# Toyota Motor Europe
## Sustainability Report 2013


TOYOTA

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This is Toyota Motor Europe's seventh Sustainability Report. Unless otherwise stated, it covers the environmental, social and economic performance for the financial year 2012 (FY 12) from 1st April 2012 to 31st March 2013


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# PRESIDENT'S MESSAGE



**Didier Leroy**

President & CEO
Toyota Motor Europe

Toyota's Global Vision highlights our aim as a business to bring a smile to the face of our customers and to uphold our responsibilities towards society. This means looking to the future and setting challenging goals that respond to, and go beyond, customers' expectations.

Last year we took the opportunity in the Toyota European Sustainability Report to explain the Toyota Way values (1), which guide our corporate behaviour, form the roots of our company and our Global Vision. This year we will further expand the communication of our Global Vision, under the concept of **'Always Better'**.

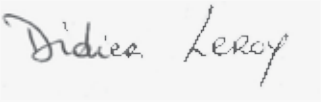
'Always Better' derives from our European brand identity, 'Always a Better Way'. We have linked this with the Toyota Global Vision to form three main areas of focus: Always Better Cars, Always Better Lives and Always Better Business.

**Always Better Cars:** We are committed to developing and delivering always better products and services in safety, quality and customer experience. We seek to personalise our solutions to the needs of every individual customer, rather than responding to an average. Our regional European focus is to lead the global development of Toyota's small and compact A, B and C segment cars. We concentrate on innovation and technology to deliver passion in our product, best services, quality and environmental performance.

**Always Better Lives:** Our vision is to provide affordable mobility for all. Through our products and services, we aim to contribute towards a prosperous, mobile society, in which we are part of the solution to pressing environmental and societal challenges. This includes studying opportunities for better future mobility, and encouraging sustainable practices in our supply chain.

**Always Better Business:** Economic success goes hand-in-hand with managing sustainable operations and providing stable employment. We view profitability as the result of how well we have delivered Always Better Cars and enriched the lives of communities, rather than a business target on its own. For example, our Toyota Hybrid offer embodies both affordable innovative technology and contributes to cleaner air and reduced $CO_2$ emissions. As a result, hybrid sales are a large contributor to our market success, making up around 20 percent of our European sales this year and expected to rise.

Our sustainability strategy, based on Always Better Cars, Lives and Business, sets challenging goals for our organisation. However, we will meet these goals by engaging the talent and passion of people acting with the conviction that there is 'Always a Better Way'.

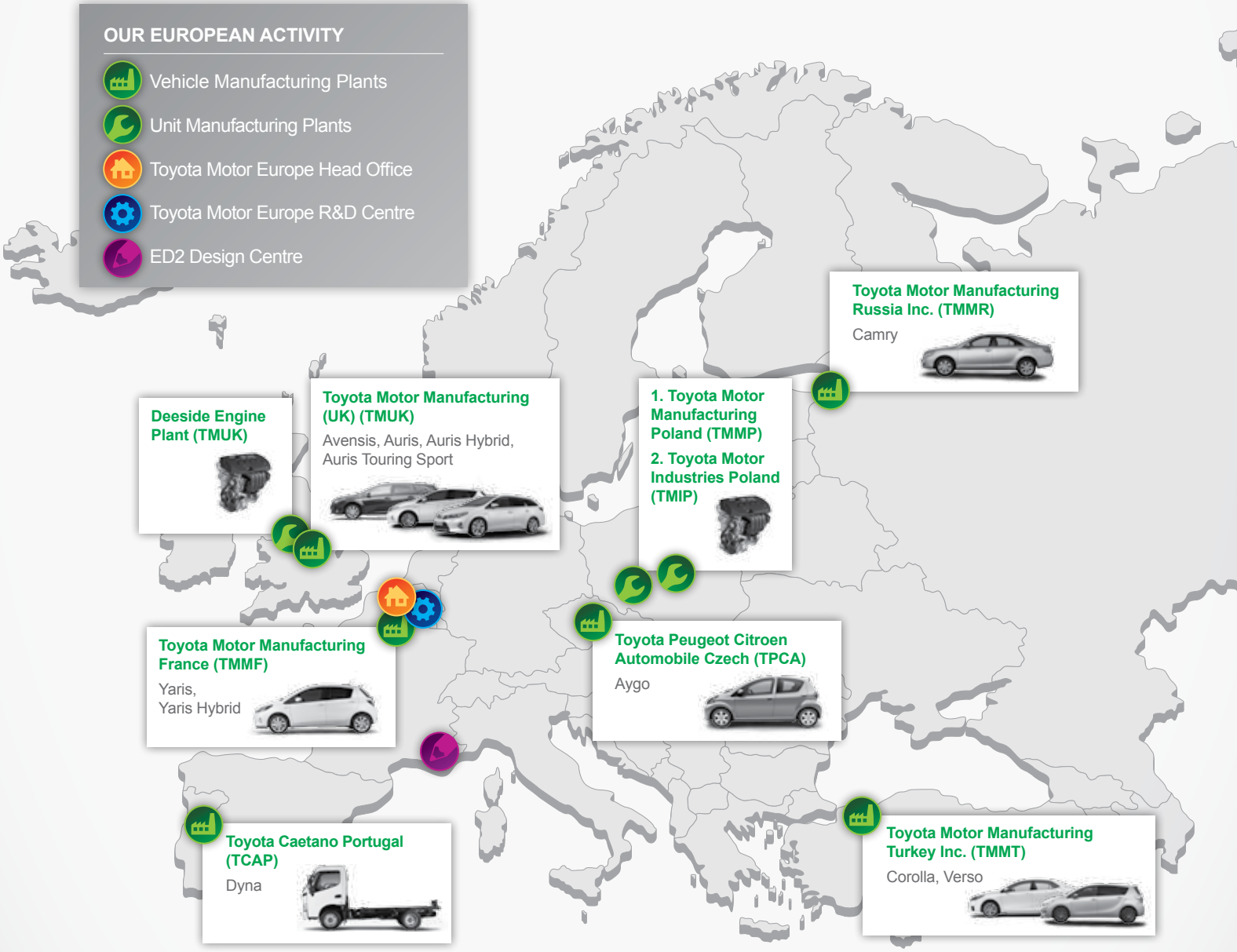


1. The Toyota Way is a coherent system of values based on two pillars: Continuous Improvement and Respect for People. The Toyota Way values are shared with all employees through training, and ensure that no matter the country or affiliate, all employees communicate through a common language and way of doing business.

# ABOUT TOYOTA MOTOR EUROPE

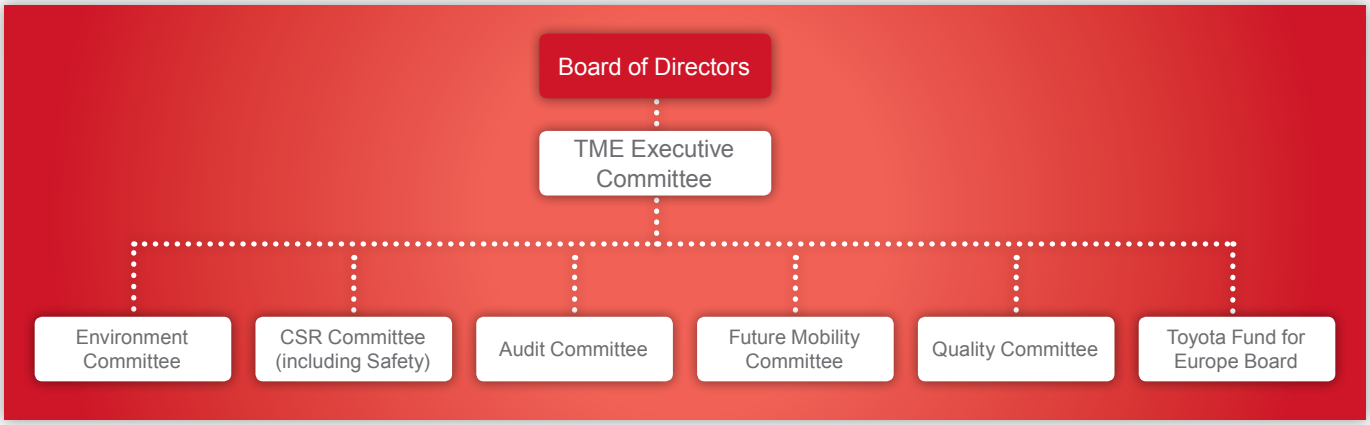


Toyota Motor Europe NV/SA (TME) is 100 percent owned by Toyota Motor Corporation and has its headquarters in Brussels, Belgium. TME is responsible for all Western, Central and Eastern European countries, including Turkey and Russia, as well as Israel and a number of Central Asian markets – Armenia, Azerbaijan, Georgia, Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan. TME oversees the wholesale, sales and marketing of Toyota and Lexus vehicles, parts and accessories, and Toyota's European manufacturing and engineering operations. Toyota's operations in Europe are supported by a network of 30 National Marketing and Sales Companies across 56 countries, a total of around 3,000 sales outlets, nine manufacturing plants in seven countries, nine vehicle logistics centres and 14 parts distribution centres.



# TME GOVERNANCE STRUCTURE AND APPROACH






## TME Governance Structure and Approach

Toyota Motor Europe (TME) is governed by a **Board of Directors** (BOD), which is made up of six executive directors appointed by Toyota Motor Corporation (TMC), the sole shareholder of TME. Below the BOD, TME has established a number of committees to assist in the execution of the board's duties.

The **Executive Committee** (EC) is the approval body for important functional and cross functional strategy issues. EC members are appointed by the BOD, and consist of the President & CEO, Executive Vice Presidents (EVPs) and the Chief Financial Officer (CFO). The EC meets on average twice a month.

The European **Environment Committee** is responsible to approve the regional environmental policy and 5-year environmental strategy. The committee coordinates and reviews the environmental action plans and performance of all TME affiliates through functional working groups. It comprises of all TME Vice Presidents (VPs) and above, and formally convenes at least twice a year. Exceptional items may also be raised at any time to the EC. The EC provides the venue for the formal Management Review of TME's Accredited ISO 14001 Environmental Management System, including the legal register and performance indicators.

The **CSR Committee** approves the CSR assessment targets and sets the direction for Toyota's CSR strategy in Europe. Members of the CSR Committee consist of all TME EVPs and VPs, and meet on average twice a year. More information on the activities of the CSR Committee can be found on pages 7-8.

On behalf of the BOD and the EC, the **Audit Committee** monitors for TME and affiliated companies the adequacy of risk management policies and internal controls; the compliance with corporate policies and procedures; and the integrity of financial reporting. The committee meets four times a year and is chaired by the Chief Risk Officer (President & CEO).

The objective of the **Future Mobility Committee** is to enhance the environmental and technological leadership of Toyota in Europe by deploying new technologies supported by new services. This committee consists of four cross-company task forces centred on Fuel Cell, Electric and Plug-in Hybrid Electric Vehicles, as well as infrastructure and services. Task force meetings are held – depending on the topic – on a weekly basis. The Future Mobility Committee reports back to the EC on a regular basis.

The **Quality Committee** (QC) is responsible to systematically review TME quality systems and activities, and to set the direction for areas of focus to drive further quality improvement in the company. The members of the QC are the President & CEO, all TME EVPs and VPs. This committee meets 3 times per year.

The **Toyota Fund for Europe (TFfE) Board** is responsible for setting TME's direction on social contribution activities, as well as selection and approval of social contribution projects proposed to TME. The Board meets on average twice a year and consists of five members (VPs and EVPs).

# PERFORMANCE HIGHLIGHTS



**€246m**
operating income
in FY 12

**4.6%**
market share
838,000 Toyota and Lexus vehicles sold by Toyota Motor Europe in FY 12, a 4.6% market share

**38**
nationalities working at our head office in Brussels

**46%**
of fuel can be saved
compared to conventional petrol vehicle through our Prius Plug-in Hybrid
Based on the world's largest pilot project with plug-in hybrids

**70**
ultra-compact urban electric vehicles
to participate in the 'last mile' mobility pilot project in Grenoble starting in 2014

**3,000**
Toyota and Lexus retailers
are part of 30 National Marketing and Sales Companies covering 56 countries

**12**
hybrid models available in Europe[1]
23 globally

**2 out of 3 vehicles**
sold in Europe are produced locally

**€4bn**
spent with European suppliers annually

**Fleet Wide $CO_2$ Average**
**121.86**
g/km

**€8bn**
invested in Europe since 1990

**9**
manufacturing plants
in 7 countries

**110,000**
Hybrids sold in Europe in 2012

1. As of September 2013.

# TOYOTA GLOBAL VISION AND STRATEGY



**The Toyota Global Vision announced in March 2011 is an articulation of what kind of company we aspire to be. It provides the foundation for Toyota's goal of being a company that customers choose and that brings a smile to every customer. Its purpose is to unite all Toyota affiliates and employees in a common understanding of the path that we intend to take towards sustainable growth.**

## Toyota's Vision Symbolised as a Tree

The image of a tree symbolises the Toyota Global Vision – from 'roots to fruits'.

The 'roots' of the tree are the shared values that have steered Toyota from the beginning. They are expressed in the Toyoda Precepts, in the Guiding Principles at Toyota and in the Toyota Way, which form the foundation of our business.

The 'fruits' of the tree are Always Better Cars and Enriching Lives of Communities. The 'trunk' is what we term the Stable Base of Business.

Toyota's business activities are based on the concept of ensuring sustainable growth by fostering the virtuous cycle: developing **Always Better Cars → Enriching Lives of Communities →** strengthening the **Stable Base of Business.**

### REWARDED WITH A SMILE BY EXCEEDING YOUR EXPECTATIONS

"Toyota will lead the way to the future of mobility, enriching lives around the world with the safest and most responsible ways of moving people. Through our commitment to quality, constant innovation and respect for the planet, we aim to exceed expectations and be rewarded with a smile.

"We will meet challenging goals by engaging the talent and passion of people who believe there is always a better way."

