if they are already cancelled, and so a grant of those shares to the foundation would be equivalent to an issuance of new shares. To avoid this dilutive impact, Toyota instead proposed to carry out a new buyback, and cancel a number of shares equal to the number to be placed with the trust bank on behalf of the foundation.

The proposal was approved with 99 percent support, and the company placed 30 million shares with Sumitomo Mitsui Trust Bank in September 2014, and repurchased a total of 55.5 million shares during the second half of 2014.

ISS RECOMMENDATION ON THE 2014 PROPOSAL

The proposal was controversial because the company chose to make the contribution in the form of shares, representing 0.9 percent of then-issued capital, raising the question of whether the allocation of these shares could be justified in light of the potential merits of establishing the foundation. While the overall aim of creating the foundation appeared to be to help the automaker expand sales in the future, the relationship between the foundation's activities and an increase in Toyota sales would be indirect, and the company did not present any estimates of what the impact might be, raising concerns for shareholders. Meanwhile, the company made the passage of that resolution a condition for Toyota to proceed with a share repurchase whose size was larger than the share allotment.

ISS felt that Toyota could have simply carried out a buyback regardless of whether shareholders approved the allotment of shares to the foundation. Nevertheless, because of the company's strong financial performance and cash position, it made sense to carry out transactions leading to a net share repurchase, and a failure to proceed with a buyback expected by the market could have had negative consequences for the share price, ISS recommended that shareholders support that proposal.

DIFFERENCE FROM 2014 PROPOSAL

The proposal this year differs from the one in 2014 in terms of its complexity. Moreover, unlike the 2014 proposal, the 2015 proposal does not appear to have clear benefits for common shareholders, or at least no specific arguments are made by the company.

CREATION OF STABLE SHAREHOLDERS?

Meanwhile, what is similar between the 2014 proposal and this proposal is its implication for shareholder composition, as both are aimed at bringing about a stable shareholder base. In 2014, the company allotted 30 million shares to Toyota Mobility Foundation, while carrying out share repurchases amounting to 55.5 million shares, changing the shareholding composition. Toyota Mobility Foundation currently has a 1 percent stake in Toyota Motor.

At this time, Toyota plans to carry out a common share buyback of basically the same number of Class AA shares to be issued. Therefore, a maximum of 150 million common shares (4.8 percent of shares outstanding) will be replaced by the same number of Class AA shares. The two events lead to an impression that the company's capital policy during the past two years is intended to create "stable shareholders" who tend to side with management.

With a market capitalization of JPY 29 trillion, Toyota is an unlikely target for a hostile takeover, but it could become a target of activist shareholders due to the large amount of cash on its balance sheet, giving management an incentive to seek shareholders who are unlikely to support an activist campaign.

CONCLUSION

Although common shareholders have reason for concern about management entrenchment and the diversion of resources from common share dividends to AA share dividends, Toyota fails to present any specific reasons as to why the issuance of Class AA shares is beneficial to common shareholders. Without a convincing argument by the company, the proposal to create and issue Class AA shares, which will make the company's capital structure more complex and lead to an increase in the number of silent stable shareholders, does not warrant support.

Equity Ownership Profile

Type	Votes per share	Issued
Common Stock	1	3,169,766,000

Ownership - Common Stock	Number of Shares	% of Class
Toyota Motor Corp.	271,183,861	7.9
Toyota Industries Corp.	224,515,000	6.6
Nippon Life Insurance Co.	115,973,000	3.4
DENSO Corp.	69,533,000	2.0
MS&AD Insurance Group Holdings, Inc.	66,063,000	1.9
Tokio Marine Holdings, Inc.	50,660,017	1.5
Mitsubishi UFJ Financial Group, Inc.	39,245,583	1.1
The Vanguard Group, Inc.	37,953,010	1.1
Sumitomo Mitsui Financial Group, Inc.	36,850,000	1.1
BlackRock Fund Advisors	34,695,000	1.0
Capital Research & Management Co. (World Investors)	32,118,000	0.9
Norges Bank Investment Management	32,012,001	0.9
Toyota Mobility Foundation	30,000,000	0.9
Nomura Asset Management Co., Ltd.	29,468,068	0.9
Capital Research & Management Co. (Global Investors)	26,213,900	0.8
Harris Associates LP	18,837,000	0.6
Daiwa Asset Management Co. Ltd.	13,869,590	0.4
BlackRock Advisors (UK) Ltd.	13,493,170	0.4
Mellon Capital Management Corp.	12,693,513	0.4
Nikko Asset Management Co., Ltd.	12,496,246	0.4