GLOBAL VISION TREE


**ALWAYS BETTER CARS**
FRUIT
- Develop vehicles that exceed customers' expectations

**ENRICHING LIVES OF COMMUNITIES**
FRUIT
- Contribute to communities
- Contribute to future mobility

**STABLE BASE OF BUSINESS**
TRUNK
- Sustainable growth
- Profitablility
- Local employment

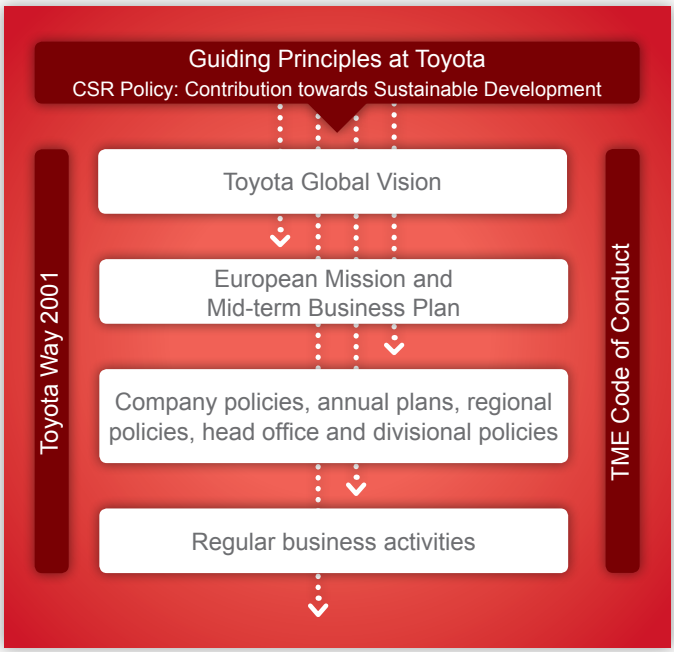
**TOYOTA VALUES**
ROOTS
- The Toyoda Precepts
- The Guiding Principles at Toyota
- The Toyota Way

# OUR STRATEGIC APPROACH TO SUSTAINABILITY



Since Toyota was founded in 1937, the company has sought to contribute to sustainable development through leadership in manufacturing and the provision of innovative and quality products and services for society.

Toyota's 'Guiding Principles', available online[1], are the foundation for these efforts. These principles inform Toyota's Global Vision and, together with the TME Code of Conduct and the Toyota Way 2001, contain the values and approaches that we expect our employees to put into practice in their day-to-day activities. Our document *'CSR POLICY: Contribution towards Sustainable Development'*, is a useful interpretation of the principles for stakeholders.





1. http://www.toyota-global.com/company/vision_philosophy/guiding_principles.html

2. Specific, Measurable, Attainable, Relevant, Time-bound.

## Improving the management of Corporate Social Responsibility

We believe that high-quality analysis of Corporate Social Responsibility (CSR) performance can be an effective driver of change. In FY 12 we conducted a full review of our CSR assessment process, driven by Toyota's renewed Global Vision and European Mission. We began by reviewing the Key Performance Indicators (KPIs) used in the CSR assessment and re-examining how these are managed by the TME CSR Committee.

## The FY 12 KPI review

The FY 12 review succeeded in encouraging managers to have greater focus and ownership of their KPIs, along with signing up to short- and long-term targets. Close cooperation and dialogue with the TME CSR team was instrumental to this process.

**The review delivered:**

- Consolidation of KPIs, resulting in fewer but stronger indicators
- Inclusion of KPIs based on stakeholder expectations
- Strengthening of the link to the Global Vision and Regional Mission
- Setting of SMART[2] targets
- Confirmation of management responsibility for the KPIs with regards to the business groups such as National Marketing and Sales Companies (NMSCs) and European Manufacturing Companies (EMCs).

| CSR assessment KPIs | | Comparison | |
|---|---|---|---|
| **Achievement** | **How** | **Previous CSR assessment** | **New CSR assessment** |
| More focus and ownership | Reduce number of KPIs | 111 KPIs | <30 KPIs |
| | Targets are set by divisions | 60% | 100% |
| | KPIs have long-term target | <10% | >90% |
| Clarity of results | Simplify calculation method of results | Aggregate scores | Individual KPI scores |
| Closer link to Global Vision and European Mission | Use as prioritisation criteria and introduce new KPIs | <70% covered | >90% covered |
| Closer link with EU definition of CSR | Restructure CSR KPIs | Structured by stakeholder:<br>– Customer<br>– Employees<br>– Shareholders<br>– Business Partners<br>– Society<br>– Environment | Structured by content:<br>– Social<br>– Environmental<br>– Economic |

# OUR STRATEGIC APPROACH TO SUSTAINABILITY CONTINUED



## Strengthening TME's CSR Committee

In FY 12 we also reviewed the process of how CSR in general, and the KPIs in particular, are managed through TME's CSR Committee. This committee is held twice a year under the chairmanship of TME's President and CEO. Members consist of all Executive Vice-Presidents and Vice-Presidents of the company.

In FY 11, following the economic crisis and the natural disasters that strongly hit Asia, we concentrated on laying the foundation for a new era of sustainability. During FY 12, we strengthened the role of the CSR committee, refocusing our attention to:

- Approving the KPIs and targets of the CSR assessment
- Evaluating the assessment results
- Improving Toyota's performance on social KPIs

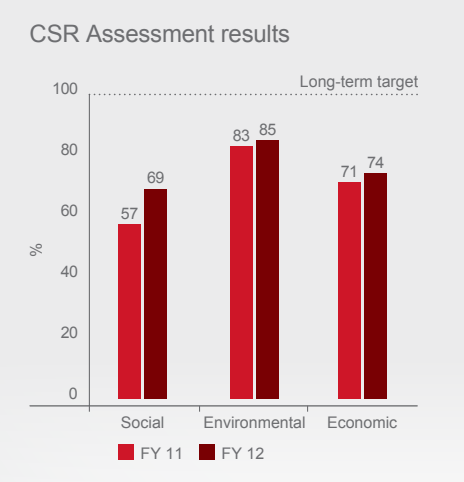
In addition, we also expanded the role of the CSR Committee beyond assessment and increased space for formal dialogue and debate for senior management on topics such as:

- Health and Safety management
- Communication and awareness of CSR
- Conflict minerals.

## FY 12 CSR Assessment results: showing improvement

For each CSR pillar (social, environmental and economic) we have calculated our achievement against our long-term 2015 or 2020 targets. We made this calculation for both FY 11 and FY 12.

In the chart below you can see that on **social** performance in FY 12, we achieved 69 percent of our long-term target. This improvement from 57 percent was mainly driven by an improvement on the Health and Safety and People Development KPIs.




**Environmental** performance reached 85 percent of the long-term target, showing a small improvement on last year.

Our **economic** performance also experienced an increase, mainly driven by an improvement in the Quality KPIs.

The following table lists our CSR KPIs:

| Commitment | KPI |
|---|---|
| **1. Social** | |
| Health and Safety | Frequency rate of lost day injury |
| | All accident rate |
| Equality and non-discrimination | % of women in total workforce |
| | % of women in management grades |
| Employee satisfaction | % of positive scores in the employee motivation survey |
| People development | Employee training days |
| Supplier CSR compliance | Having CSR policy in place reflecting the global policy of TMC |
| Philanthropy and contribution to society | Consolidated financial contribution |
| **2. Environmental** | |
| Minimise environmental impact | Operations $CO_2$ emissions |
| | Product $CO_2$ emissions |
| | Resource efficiency: |
| | Water usage ($m^3$/vehicle produced) |
| | Zero waste to landfill |
| | Volatile Organic Compounds ($g/m^2$) |
| | Energy usage (kW/h per vehicle produced) |
| Ecofriendly network | All entities ISO 14001 certified |
| **3. Economic** | |
| Shareholder benefit | Market share |
| | Hybrid leadership: Satisfaction |
| | Hybrid leadership: Loyalty |
| Customer first | Customer satisfaction: Sales |
| | Customer satisfaction: After Sales |
| | Customer complaints |
| Quality | 36 MIS[1] warranty |
| | Shipping quality |
| Enhance corporate value through strong brand | Innovation |
| Partner for stakeholder | Retailers satisfaction |
| | Supplier motivation |

1. Months in service.

# ACTING RESPONSIBLY FOR THE ENVIRONMENT



## Acting responsibly for the environment

The environment is a priority issue for Toyota. As a business we are working hard to consolidate our position as one of the global leaders in environmental sustainability. We do this through the development of innovative technologies and our approach to products and services.

In 1992, Toyota Motor Corporation (TMC) issued its first Earth Charter[1] based on the Guiding Principles of Toyota. This expresses a comprehensive Life Cycle[2] approach to global environmental issues. Our strategy is based on the principles of circular economy, and includes research and design, production and customer use, to the end-of-life when we can return recycled materials to further productive use.

These concepts are brought together under Toyota's Global Vision and implemented through our 5-Year Action Plans.

The current 5th 5-Year Action Plan covers the financial years 2011 to 2015. It has three main objectives, constructed around an effective Environmental Management System.



These objectives are divided up into key strategic workstreams and distributed throughout TME. Each function of the business must develop relevant plans, key performance indicators (KPIs), five-year and annual targets, directly aligned to their operations.

TME's European Environmental Committee annually assesses progress on the 5-Year Action Plans. Toyota's senior management monitors progress against both five-year and annual targets, providing advice and recommendations on future direction and priorities. Toyota Motor Corporation also receives a report on the European status to ensure that the performance and strategic direction of Toyota is consistent across the international businesses.

### Toyota Motor Europe's strategic priority areas – FY 12 highlights:

- Toyota fleet reduced average $CO_2$ emissions from 126.5 g/km to 121.86 g/100 km
- Launch of seven new hybrid models in Toyota and Lexus ranges including a plug-in model
- Toyota recognised as UK Low Carbon Vehicle Partnership's Manufacturer of the Year
- 4700 MWh of solar renewable energy generated and used on Toyota sites (>1800 Te $CO_2$ equivalent)
- Hybrid battery recovery system enhanced and extended to cover Lithium-ion technologies
- Partner selected and contract signed for the treatment of Lithium-ion batteries
- Strategic studies on industrial sustainability commenced with academic partners
- TME's Sustainable Purchasing Guidelines fully reviewed and reissued to all suppliers.

### Our challenges:

Areas requiring continued focus include reducing the amount of energy, $CO_2$ and water used per vehicle during periods of reduced production volume. Renewed efforts to share best practice across all business areas are being made with a priority on low-investment projects and activities.

1. Revised in 1997.
2. Previously named 360 degree approach.

# ASSESSING OUR SUSTAINABILITY ISSUES



## Assessing our sustainability issues

At TME we want to ensure that our sustainability reporting is useful. We want to better understand and report more accurately on the material issues for Toyota and our stakeholders. Our approach was to consult with internal stakeholder representatives and validate the outcomes of our research with a group of TME business leaders. As a result, we have identified a set of 15 core issues that we believe are the most important sustainability issues for our business and stakeholders. Over the following pages we report on our approach and performance in these areas, as well as on other significant issues for delivering TME's vision and strategy. As readers and stakeholders, we welcome your feedback on any aspect of our sustainability assessment and performance.

## Identifying priority issues

Our approach was first to assess the sustainability issues that our competitors in Europe prioritise for their business and stakeholders. Additionally, we explored current and emerging industry trends around sustainability as identified by our peer groups, including the European Automobile Manufacturers Association, CSR Europe and the Automotive Industry Action Group. The resulting long list of issues indicated common trends among competitors and industry associations as well as highlighting the different approaches that other companies take.

Working with our reporting partner, Salterbaxter, we then streamlined the long list down to a master list of 37 issues to create the final basis for our assessment. Separately we selected internal respondents, as best placed through having frequent contact with stakeholders in their business, to accurately represent the views of Toyota's six stakeholder groups: Customers; Employees; Business Partners; Investment Community; Society and Environment. We provided each respondent with the same questionnaire and list of the 37 issues, and asked them to identify the top five issues of importance for the stakeholder group they represented. As some groups contained more participants, we used an average response for each stakeholder group in the analysis.

## Validating our findings

The findings of our questionnaire provided a basis for TME's business leaders to verify the value judgements of our stakeholder representatives. During a validation workshop, a group of TME business leaders were presented with the prioritisation results and analysis for the six stakeholder groups. The workshop enabled the team to discuss and agree on a useful list of priority sustainability issues which incorporated their business perspectives. This validation by the business was a key part of our sustainability issues assessment process.

## Prioritised issues and reporting

From the original long-list of 37 issues, our stakeholder representatives prioritised the 20 most important issues for their stakeholder groups. By including the business perspective from the validation workshop, a refined list of 15 issues was agreed. They are shown here mapped to the three areas of our strategy: Always Better Cars, Always Better Lives and Always Better Business. We indicate at the start of each strategy section in the report where these issues are covered.

**Always Better CARS**

- Customer satisfaction and quality service
- Product innovation
- Vehicle emissions and clean fuels
- Vehicle performance

**Always Better LIVES**

- Future mobility solutions
- Air quality, climate change and renewable energy supply
- Recycling management
- Social and environmental standards in supply chain

**Always Better BUSINESS**

- Financial Performance/ Market share/ Product competitiveness
- Business integrity – compliance and values
- Business strategy for sustainable growth
- Efficient use of resources
- Stable employment
- Employee wellbeing and development
- Diversity and inclusion

In this report we also look at additional issues we consider significant to our sustainability approach. We will continue to assess TME's sustainability issues and welcome comments from our stakeholders to ensure we are reporting on the most relevant issues in the future.

# ASSESSING OUR SUSTAINABILITY ISSUES CONTINUED



After benchmarking with other business, surveying key staff, and validating with a group of senior TME's business leaders, we have identified 15 priority issues as material to our business and sustainability which are visualised below.

# ALWAYS BETTER CARS



**Always Better Cars** is one of the fruits of our Global Vision. We aim for continuous improvement in the quality, safety and customer satisfaction of our products and services. We focus on innovation and technology in order to deliver affordable solutions that meet the needs of every customer, while retaining the best environmental performance.

Our goal is to exceed our customers' expectations and be rewarded with a smile.

# OUR JOURNEY TO THE ULTIMATE ECO-CAR

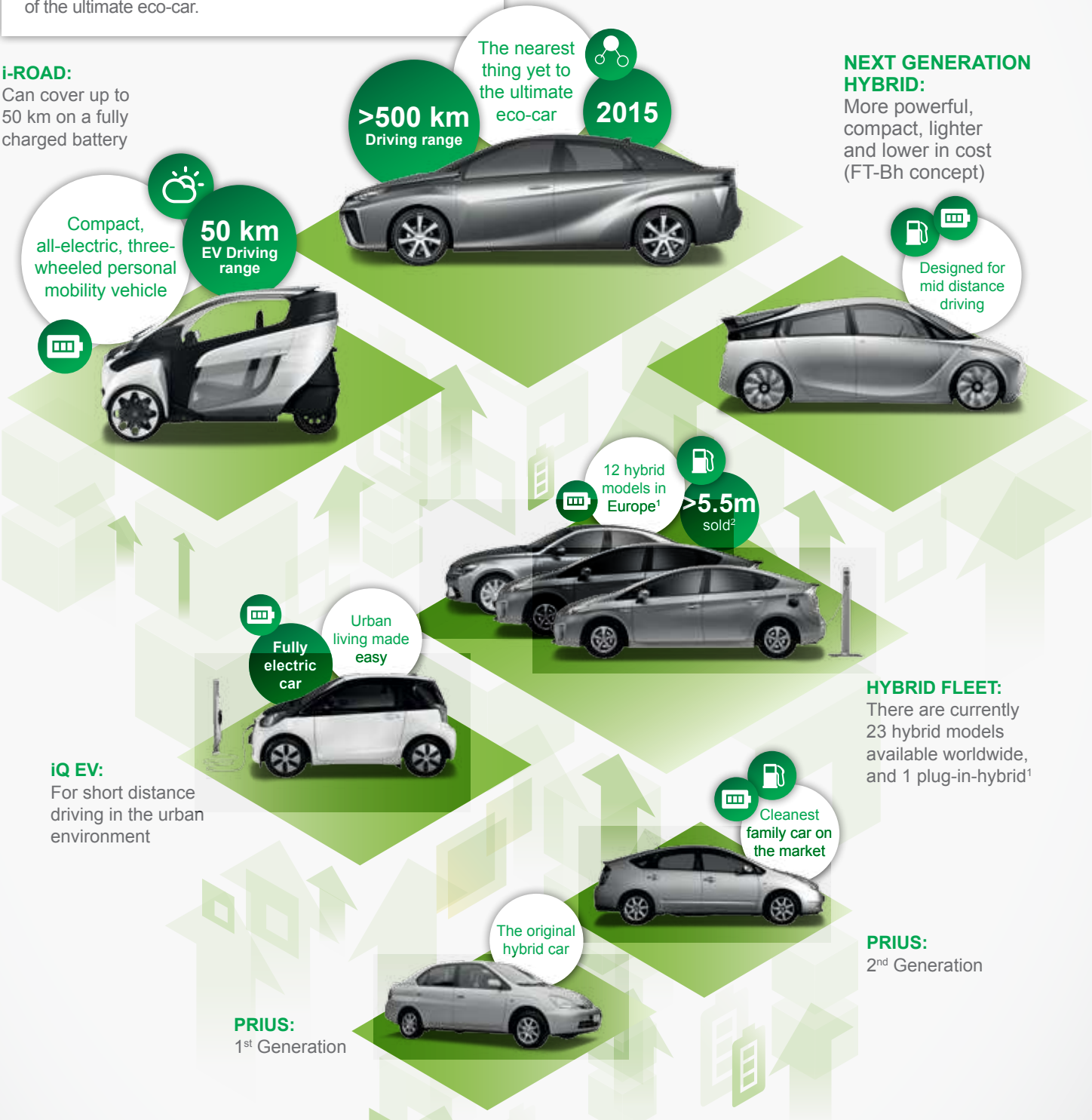
We are applying our industry-leading green technology and deep understanding of customers' changing needs to address global environmental challenges with our aim to create the **ultimate eco-car:** A vehicle that produces zero emissions and has no negative impact on the environment.

It is ambitious, but it is how we aim to exceed customer expectations and be rewarded with a smile.

Each technology path – from our first hybrid vehicle in 1997 to our plans to sell a hydrogen fuel-cell vehicle in 2015 – is taking us one step closer towards this vision of the ultimate eco-car.

**FCV: FUEL-CELL VEHICLE:**
Hydrogen fuel-cell vehicle system

**i-ROAD:**
Can cover up to 50 km on a fully charged battery




**NEXT GENERATION HYBRID:**
More powerful, compact, lighter and lower in cost (FT-Bh concept)

**HYBRID FLEET:**
There are currently 23 hybrid models available worldwide, and 1 plug-in-hybrid[1]

**iQ EV:**
For short distance driving in the urban environment

**PRIUS:**
2nd Generation

**PRIUS:**
1st Generation

1. As of September 2013.
2. Worldwide.

# INTRODUCTION



## Introduction: The challenge

Automobile manufacturers today are faced with significant social and environmental challenges due, in part, to the rise in vehicle ownership and their use in crowded urban environments. If we ignore the issues of depleting fossil fuels, environmental pollution and road safety, we risk threatening the social and economic progress that personal mobility has enabled. In response we must continuously innovate with vehicles that are safer, more environmentally-friendly and integrated into a sustainable energy road map for the future.

At the same time, customers continue to expect ever increasing levels of personal mobility and services. People's relationships to their cars are evolving, requiring greater innovation in mobility products and services. Cost is also an important factor to consider, especially given the recent economic instability in Europe.

Customers are also increasingly connected and communicate in more direct ways than ever before with brands, through the internet and social media, in and out of their cars. This requires greater responsiveness, two-way communication and increased transparency of businesses.

## Our Approach: Always Better Cars

Our goal is to satisfy every customer by exceeding their expectations and ensuring total quality in everything we offer. We aim to **eliminate every unpleasant emotion in buying, driving or owning our cars** (p.17). When it comes to durability, safety, quality, value for money, service and repair, driving experience or any other activity, our aim is that our customers can enjoy the most stress-free and reassuring experience.

Toyota also wants to offer customers much more than reliable cars with quality service. We would like to touch their hearts with thoughtful innovations and actions to actively improve the quality of their lives. They should truly enjoy buying, driving and owning a Toyota car, and in doing so, contribute to **a world with less pollution** (p.15).

A key innovation brought to the European market by Toyota is hybrid technology. We are proud to have pioneered the development and commercialisation of the first modern vehicle, the Prius, which was launched in 1997 in Japan and in 2000 in Europe. Beyond demonstrating our technological leadership, our hybrid strategy was born out of a fundamental concern: Environment-friendly vehicles can only truly have a positive impact if they are used widely.

Today, we are reaching a hybrid tipping point with customer acceptance – 13 percent of our European sales were hybrids in FY 12 and we should arrive at around 20 percent in FY 13.

Toyota drivers should also feel **safe at every moment of their journey** (p.18) through innovations in passive and active safety and emergency procedures.

## Performance highlights

**№1**
Ranked number 1 for After Sales Services in 14/22 countries

**23 Hybrids models in 80 countries**

**34 million fewer tonnes of $CO_2$ emissions**
since 1997 due to worldwide sales of Hybrids

**13% of European sales in 2012 were Hybrids**

★★★★★
Lexus IS, Corolla, Auris and Rav 4 all awarded 5 stars in Euro NCAP safety rating in 2013

## Sustainability issues in this section

- Customer satisfaction and quality service
- Vehicle emissions and clean fuels
- Product innovation
- Vehicle performance

# TOWARDS MORE EFFICIENT VEHICLES



## Strict environmental regulations aimed at reducing $CO_2$ emissions and improving air quality are creating significant pressure on European Original Equipment Manufacturers (OEMs) to invest in greener technologies.

### 'The Hybrid Company'

When we introduced hybrid technology in 1997, our vision was to address the issues of increasing energy diversification, air quality and climate change with a new car design.

Today, Toyota's hybrid portfolio counts no less than 23 models sold in 80 countries around the world, and our hybrid sales have surpassed 5.5 million units resulting in 34 million fewer tonnes of $CO_2$ emissions.

At the end of FY 12, Europe accounted for more than 10 percent of our global hybrid sales.

The launches of both the Yaris and Auris Hybrid during FY 12 have helped us consolidate our position as a market leader. The market share for these cars' hybrid versions is increasing, achieving respectively 25 and 35 percent of their total sales. These figures have strongly contributed to an overall 29 percent increase in hybrid sales in 2012, compared to 2011.

Hybrid technology has reached a tipping point both in Europe and globally, providing the motoring public with an environmentally-friendly vehicle without compromising on size, comfort and flexibility to meet their needs for a variety of journeys.

We are still developing this technology – we will expand Toyota's line of hybrid models, launching up to 10 more by 2015 – introducing the Prius PHEV in 2012 and a fuel-cell hybrid due for launch in 2015.

### More efficient powertrain solutions:

While hybrid remains our core technology, our strategy for sustainable mobility will continue to balance the needs of customers with the most suitable technological solutions. Internal combustion engines will be powering conventional, hybrid or plug-in hybrid vehicles for many years to come. We are continuously working on solutions to improve the efficiency of these engines.

We are investing in turbocharged petrol engines, larger displacement Atkinson cycle engines, and diesel engines with very low fuel consumption and nitrogen oxide (NOx) emissions.

We are looking at all these technologies with a clear objective to deliver better power gains without sacrificing fuel economy.

Amid Toyota's Global Vision, our Technical Centre in Europe is gradually becoming a global competency centre for diesel vehicle development.

# TOWARDS MORE EFFICIENT VEHICLES CONTINUED



(from left to right) Aymeric Rateau, Johnny Mikhael, Christos Manetas-Violetas, Francois-Alexandre Lafossas, Leila Sharifian, Takashi Koyama, Ali Mohammadi

## Case study: Virtual technology

### Context

TME is committed to providing sustainable mobility for our European customers. At the 2012 Vienna Motor Symposium we announced that we will be developing a diesel engine with very low fuel consumption, setting new standards in the market.

### Challenge

As well as helping to reduce fuel consumption, car manufacturers are also required to fulfil more and more stringent emissions regulations. For example, by 2014 for Euro 6 norm, manufacturers must implement a 55 percent reduction in NOx emission for all diesel models, compared to previous Euro 5 norm (Figure 1).

To achieve such drastic reductions we anticipate the introduction of a NOx reduction catalyst in the diesel exhaust system. Under normal operation, a NOx catalyst can achieve a high NOx-reduction performance. After a certain time, sulphur contaminants present in diesel exhaust gases severely diminish the catalyst's effectiveness, and they require cleaning. To maintain a high NOx reduction, understanding the contamination process of the catalyst is crucial.

### Solution

To predict this extremely complicated chemical phenomenon, TME-Powertrain division developed an approach using an advanced computer-based simulation tool, called "Virtual Evaluation". To ensure that the NOx catalyst performs consistently during the entire life-cycle of the vehicle, it is very important to be able to monitor the amount of sulphur to be trapped and cleaned from it. In Figure 2, the experimental duration to clean respectively 25, 50, 75 & 100% of sulphur in the catalyst is displayed. It can be observed that this duration is not constant. Our model is able to make accurate predictions of the time required to clean the precise amount of sulphur at each stage.

TME started the Virtual Evaluation activity around 2009. Since then, TME engineers have developed diesel combustion and exhaust simulation tools to develop low emission engines. They have also created simulation tools for total engine energy management, which reduce fuel consumption, and others that improve the performance of Toyota hybrid vehicles.

**Figure 1:** EU diesel emission regulation

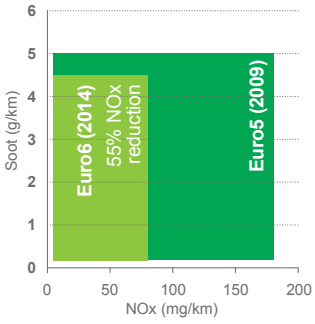
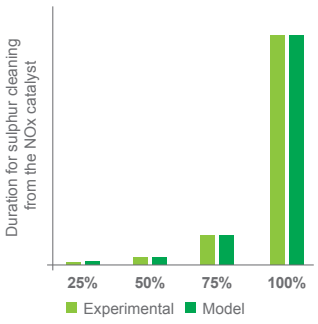



**Figure 2:** Sulphur cleaned from NOx catalyst



# SATISFYING CUSTOMERS WITH QUALITY SERVICE



## TME's sustainability goal is to be rewarded with a smile through the delivery of Always Better Cars.

Toyota has been leading customer satisfaction surveys in Europe for many years. An important measure of customer satisfaction is the quality of service we deliver. We define this as:

- Service experience – satisfaction with the dealer
- Technical performance – the experience at the workshop
- Quality of service – the experience of driving or being in the vehicle.

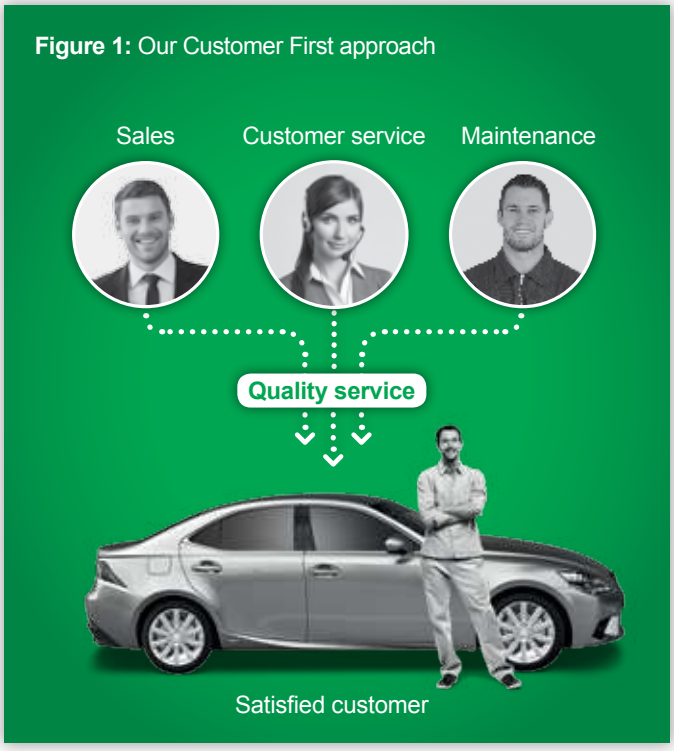



**Figure 1:** Our Customer First approach

We took action during FY 12 to improve our performance in the following three areas:

1. Integrating our Customer Satisfaction department with Field Operations: Our teams now have better understanding of the areas where issues can arise, meaning quicker and more effective responses to weaknesses, such as those identified in our Complete Customer Satisfaction (CCS) tracking system. We can now go directly to the source of concerns and make swift improvements which are then shared across the network by distributors. Feedback from customer surveys indicates that this approach is delivering results.
2. Improving our network's technical skills through the provision of more high-tech training programmes: These ensure that our technicians can meet the increasing complexity of the latest technologies.
3. Extending the use of the Voice of the Customer (VOC) programme: With the ability to gather all forms of customer feedback into consolidated data, we now apply VOC formally to our customer resolution activities. We also use the system to provide feedback to Toyota Motor Corporation Chief Engineers who can introduce modifications directly into future vehicle designs. We are now looking at integrating similar data collected from selected National Marketing and Sales Companies.