© 2015 Factset Research Systems, Inc. All Rights Reserved. As of: April 30, 2015

Additional Information

Meeting Location	Japan
Meeting Time	10:00
Security IDs	0851435(SEDOL), 2205870(SEDOL), 4871503(SEDOL), 6900643(SEDOL), 7203(Japan Quick Code), B1YYWK8(SEDOL), J92676113(CINS), JP3633400001(ISIN)

ISS' experienced research team provides comprehensive proxy analyses and complete vote recommendations for more than 34,000 meetings annually in over 115 markets worldwide. With a team of more than 165 analysts and 100 data professionals, fluent in 25 languages, ISS covers every holding within a client's portfolio in both developed and emerging markets.

Our Research Analysts are located in financial centers worldwide, offering local insight and global breadth. Research office locations include Brussels, London, Manila, Paris, San Francisco, Sydney, Singapore, Tokyo, Toronto, and Rockville, Maryland.

ISS has long been committed to engagement and transparency. There are several long-established channels for engaging with ISS, outlined at <http://www.issgovernance.com/contact/faqs-engagement-on-proxy-research/>. In addition to these long-established channels, investors and issuers and other market constituents can submit comments, concerns and feedback to the ISS Feedback Review Board through www.issgovernance.com/frb.



The issuer that is the subject of this analysis may have purchased self-assessment tools and publications from ISS Corporate Solutions, Inc. (formerly known as ISS Corporate Services, Inc. and referred to as "ICS"), a wholly-owned subsidiary of ISS, or ICS may have provided advisory or analytical services to the issuer in connection with the proxies described in this report. These tools and services may have utilized preliminary peer groups generated by ISS' institutional research group. No employee of ICS played a role in the preparation of this report. If you are an ISS institutional client, you may inquire about any issuer's use of products and services from ICS by emailing disclosure@issgovernance.com.

This proxy analysis and vote recommendation has not been submitted to, nor received approval from, the United States Securities and Exchange Commission or any other regulatory body. While ISS exercised due care in compiling this analysis, it makes no warranty, express or implied, regarding the accuracy, completeness or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes. In particular, the research and voting recommendations provided are not intended to constitute an offer, solicitation or advice to buy or sell securities nor are they intended to solicit votes or proxies.

ISS is an independent company owned by entities affiliated with Vestar Capital Partners ("Vestar"). ISS and Vestar have established policies and procedures to restrict the involvement of Vestar and any of Vestar's employees in the content of ISS' analyses. Neither Vestar nor their employees are informed of the contents of any of ISS' analyses or recommendations prior to their publication or dissemination.

The issuer that is the subject of this proxy analysis may be a client of ISS or ICS, or the parent of, or affiliated with, a client of ISS or ICS.

One or more of the proponents of a shareholder proposal at an upcoming meeting may be a client of ISS or ICS, or the parent of, or affiliated with, a client of ISS or ICS. None of the sponsors of any shareholder proposal(s) played a role in preparing this report.

ISS may in some circumstances afford issuers, whether or not they are clients of ICS, the right to review draft research analyses so that factual inaccuracies may be corrected before the report and recommendations are finalized. Control of research analyses and voting recommendations remains, at all times, with ISS.

ISS makes its proxy voting policy formation process and summary proxy voting policies readily available to issuers, investors and others on its public website: <http://www.issgovernance.com/policy>.

Copyright © 2015 Institutional Shareholder Services Inc. All Rights Reserved. This proxy analysis and the information herein may not be reproduced or disseminated in whole or in part without prior written permission from ISS.