As a result of our efforts, Toyota continues to top rankings in the annual inter-company benchmark Customer Satisfaction Survey. For After Sales Services, we are currently ranked number one for customer satisfaction in 14/22 countries, and likewise 9/18 countries in Sales.

**№1**

**For After Sales Services in:**
Croatia, Czech Republic, Denmark, Finland, Germany, Italy, Netherlands, Poland, Portugal, Romania, Sweden, Switzerland, Turkey and UK.

**№1**

**For Sales in:**
Czech Republic, Denmark, Germany, Ireland, Poland, Sweden, UK and Ukraine.

# SAFETY BY DESIGN



**The safety of Toyota products is key to the way we innovate. We develop industry-leading safety functions to meet the widest possible range of demands. We look at drivers and passengers, non-passengers, vehicle types, and accident scenarios. Toyota's main examples of innovation in safety are the Eyes on the Road and Advanced Driver Assistance Systems (ADAS) programmes.**

## Eyes on the Road

By developing an intuitive cockpit layout and Human-Machine Interface controls, we aim to allow future drivers to operate their vehicles without needing to divert their sight from the road. Augmented Reality displays will help drivers to navigate any traffic situation with their full concentration on what is in front of the vehicle.

## Advanced Driver Assistance Systems

ADAS is designed to inform, warn and support the driver in all driving situations and act on any task that the driver is supposed to do (steering, braking, (de)activating lights, etc.). In emergency situations, the Pre-Crash Safety™ system (PCS), one of the ADAS that Toyota developed, enables a vehicle to brake automatically and provides steering assistance to circumnavigate obstacles. Complex algorithms developed by Toyota allow vehicles to distinguish from a wide variety of obstacles and traffic situations. A current example of ADAS is the PCS with Collision-Avoidance Assist, the newest evolution of PCS. It can help the driver to mitigate or potentially avoid rear-end collisions and accidents involving pedestrians. The system, which works even in darkness, allows the car to autonomously perform emergency braking, potentially avoiding collisions, without any input from the driver, at speeds of up to 40 km/h.

## Collaborating to increase road safety

TME is one of 12 public and private partners working on the EU co-funded ASPECSS[1] project. The aim is to develop standard testing and assessment methods for active safety, and integrated pedestrian safety systems (such as PCS). These standards will be used to update consumer ratings and will assist regulators in setting future vehicle safety requirements. They will also provide the possibility to measure the overall safety performance of a vehicle, taking into account for the first time both traditional passive and new active safety methods.

Other European research institutions that TME collaborates with include:

- The French Institute of Science and Technology for Transport, Development and Networks (IFSTTAR): On the passive safety of vulnerable occupants (elderly) and rear seat occupants
- Chalmers University of Technology, Sweden: On integrated pedestrian safety assessments
- Loughborough University, UK: On analysis of abdominal injuries based on the UK's detailed accident database.

## High performance in leading Euro NCAP[2] safety tests

Toyota and Lexus are among the best overall performing brands for safety across the full range of the stringent Euro NCAP tests. Since 2009, 10 out of twelve tested Toyota and Lexus cars achieved the maximum possible five stars. TME is collaborating with Euro NCAP on the development of fair and reliable assessments of new safety technologies that will be introduced in the Euro NCAP rating scheme. For further information please visit:

Euro NCAP: www.euroncap.com
Safety at Toyota Motor Europe: www.toyota.eu/safety


## Technology for tomorrow

The PCS autonomous braking system is already available on most Lexus models, as well as the Toyota Avensis, Prius, Land Cruiser and Prius+. We are in the process of incorporating the system across all our models, in line with our long-term strategy to have the safest fleet.

1. Assessment methodologies for forward looking Integrated Pedestrian and further extension to Cyclist Safety Systems (www.aspecss-project.eu).
2. Euro NCAP is an independent safety assessment programme backed by seven European governments, the European Commission and motoring and consumer organisations across the continent.

# SAFETY BY DESIGN
## CONTINUED



**2013 Euro NCAP ratings for Toyota Vehicles**

| | Model | Year | Overall Rating | Adult | Child | Pedestrian | Safety Assist |
|---|---|---|---|---|---|---|---|
|  | Lexus IS | 2013 | ★★★★★ | 91 | 85 | 80 | 66 |
|  | Toyota Corolla | 2013 | ★★★★★ | 94 | 82 | 67 | 66 |
|  | Toyota Auris | 2013 | ★★★★★ | 92 | 84 | 68 | 66 |
|  | Toyota RAV4 | 2013 | ★★★★★ | 89 | 82 | 66 | 66 |

**Case Study: Progress made on Autonomous Emergency Braking at testing centre event**

In April 2013, we invited 50 guests from Euro NCAP and vehicle manufacturers to our Technical Centre in Zaventem, Belgium. Held on behalf of the European, Japanese and Korean automakers associations – ACEA, JAMA and KAMA – the event provided leading car makers with an opportunity to sample a range of specific test scenarios and technologies in the controlled environment of our Proving Ground. The experience led to useful dialogue on the assessment protocols for car-to-car Autonomous Emergency Braking – technology which can help a driver to avoid or mitigate a rear-collision accident. The innovative system can issue warnings, support the driver's braking action or brake the car autonomously.

# WORKING WITH RECYCLED MATERIALS



**We have a firm commitment to protecting the environment and we always consider the sustainability of the materials used in our vehicles. Recycled plastics were found to be an alternative to the commonly used virgin plastics.**

The current European directive for end-of-life vehicles aims at improving vehicle recyclability.

Toyota works hard to act beyond simple compliance in reusing materials from scrapped vehicles and other products. One of the ways in which we do this is by investigating techniques of incorporating recycled polypropylene (the most common plastic in vehicles) into the production of our vehicle parts.

The sustainable material usage cycle

Producing recycled polypropylene uses up to 65 percent less energy than virgin material. This help to preserve oil resources and reduce the $CO_2$ footprint of our materials.

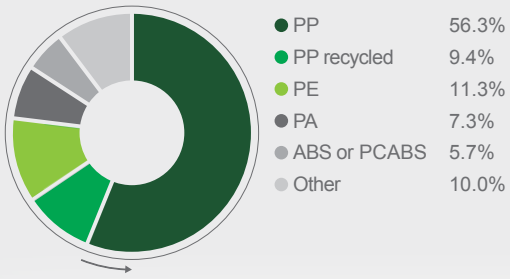
TME Materials Engineering team is investigating opportunities to develop high-quality recycled materials in our vehicles. Working with material suppliers, we are developing suitable material grades by combining plastic waste from different sources. This can be post-consumer material (derived from such items as bottle caps, scrap bumpers and battery trays) or post-industrial waste (such as scrap discarded during a manufacturing process).

The challenge is to develop a suitable material formulation based on the scrapped plastics and other commonly applied additives (impact modifiers, fillers) to enhance the physical and mechanical properties so that they meet our specifications. A significant criterion is to establish reliable and sustainable sources of materials for future production.

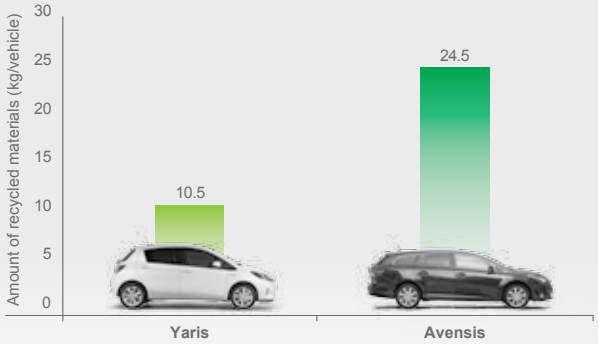
Toyota European vehicles already use a remarkable amount of recycled materials, which include polypropylene and sound-proofing fibre pad. We continue to explore more ways to enhance this, for example by investigating other thermoplastics such as polyamides.

Fender liner made of recycled polypropylene

Average share (%) of thermoplastic materials in Toyota vehicles




Use of recycled material on Yaris and Avensis



# ALWAYS BETTER LIVES



**Enriching the Lives of Communities** is another fruit of our Global Vision. By continually addressing social and environmental challenges in Europe, we aim to contribute towards a more prosperous and mobile society.

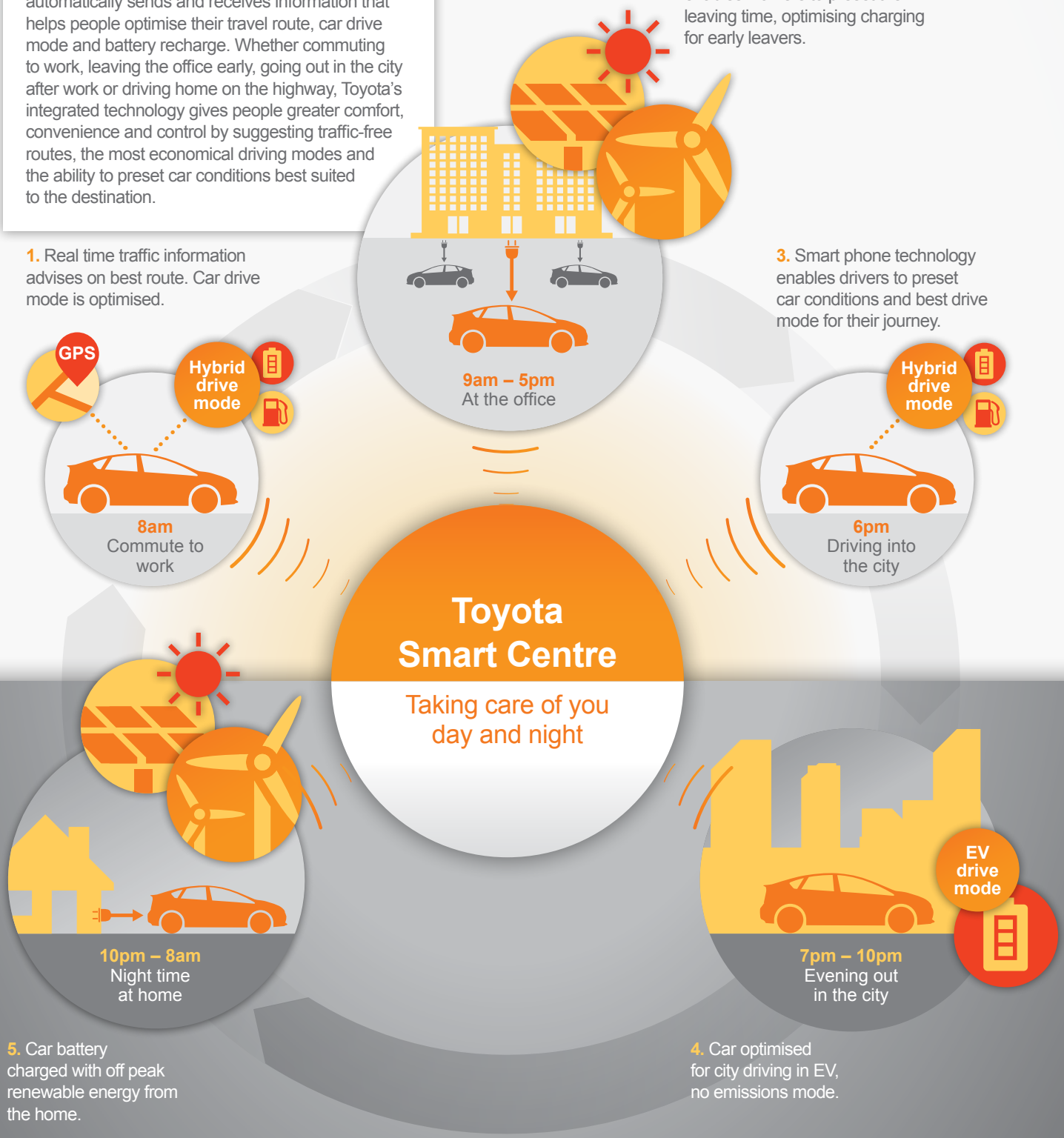
With shifting demographics and market demands, mobility needs are changing and sustainability is becoming increasingly important. We look to new technology and services that allow us to improve quality of life, particularly in the congested urban cities in Europe.

TME takes an integrated approach to find durable solutions, engaging in multistakeholder dialogue and partnerships with the European Union, institutions, business partners and communities.

# SMART MOBILITY SOCIETY – POWERING LIFE OVER 24 HOURS

**The future of smart, sustainable mobility is about more than cars.** It's about comfort, convenience and personalised control wherever you use your car.

Toyota's integrated plug-in hybrid and communication technology is powering a quality of life revolution. By linking cars, homes, offices and mobile phones to a smart centre, our solution is taking care of people's mobility needs day and night. The **smart centre** automatically sends and receives information that helps people optimise their travel route, car drive mode and battery recharge. Whether commuting to work, leaving the office early, going out in the city after work or driving home on the highway, Toyota's integrated technology gives people greater comfort, convenience and control by suggesting traffic-free routes, the most economical driving modes and the ability to preset car conditions best suited to the destination.



# INTRODUCTION



## Introduction: The challenge

While developing better cars is central to any automobile manufacturer's activities, it is just one part of the sustainability picture. A safe, well-designed car is the outcome of a value chain where sustainability should be considered throughout, from design, development, logistics and supply to end-of-life recycling.

For plug-in hybrids and electric vehicles to be truly sustainable, energy management must be addressed to mitigate against peak power demand. Likewise, the overall benefits of selling eco-friendly cars can be outweighed by the negative effects if the vehicles are imported and have thereby contributed little to local economies. Progress in sustainable behaviour and mobility infrastructure will require vehicle manufacturers to work together with cities, regions, universities, energy providers and consumers to ensure they happen. Lastly, while developing cleaner technologies and cars such as Electric Vehicle (EV) options, market uptake continues to be a challenge for successful integration of new technologies.

## Our Approach: Always Better Lives

Toyota aims to help solve environmental and societal challenges, making positive contributions in all aspects of our activities. Beyond the car, we see ourselves as a provider of mobility in a broad sense thanks to the know-how we have accumulated in developing alternative powertrains, safety and connectivity technologies, homes, robots and biotechnology.

Hybrid technology is at the heart of all our other developments in alternative mobility: **EV, Plug-in Hybrid and Fuel-Cell vehicles** (p.24).

Through numerous verification and study projects, we are also **creating partnerships with many stakeholders globally and in Europe** to imagine and take concrete steps towards creating tomorrow's mobility for a low-carbon world (p.24, 25). In doing so, we are responding with innovation to the **European Union's targets and goals in terms of mobility** (p.26).

Our work to achieve better lives extends up and downstream from our core business – from making our **supply chain accountable for sustainable performance** (p.29) to implementing **hybrid battery recycling** (p.27), and from **involving schools and communities** (p.28) to managing **business risks with our suppliers** (p.30).

## Performance highlights

**76,000 tonnes of $CO_2$ saved**
From European sales of hybrid and plug-in hybrid electric vehicles (PHEVs) in 2012

Updated Sustainable Purchasing Guidelines released

Over 170 community projects support by our NMSCs and EMCs

€3.3 million contributed to communities, 62 percent going to environment, road safety and technical education.

**90%** **of used HV hybrid batteries recovered and recycled** from retailers and repairers

**7,000 volunteer hours by TME group across Europe**
for training, back-to-work schemes and environmental tidy-ups

## Sustainability issues in this section

- Recycling management
- Social and environmental standards in supply chain
- Air quality, climate change and renewable energy supply
- Future mobility solutions

# MAKING SUSTAINABLE MOBILITY REAL



## The Toyota European Sales of Hybrid and Plug-in Hybrid Electric Vehicles (PHEVs) are estimated to have saved around 76,000 tons of $CO_2$ in 2012 alone.[1]

At Toyota we are driven by the need to respond to customer demand but also to consider the external factors that will influence society and in turn impact our business. Looking at the bigger picture was the inspiration to develop hybrid vehicles, introduced by Toyota 16 years ago. Our vision was, and still is, to simultaneously address the issues of increasing energy diversification, air quality and climate change, with a new car design.

Since the introduction of our first hybrid in 1997, the challenges for cities are better understood but also more acute. Issues such as congestion, access to mobility for an ageing society, and changing consumer behaviour of young people represent complex challenges that governments, agencies and businesses realise they need to address by collaborating together.

### Mobility for a low-carbon world, today

To respond to some of these new challenges, we are developing and testing 'last-mile mobility' devices for shorter journeys from transport hubs. In 2014 we will be piloting the integration of two new Toyota electric vehicles into Grenoble's transport infrastructure. The i-ROAD and the COMS will both be available to the public through an innovative car-sharing scheme in the French city.

Advanced information and communications technologies have enabled the development of innovative approaches to low-carbon mobility. Now we can connect people, vehicles and communities to further reduce $CO_2$ emissions.

The next generation of vehicles, which includes plug-in hybrid, electric and fuel-cell vehicles, will play an important role in reducing $CO_2$ emissions beyond the transport sector. As these vehicles become more popular and an increasing number of vehicles come to rely on electricity to charge their batteries, society's power demand will shift. Coping with this demand will require technologies such as hydrogen storage and the development of smart grids where power can be sent and stored around a network. Intelligently linking homes, people and cars to sources of renewable energy, will enable communities to reduce emissions and energy loss, and to live more comfortable and sustainable lifestyles.

To accelerate work in this area, Toyota works with partners. In Germany for example, we collaborate with the Clean Energy Partnership (CEP) and in the UK we are a member of UK H2 mobility. Both initiatives are creating a framework to facilitate the introduction of fuel-cell technology. We also participate in smart low-carbon mass transportation system 'iZEUS' (intelligent Zero Emission Urban System) in Germany.

### Getting smarter with new fuels and energy management

We need to consider how to balance the demand and generation of electricity, with achieving a lower $CO_2$ footprint. This is particularly relevant if, as we expect, the supply of renewable energy continues to grow and people and organisations become more selective about where their power is sourced.

To meet renewable energy targets, we anticipate the development of an overall 'smart' information and communications technology system, integrating both mobility and community energy management.

During FY 12, we continued to invest money and resources on integrated control systems that optimise the exploitation of renewable energy to reflect local demand and energy needs of cities. Our latest plug-in hybrids can make a valuable contribution to such a system, significantly increasing a community's ability to use the renewable energy generated, which is currently difficult to store.

By investigating new methods of stabilising energy demand, we can improve the capture and use of electricity generated from renewables like solar and wind as well as taking advantage of low-cost, off-peak electricity. The adoption at large scale of these integrated systems requires a consideration of our customers' quality-of-life. To ensure a smooth transition to low-carbon and energy-efficient behaviours we need to be realistic about what people expect from their mobility solutions.

1. Based on Toyota and Lexus Hybrid and PHEV European sales in 2012 (110,000), average emission has been 91 g/km. Compared to equivalent sales figures from a comparable conventional Toyota model, with an average $CO_2$ emission of 137 g/km and based on European average annual distance travelled by a car.

# MAKING SUSTAINABLE MOBILITY REAL CONTINUED




## Towards a low-carbon society through Smart Grid technologies

Toyota's concept of the Smart Grid involves linking cars, houses, and society via the Toyota Smart Centre, and improving energy efficiency through energy management as a means to contribute to a low-carbon society.

In Japan, in April 2012, our housing business, Toyota Home, has introduced 'SINCE feelas', a type of Smart House. The 'smart house' developed by Toyota Home is equipped with a solar power generator and functions to efficiently control electricity consumption. The TOYOTA Smart Centre uses Plug-in Hybrid Electric Vehicles (PHEVs) and electric vehicles (EVs) and smart houses equipped with home energy management system (HEMS) to monitor and coordinate energy used by the vehicles and houses involved, the electricity supplied by the power company, as well as the electricity generated by the houses from, for example, solar panels. It also enables remote monitoring and coordination by providing information to the people using the vehicles and houses.

The system can coordinate vehicle recharging and household energy consumption with the aim to minimise $CO_2$ emissions and reduce electricity costs.

This initiative for battery charging grew out of a single PHEV and one smart house, and will be expanded in stages to eventually create large eco-cities. This is the smart grid envisioned by Toyota.

In Europe, we partnered with the National Institute of Solar Energy (INES) to launch a solar station for PHEVs close to Chambéry (France). This experimental platform prefigures a new type of future mobility.

The experimentation is part of a large study on the energy convergence between solar energy, building and transport. Ten Toyota Prius Plug-in Hybrids are tested by using photovoltaic park demonstrators located at INES and CEA-Grenoble (solar charging stations, individual houses equipped with photovoltaic modules) in order to maximise the solar energy contribution and to minimise the needs in fossil fuel.

## Moving beyond incremental progress

In recent years, we have realised that we require a new approach to sufficiently and comprehensively meet the challenges society is facing. We need much more rapid deployment of new technologies and strategies – moving beyond incremental advances to address systemic failures.

According to the United Nations, over 70 percent of the world population will be living in urban areas by 2050. This thought inspired us to consider a scenario in which cities of the future will compete with each other to achieve higher levels of sustainable mobility. Working with 14 other companies from various sectors, under the auspices of the World Business Council for Sustainable Development, we have developed the Sustainable Mobility Project – a three-year initiative ending in 2015.

We are currently preparing a framework based on four steps:

1. Analysis: With academic support, the project examines and orders city characteristics, creating six different 'clusters' with similar properties.
2. Establishment of indicators: Assessing levels of cities' sustainable mobility using environmental criteria such as noise and $CO_2$ levels but also more social qualities like affordability, comfort, accessibility and the experience and pleasure of mobility in cities.
3. Provision of varied solutions: Developing a portfolio of technological and non-technological measures that have the potential to improve sustainable mobility according to the indicators.
4. Creation of conditions: Reviewing enablers like customer demand, finance and ideal governance structures to assess their importance in making change happen.

During 2014 the project team will prepare concrete action plans for selected cities. We will examine the city clusters to identify similar structures where solutions can be scaled up more easily at a later stage.

Our vision is to lead the way to future mobility and to contribute to a more sustainable and resilient society. Working across different sectors and with many stakeholders, we believe that this project will help to achieve that goal.

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# WORKING FOR COMMON GOALS WITH THE EUROPEAN UNION



TME President & CEO Didier Leroy, and Member of the European Parliament Dominique Riquet, during a visit of Mr. Leroy to the European Parliament in Strasbourg to deliver a speech to the Kangaroo Group on 19/09/12

The legislative and regulatory framework in which we operate is of fundamental importance to TME's sustainability strategy. The European Union has set targets and goals for sustainable mobility that TME is responding to with innovative products and services. Salient issues include $CO_2$ levels, alternative refuelling infrastructure and noise.

## EU sets new $CO_2$ standards for 2020

In July 2012, the European Commission presented a proposal amending its guidelines for passenger cars and the contribution they can make to achieving the 2020 $CO_2$ emissions targets. The EU aims to cut average emissions to 95 g $CO_2$/km by 2020 and has set a mandatory target of 130 g $CO_2$/km by 2015. Although Toyota already possesses the innovative technologies to reach this through hybrid, plug-in hybrid, electric and fuel-cell vehicles, the major challenge remains market uptake. To maximise the potential for $CO_2$ and pollutant emissions reduction from road transport, TME promotes an integrated approach, engaging numerous stakeholders from our value chain – vehicle manufacturers, oil and fuel distributors, repairers, customers, professional drivers and public authorities.

## Building an alternative refuelling infrastructure

In early 2013, the European Commission presented a proposal on the deployment of infrastructure for alternative fuels. The EU has published a vision of how the market for alternative fuels could develop, involving a variety of different stimuli. The proposed directive requires that member states:

- Make minimum infrastructure coverage mandatory for electricity, hydrogen and natural gas (CNG and LNG).
- Establish a minimum number of recharging points for electric vehicles by each Member State.
- Implement common technical specifications for the interfaces between recharging points and vehicles.
- Increase the number of existing hydrogen refuelling points (up to now only built for demonstration projects) to create national hydrogen-ready routes.

With Toyota strategy to further reduce $CO_2$ being based on Hybrids, Plug-in Hybrids, Electric Vehicles and Fuel Cell Vehicles, we share our technical knowledge with all relevant EU stakeholders.

## Making vehicles less noisy

On 9th December 2011, the European Commission presented a proposal to reduce the vehicle noise of all new passenger cars, vans, buses, coaches and trucks. The Commission identified a number of ways to achieve this: a new test method for measuring noise emissions; lower noise limit values and minimum noise requirements for electric and electric-hybrid vehicles.

## Engaging in stakeholder dialogue

Increasing legislation and expectations on the automotive industry highlight the need to engage in dialogue with many different stakeholders, such as authorities, non-governmental organisations, industry representatives, etc. Our vision for sustainable mobility includes forming partnerships with other organisations.

# RESOURCE RECYCLING



Umicore battery recycling facility, Hoboken, Belgium

## We aim to build a comprehensive network that will recover 100 percent of used hybrid batteries from our vehicles.

### Resource Recycling

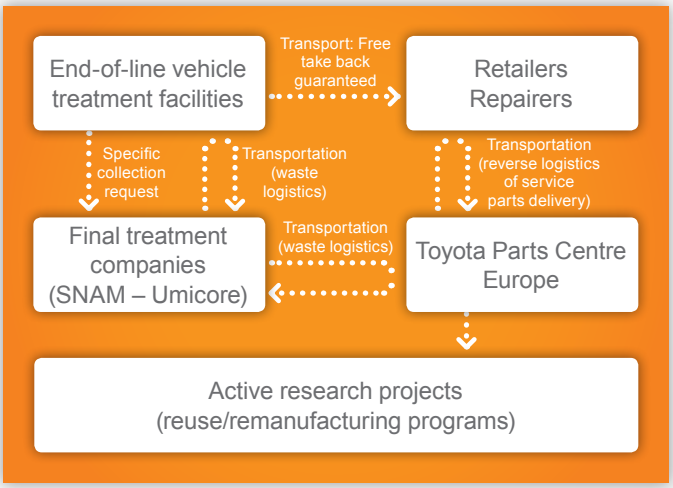
The introduction of Electric Vehicles (EVs), Hybrid Vehicles (HVs) and Plug-in Hybrid Electric Vehicles (PHEVs) has led to the commercial availability of many types of batteries. The most commonly used in vehicles are Nickel-Metal Hydride (NiMH) and Lithium-Ion (Li-ion). With the first generation of hybrids now reaching their end-of-life, setting processes to recover and recycle the batteries has become a key issue.

At TME we have constructed an industry-leading collection network for the recovery of used HV batteries. The network is achieving a recovery rate of over 90 percent of used batteries sourced from retailers and repairers. By transporting the batteries on the returning delivery trucks of Toyota service parts we have also reduced $CO_2$ emissions from transport.

In October 2011, TME became one of the first European Original Equipment Manufacturers (OEMs) to announce a new partnership with French recycling company SNAM, for the recycling of NiMH batteries[1].

During the second half of 2012, TME announced its partnership with Belgium-based Umicore N.V. for sustainable recycling of Li-ion batteries found in two new Toyota models – the seven-seater Toyota Prius+ and Toyota Prius Plug-in Hybrid. Umicore's unique rechargeable battery recycling process uses a patented Ultra High Temperature smelting technology. It allows for the recycling of valuable elements such as cobalt, nickel and copper from spent Li-ion batteries in a cost-efficient and environmentally sound way.

Umicore is also the only company worldwide operating two dedicated hybrid vehicle or full-electric vehicle battery dismantling lines. Based in Germany and the USA the plants support the supply of materials to a Umicore facility in Hoboken, Belgium.




1. Found in most of the Toyota and Lexus full-hybrid models sold since 2000.

# SUPPORTING THE COMMUNITY



## Supporting the Community

During FY 12, our National Marketing and Sales Companies (NMSCs), European Manufacturing Centres (EMCs), and Head Office have supported over 170 community projects.

Toyota Motor Europe Head Office provides support to local activities through the Toyota Fund for Europe and provides direction on community contributions to NMSCs and EMCs.

In FY 12 the total financial contribution reported by our operations was €3.3 million, including Toyota Motor Manufacturing UK's Charitable Trust.

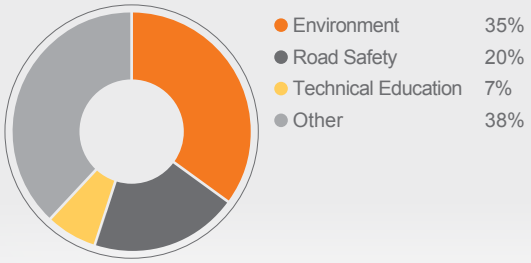
Sixty-two percent of this support was for the strategic focus areas – Environment (35 percent), Road Safety (20 percent) and Technical Education (7 percent). The remaining 38 percent used to support projects issues around our Health and Safety and Civic and Community programmes.

## Sharing value with in-kind contributions

For the first time, in FY 12 we also gathered information on non-financial contributions across our operations. These included:

- Volunteer hours: Our NMSCs and EMCs committed over 7,000 hours of support across Europe for training programmes, back-to-work schemes and the cleaning up of natural environments.
- Vehicles: 24 cars and trucks were donated to non-governmental agencies as well as offered a number of vehicles for short-term use.
- Vehicle parts: Over 16,500 vehicle parts were donated to technical colleges, including engines, scrap vehicles and transmissions.
- Other donated assets: Including educational materials for technical schools, 15,600 community meals and 683 computer equipments (such as desktop computers, printers, monitors, laptops, etc.)

Destinations of Toyota Fund for Europe




## Education Campaigns: Slovenian Eco-School wins environment and innovation competition

Preserje Pri Radomljah Primary School in Slovenia, in collaboration with the local retailer AC LOVŠE, won the fourth 'Environment & Innovation' competition, conducted in collaboration with the Foundation for Environmental Education (FEE) and their Eco-Schools network. The competition, called **'Let's reduce waste'**, challenged students aged seven to 16 from 93 eco-schools in four countries to think of innovative ways to reduce, reuse and recycle. It ran from 2010 to 2012.

Pupils at Preserje Pri Radomljah Primary created the winning entry – a composting machine to turn cafeteria waste into compost for the school garden. Constructed from old and new materials, the composter included an old oil barrel for containing the organic material, and the discarded electric motor of a Toyota windscreen wiper, a car battery and solar panels for automatically tumbling the waste.

As in previous years, Toyota retailers provided the participating eco-schools with stimulus information on how the company manages its environmental footprint. The children then considered how to address the environmental impacts at their schools. The Toyota Fund for Europe financed the implementation of the best ideas and, following six months of implementation, evaluated the results. This year the schools submitted 79 proposals for improvement, winning 40 grants to trial their ideas from the fund.

Preserje Pri Radomljah Primary School's winning design – a solar powered composting machine made with recycled Toyota car parts.

# IMPROVING THE SUSTAINABILITY OF OUR SUPPLY CHAIN



## Improving the sustainability of our supply chain

Our purchasing team's mission is to procure the highest quality, best value and most technologically advanced goods and services from the best suppliers, and to build a supply chain that operates ethically and responsibly.

We are setting out to improve the sustainability of our supply chain by:

- Strengthening our sustainable purchasing guidelines
- Consistently applying our sourcing policy
- Promoting a collaborative approach with our suppliers.

## Strengthening our Sustainable Purchasing Guidelines

To ensure that our direct suppliers and others in our supply chain understand our approach to environmental and social issues, we publish TME's Sustainable Purchasing Guidelines (SPG). This document clearly sets out Toyota's requirements for our business partners and also helps suppliers with legal compliance. In FY 12 we released our latest version with the following updates:

- Increase the scope of our 'Substances of Concern' list that we want our suppliers to avoid using.
- Placed greater emphasis on firms having an Environmental Management System to improve environmental behaviours and help suppliers observe local legislation and regulation.
- Created a new section dedicated to the responsible procurement of materials, underlining our commitment to preventing unethical materials such as Conflict Minerals entering our supply chain.

As well as promoting sustainable purchasing activities we have also communicated to our suppliers that we expect our partners to implement policies and procedures that ensure responsible behaviour in their own supply chains.

The SPG, together with our Corporate Social Responsibility (CSR) questionnaire, are integral to TME's standard request-for-a-quotation package. We ask suppliers to raise any concerns during the tendering process and their final quotation formalises their commitment to delivering on our expectations.

## Sourcing policy

Our sourcing policy is based on three main principles:

### 1. Fair competition based on an open-door policy

Toyota is open to any and all suppliers, regardless of nationality, size, or whether they have done business with us before. We choose suppliers purely on the basis of business considerations – quality, technological capabilities, reliability in delivering, their potential strengths and their commitment to address social expectations.

### 2. Mutual benefit, based on mutual trust

We believe in developing long-term relationships based on mutual trust that are beneficial for both parties. To foster that trust, we pursue close and wide-ranging communication with suppliers.

### 3. Good corporate citizenship: contributing to local economic vitality through localisation

We work to make an economic and industrial contribution that fairly reflects the size of our market share in every region we trade in. TME purchases parts, materials, tools, equipment and others from local suppliers.

# IMPROVING THE SUSTAINABILITY OF OUR SUPPLY CHAIN CONTINUED



## Promoting a collaborative approach with suppliers and other Original Equipment Manufacturers

To supplement our own activities, Toyota Motor Europe Purchasing is involved in two industry initiatives that aim to address specific issues in the supply chain and which encourage the wide adoption of high standards.

### European Automotive Working Group on supply chain sustainability

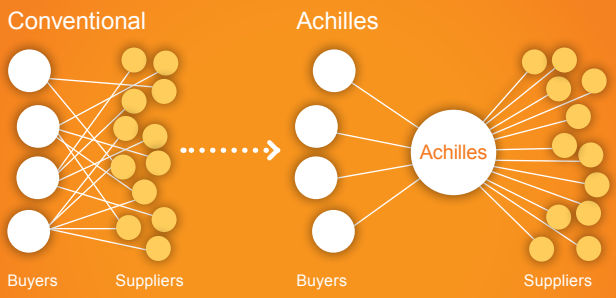
Nine European automotive manufacturers are collaborating to improve supply chain sustainability. The mission of the group is to work together to improve the social, ethical and environmental performance of automotive supply chains, by:

- Sharing experiences and information on sustainability issues in the automotive supply chain
- Developing and applying common tools
- Collaborating on projects for more impact
- Sending a common message to the supply chain on both sustainability activities and requirements.

### Achilles Automotive

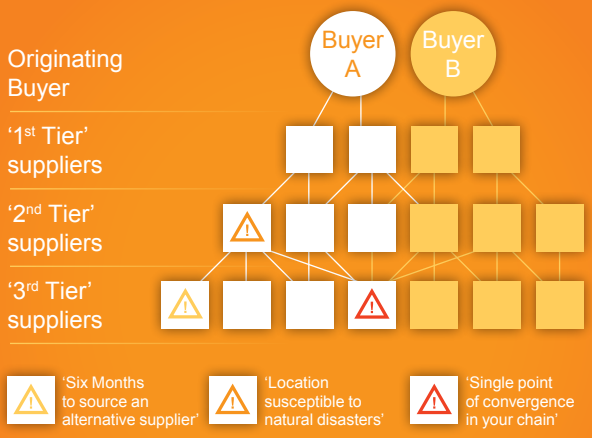
To minimise exposure to business risks and potential impacts to reputation, companies need to ensure the careful management of their supply chains. In FY 12, Toyota began to work together with two other car manufacturers and supply chain specialist Achilles Ltd, to create the Achilles Automotive Community. The group developed a business tool to proactively identify and manage risks in the automotive supply chain.

### Achilles Automotive Questionnaire




A standardised set of questions on issues including CSR, financial stability and health and safety. The process improves efficiency in data sharing and enables OEMs to assess suppliers' capabilities and performance.

### Supply chain mapping




A tool allowing car manufacturers and their suppliers to visualise their extended supply chain. This enables businesses to understand CSR issues right across their supply chain, making them more aware of potential risks and better prepared to cope with issues when they arise.

# ALWAYS BETTER BUSINESS



**The Stable Base of Business** is the trunk of our Global Vision tree. This includes the governance structure, operating systems and employees that allow us to better develop the fruits of our vision.

In order to contribute to society, we must be economically successful. However, we view profitability as the result of how well we have delivered 'Always Better Cars' and contributed to 'Enriching the Lives of Communities', rather than a business target.

The Stable Base of Business is the supporting structure that allows us to reinforce the virtuous cycle.

## A SELF REINFORCING CYCLE

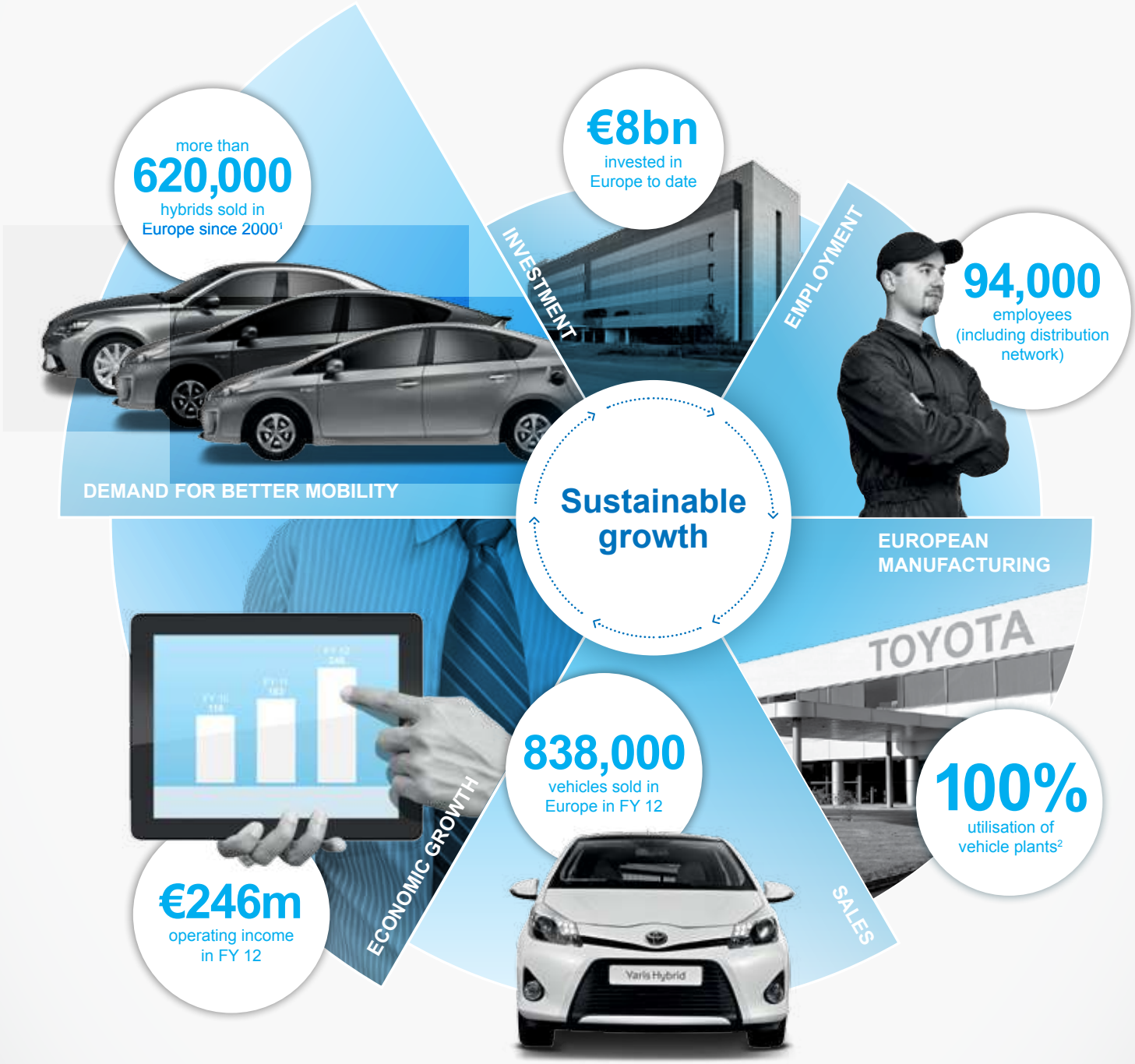
Our investments lead to more employment, which increase sales and leads to economic growth, pushed by demand for better mobility that then increases our investments.

**Our key targets**

**75%** localisation of vehicle manufacturing

**90%** sourcing of local parts

**100%** full capacity utilisation of plants




1. As of September 2013.
2. Since July 2013.

# INTRODUCTION



## Introduction: The challenge

Operating in Europe we are faced with an increasingly competitive market that has been shrinking, especially in Western Europe. Observers talk of a structural decline leading to chronic overcapacity of production versus sales on the continent. European Union (EU) legislation and regulations also require us to continually improve our performance to meet social, economic and environmental goals. The recent post-2008 economic crisis, the worst in EU history, has presented further challenges for our performance and profitability.

## Our Approach: Always Better Business

We believe that Toyota contributes to the development of the society we operate in. To continue to do so, our foremost imperative is to be a profitable business. For the third year in a row, in FY 12 we were profitable again – doubling our FY 10 profit to €246 million. We were also profitable in our manufacturing output (excluding financial services) – a first for us since 2008. We achieved this by persisting in our commitment to quality, innovation and the right product as well as by reducing costs and reorganising production. Today we are proud that almost **all our plants operate at full capacity** (p.34), a fact that demonstrates our commitment to achieving the maximum value from our resources and investments.

We have a long tradition of procuring and hiring locally, creating employment and wealth in the communities where we operate. This is the main way in which we contribute to European economic development. We also bring innovation by building our **best-selling, core European models with hybrid powertrains in our plants in the UK and France** (p.34). Increasingly, **we are developing export markets outside of Europe for our European factories** (p.35).

We are convinced that **Toyota's most important asset is our people** (p.45-47), and therefore safety is the foremost concern in our operations (p.48). We make substantial **talent development investments at all levels** (p.46), from graduate development initiatives to manufacturing skills training and apprenticeship, to management skills for our executive leadership teams. We involve our teams in breakthrough thinking and finding solutions together (p.46).

We take responsibility for **environmental performance all along the value chain** (p.38-44). We aim to use **renewable resources, reduce emissions and waste, and consume less energy and water** (p.39). In 1997, we developed and launched the first hybrid car in response to increasingly strict environmental regulation and the imperatives of global warming. Today, what was a pioneering vision has become good business: we are recognised as **'The Hybrid Company'** (p.36), which brings us market differentiation and increased sales of environmentally-friendly products.

## Performance highlights

**100%** of European plants met Toyota stringent waste-water standards

Code of conduct ethics training for all employees in Europe in FY 12

$CO_2$ emissions from vehicle production now at 91 kg per new vehicle, TME's lowest yet

**Over 40 countries**
including the US, now importing Toyota Yaris, made in France

**29% increase in hybrid sales from 2011**

**Lost time injury rate in HQ reduced by over 70% versus last year**
as a result of our new Safety Action Plan

## Sustainability issues in this section

- Stable employment
- Employee wellbeing and development
- Business strategy for sustainable growth
- Business integrity – compliance and values
- Financial performance/market share/product competitiveness
- Efficient use of resources
- Diversity and inclusion

# ECONOMIC PERFORMANCE



## During FY 12, Toyota Motor Europe continued to grow revenues, improving our economic resilience. While net revenues rose steadily, we can report that operating income increased significantly.

Our operating income, including financial services, has more than doubled in two years, to €246 million. We achieved this turnaround thanks to efficiency improvements across manufacturing, sales and administrative functions which have led to significant cost reductions. We have also followed a new strategy based on innovation and manufacturing optimisation, by maximising the utilisation of our European operations to produce the right product in the right place.

With hybrid sales growing year-on-year, representing more than 110,000 European sales in 2012, innovation is a key driver of our business performance but also a key factor in making our production operations more efficient. In FY 12, we brought the hybrid technology to the European-made Yaris and updated our Auris Hybrid model. Hybrid technology is now reaching a tipping point in Western Europe, and thanks to the strong sales of the new Yaris Hybrid and Auris Hybrid, our plants in France and in the UK are now running at 100 percent or higher capacity.

In order to further improve the business efficiency and utilisation of our European plants, we also announced the start of production of a version of the Yaris in France for export to North American markets and the launch of a new model, the Auris Touring Sport, at our factory in the UK. We confirmed the introduction of the 11th generation of the world's best selling car, the Corolla, at Toyota Motor Manufacturing Turkey (TMMT), so that production is closest to the Corolla's most important markets and export destinations.

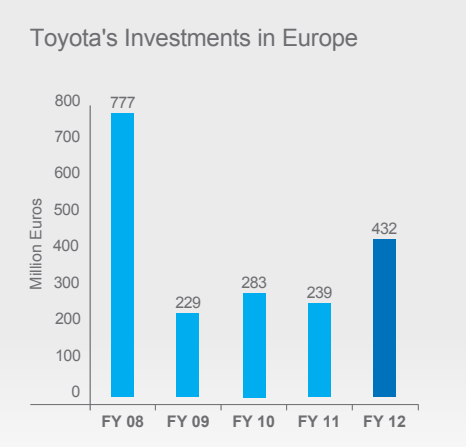
All these steps will position us for profitable growth in Europe, independently of exchange rate fluctuations.

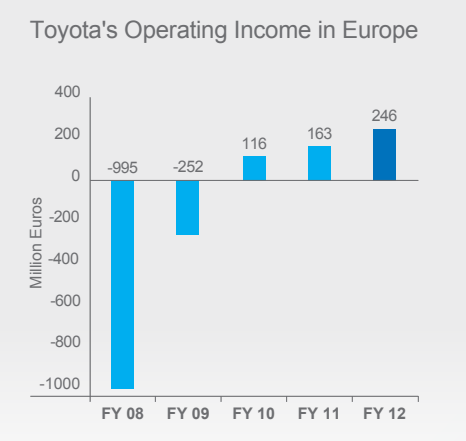
### Contributing to European economic development

Toyota's Global Vision states that Enriching the Lives of the Communities in which we operate is a fundamental objective of our business activities. By ensuring that production of different vehicle models is localised in the best-suited manufacturing plant according to market and export destinations ('the right product at the right place'), we reinforced the role of our European operations. These strategic measures contribute to maximising the utilisation of our plants, preserving local employment, and demonstrating our continuous investments in Europe.

The launch of the new generation Auris, the preparation for Auris Touring Sport, and the relaunch of the Corolla model led to an increase in investment of 80 percent compared to last year, visualised in the graph below.

We already locally produce two thirds of the cars we sell in the region and our intention is to continue to promote localisation of production to reach our targets of 75 percent for cars, and 90 percent for parts and components.



# ECONOMIC PERFORMANCE CONTINUED



## Risk Management

The mission of the Accounting & Finance (A&F) Division is to support Toyota's management by providing direction for the company. This means identifying and understanding changes in the business environment, and analysing their immediate and future impacts on the financial condition of the company.

Our key internal stakeholders are the TME Group Executives. During the completion of normal business duties there is also regular contact and sharing of information with other groups. A&F interacts with TMC as a shareholder, principally by providing relevant financial information. Externally, we interact with various organisations such as supplier partners, customers, the financial community and governmental bodies.


### Building on success in France with more international orders

In FY 12, TME announced that Toyota Motor Manufacturing France (TMMF) would start the production of the successful Toyota Yaris compact car for export to the USA, Canada and Puerto Rico as of May 2013. To meet the specific demands of the model TMMF invested €10 million in the plant, located in the small Northern French town of Onnaing, near Valenciennes. Bringing the number of countries served to 40, the annual volume of export to the North American market is expected to be around 25,000.

The new Toyota Yaris is now the first vehicle to be certified with the new 'Origine France Garantie' label – which identifies products that have more than 50 percent of their value manufactured in France.

# MEETING DEMAND TO INCREASE MARKET SHARE



**In Europe, Toyota is committed to a strategy of long-term sustainable growth. In the past two years, our market share has grown to 4.6 percent, and we aim to continue this trend to reach our target of 5 percent.**

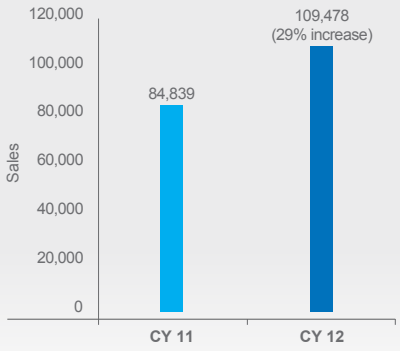
A clear contributor to our market success has been our increased focus on product power, with better and more consistent design, better interiors, and improved dynamic performance in all the cars we launched in the past two years. We want to keep offering exciting models that meet the expectations of each market.

Strict environmental regulations aimed at reducing $CO_2$ emissions and improving air quality are creating significant pressure on European Original Equipment Manufacturers (OEMs) to invest in greener technologies. In cities such as London and Stockholm, the growth in the number of urban Low Emission Zones is increasing demand for hybrids and other forms of low-emitting vehicles. Anticipating this trend, Toyota invested early in hybrid technology and we now have a leading position on technical expertise, customer awareness and sales of hybrid vehicles, where competitors are only now starting to invest.

In 2012 TME set the target to become 'The Hybrid Company'. The challenge for us is to reinforce our leading position in this segment. Our launches of the Yaris and Auris Hybrid in FY 12 have helped solidify this. The market share for these cars' hybrid versions is increasing, achieving respectively 25 and 35 percent of their total sales. These two vehicles have strongly contributed to an overall 29 percent increase in hybrid sales in 2012 compared to 2011. We believe these figures demonstrate that Toyota's continuous commitment to innovative greener mobility solutions is as good for business as it is for the environment.

The next step will be to further strengthen our leading position in Europe. To achieve this, we plan to increase awareness and knowledge about the benefits of hybrid technology to customers. Beyond the benefits of more efficient fuel consumption and lower total cost of ownership, our focus will be on the pleasure of driving a Toyota Hybrid car.

Toyota and Lexus Hybrid sales in Europe



# ACTING RESPONSIBLY WITH SUSTAINABLE OPERATIONS



## Acting responsibly with sustainable operations

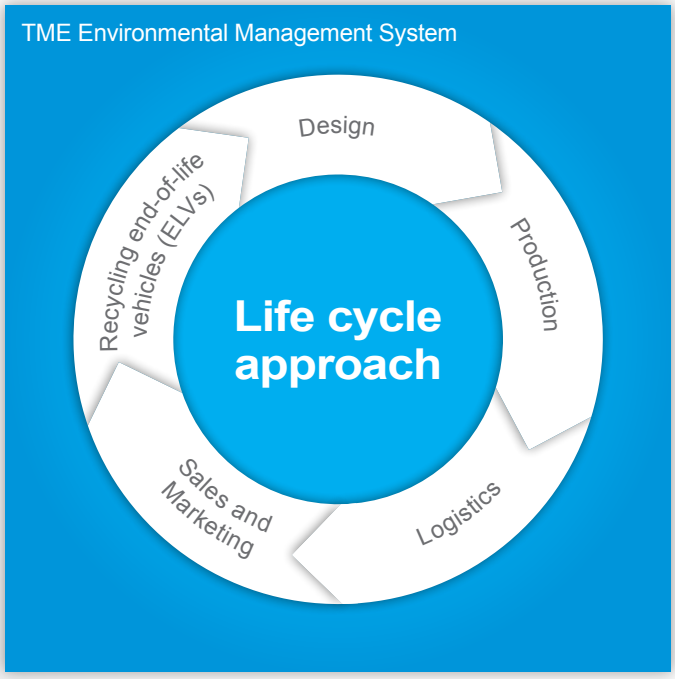
Toyota's Life Cycle approach to environmental management ensures responsibility at all stages of our value chain. The approach also safeguards environmental considerations in the annual business planning cycle (Hoshin) of every function – Research and Development, Production, Logistics, Sales, Marketing, Aftersales and End-of-Life Treatment activity.

TME's 5-Year Environmental Action Plan provides the direction to develop more sustainable operations, with a focus on three main areas:

1. Environmental performance: general resource efficiency, energy use, greenhouse gas emissions, particulates, waste and water
2. Renewable resources: low-carbon energy, rainwater harvesting, water, recycling
3. Protecting nature: conserving and enhancing natural resources such as bio-diverse habitats.

We have assigned appropriate environmental key performance indicators (KPIs) for all areas of our operations. Mid-term targets are between three and five years with shorter plans covering between one and two years.

The Toyota Environmental Management System (EMS) monitors progress against our action plans and targets at all of our locations. The ISO 14001 accredited EMS, operates at a consolidated TME Group level, and individually at our NMSCs and EMCs locations. We also actively encourage franchise dealers to adopt a formally recognised EMS. We communicate our expectations to suppliers and contractors using our recently updated **Sustainable Purchasing Guidelines**.

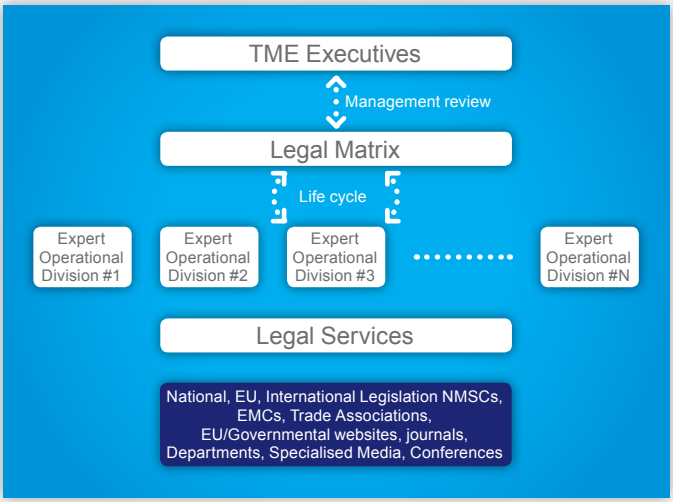



## Complying with legislation

Toyota manages compliance with all social and environmental legislation through the appropriate expert local operational divisions and with the support of legal services.

On environmental matters, overall activity is registered, visualised and confirmed with TME executives using a legal monitoring matrix and management review process, and organised using TME's accredited Environmental Management System.

TME operational divisions use various means to track the movements of relevant national, EU and international legislation. Sources of information may include: National Marketing and Sales Companies (NMSCs); European Manufacturing Companies (EMCs); trade associations; European Union and government departments, websites and journals. This coordinated Life Cycle approach ensures the timely and correct identification and fulfilment of environmental requirements in all of the countries in which we operate.



# RAISING THE PERFORMANCE OF OUR EUROPEAN MANUFACTURING COMPANIES

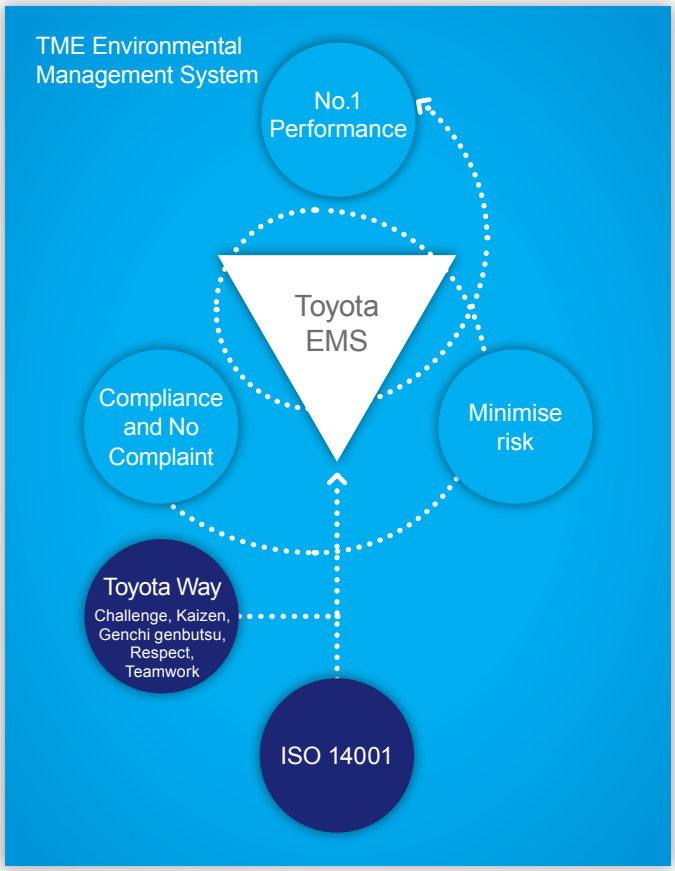


The TME Production Engineering division supports nine manufacturing centres across seven countries. Six of the centres are vehicle assembly plants and the other three manufacture transmissions and engines.

## Our Approach

We use Toyota-EMS, our bespoke environmental management system that incorporates Toyota Way practices into the management techniques of ISO 14001. The system is designed to assess compliance with regulations, to minimise environmental risks and promote best practice in line with Toyota's environmental manufacturing policies. Thanks to Toyota's annual global auditing system and to our deeply ingrained Plan-Do-Check-Act approach to business planning, all our European Manufacturing Companies (EMCs) follow the Toyota-EMS throughout their daily operations.

Our 5-Year Environmental Action Plan (FY 11 – FY 15) guides the Toyota-EMS approach, setting targets for issues like energy, carbon, waste, water and volatile organic compounds emissions in our EMCs. The Action Plan also supports our zero tolerance policy for non-compliance policies and complaints procedures. These activities help to strengthen and to standardise day-to-day procedures, as well as make efficient and responsible environmental behaviours more visible to our skilled operational teams.

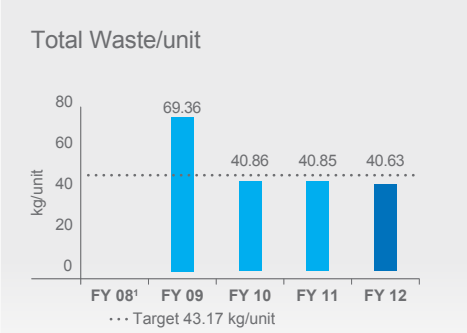


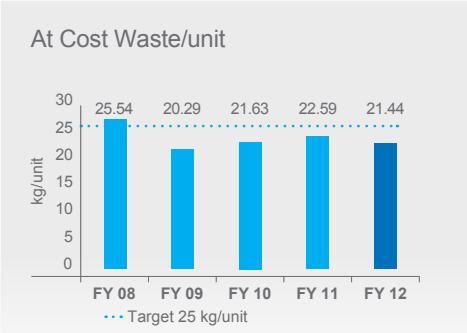

In FY 12 we can report that every one of our European plants met all the Toyota required waste-water standards. By the end of FY 13, we should achieve 100 percent of our strict air emissions requirements, helping significantly to reach our ultimate targets of zero non-compliance and no complaints.

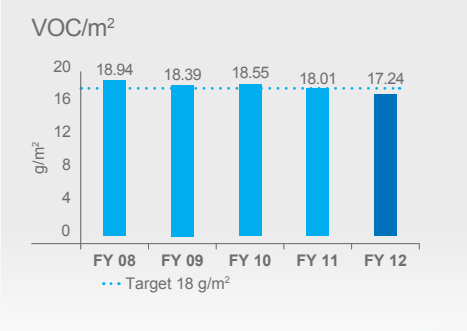
## Environmental Performance

We strive to improve the environmental impacts of our operational processes, year-on-year. Thanks to the continual assessment and refinement of our manufacturing processes, in FY 12 we managed to reach our targets for the following key performance indicators:

Total Waste: target 43.17 kg/unit – actual 40.63 kg/unit
At Cost Waste: target 25 kg/unit – actual 21.44 kg/unit
Volatile Organic Compounds per $m^2$: target 18 g/$m^2$ – actual 17.24 g/$m^2$




1. Data only measured from FY 09 onwards.

# RAISING THE PERFORMANCE OF OUR EUROPEAN MANUFACTURING COMPANIES CONTINUED



### Water

Although the FY 12 figure of 1.94 $m^3$/unit was an improvement on last year's 2.06 $m^3$/unit, we fell short of our target of 1.7 $m^3$/unit. This was mainly because of low production volumes and the relative inflexibility of water use in our production processes.

### Energy

In FY 12, energy consumption increased to 1,779 kWh/unit, a rise of seven percent per unit from FY 11. The higher figure is due to inaccurate forecasting of very low winter temperatures, lower production volume than envisaged and new models production trials.

Although we missed the FY 12 energy consumption target, we compared favourably with years of similar output levels from the European manufacturing plants, and demonstrated continuous improvement in energy consumption. During FY 13 we expect to reduce energy consumption further as we make more improvements to our processes and systems' flexibility, and procure energy from different sources.

### $CO_2$ emissions

FY 12 emissions rose to 500 kg/unit from last year's 481 kg/unit. The increase per unit produced from last year is in line with the increase in energy use per vehicle and a result of the reduction in the number of units produced in FY 12. We expect to improve upon this performance over the next financial reporting period by using more renewable energy.

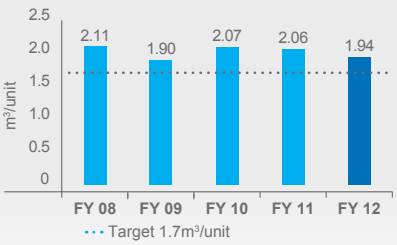
### Ongoing initiatives at our European Manufacturing Centres

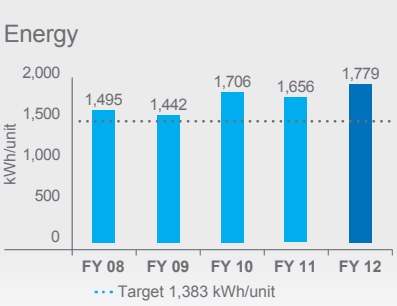
To continuously reduce our environmental footprint, a number of EMCs are implementing larger initiatives:

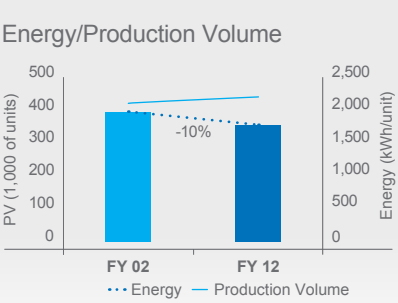
- Toyota Peugeot Citroen Automobile: Reduction of waste sludge by increasing the cleaning frequency of tanks and treating this waste in-house using new facilities.
- Toyota Motor Manufacturing France: Expansion of the rainwater recovery basin to save more than 0.24 $m^3$/unit of water.
- Toyota Motor Manufacturing Turkey: Replacement of manual air spray guns with electrostatic spray guns, reducing the volatile organic compound emissions in the paint process.
- Toyota Motor Manufacturing UK: Reduction of energy consumption by removing steam processes in the plastic shop. Similar modifications in the paint shop processes are also under way.

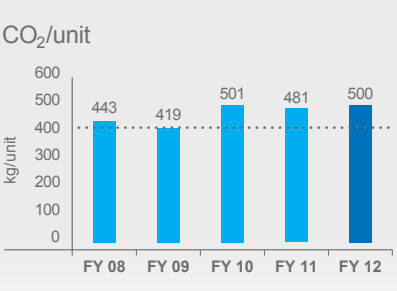
### TMMR to join TME's sustainability effort

During FY 13, Toyota Motor Europe will become responsible for the environmental performance of our manufacturing plant in Saint Petersburg, Russia. Toyota Motor Manufacturing Russia's (TMMR) environmental data will now be consolidated in the next round of environmental key performance indicator (KPI) results. We believe that this is a great opportunity to exchange knowledge with TMMR, and should help to improve our environmental performance across all our European operations.



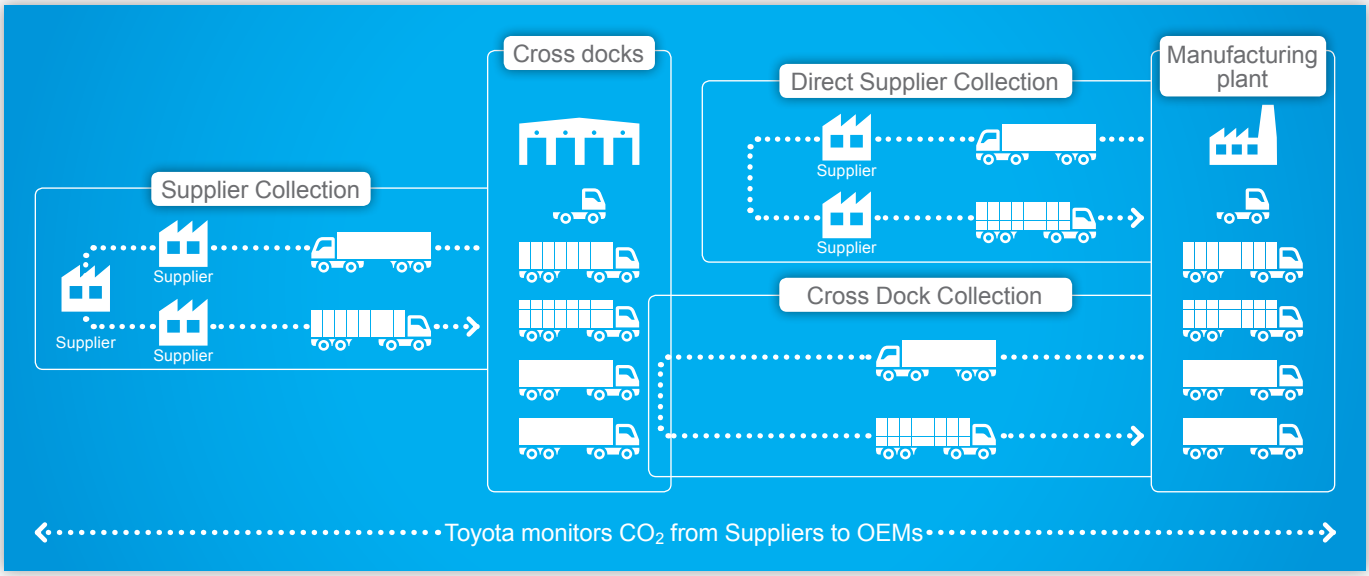



# PRODUCTION PARTS LOGISTICS – LEAN & CLEAN






Our dedicated Production Parts Logistic Department (PPLD) uses the industry-leading Toyota Production System for 'Lean & Clean Logistics' to reduce the environmental impact of the supply chain. This just-in-time approach limits both $CO_2$ emissions and waste:

### Reducing waste with returnable packaging

Toyota uses returnable packaging for all European logistics, reducing significant amounts of waste. Parts are transported in plastic or metal boxes that circle continuously between suppliers and manufacturing plants, over the duration of the model's life.

### Detailed planning to reduce $CO_2$ emissions

To maintain cost efficiencies and reduce $CO_2$ emissions, Toyota takes a systematic approach to logistics, designing and planning routes to optimise performance in emissions and costs. TME targets are in line with the European Union targets, set in 2011[1].

| Supplier Collection | Direct Supplier Collection |
|---|---|
| Consolidating Parts Supply | Optimisation of reduction of distance travelled while truck is partially empty |
| Creation of Combined Networks in lower density regions | |
| **Cross Dock** | **Cross Dock Collection** |
| Cross Docks positioned to minimise travel on sub and main routes | Filling all trucks and operating with lowest number |
| Logistics partners support in optimisation in skills and packaging design | |

1. http://ec.europa.eu/transport/themes/strategies/2011_white_paper_en.htm

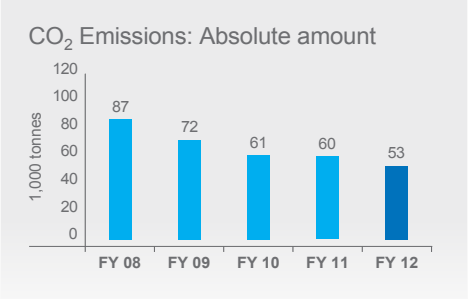
# PRODUCTION PARTS LOGISTICS – LEAN & CLEAN CONTINUED

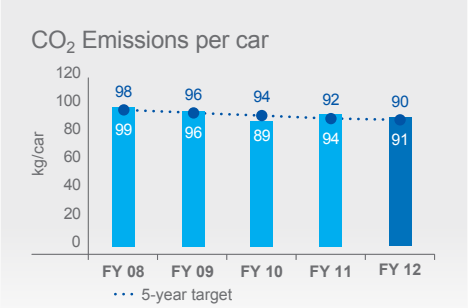


## Reducing $CO_2$ Emissions – Key Figures

In FY 12 we managed to reduce emissions to 91 kg per new vehicle and we are working hard to reduce this further.

During FY 13 we aim to improve our environmental performance to 90 kg per unit. Key to achieving this target will be the focus on modal shift changes, referred to in the intermodal case studies.




### Intermodal Case Studies (Sustainable Behaviour)

**Key:**
Transport by truck
Transport by rail

**Rail project 1.** East > West


**Before:**
100% Road = 1,392 tonnes $CO_2$ per year
**After:**
83% Rail + 17% Road = 715 tonnes $CO_2$ per year
(614 tonnes $CO_2$ per year reduction)

**Rail project 2.** South > North


**Before:**
100% Road = 1,615 tonnes $CO_2$ per year
**After:**
95% Rail + 5% Road = 774 tonnes $CO_2$ per year
(841 tonnes $CO_2$ per year reduction)

# VEHICLE LOGISTICS



## TME's Vehicle Logistics Group (VLG) works actively to reduce the environmental footprint of its Toyota transport operations, organising and supervising the import and export of new vehicles. The group has a three-tier strategy to reduce impacts:

### Reviewing transport routes to reduce costs and $CO_2$ emissions

To reduce our $CO_2$ emissions and transport costs, we annually evaluate existing routes and look for sustainable alternatives such as trains or vessels to replace trucks. If trucks are to be used, we aim to use the greenest options and where possible we will use the fleet's most efficient trucks in selection.

### Managing energy and waste

Our 5-Year Environmental Action Plan encourages our vehicle logistics hubs to improve their annual performance on waste management and energy consumption, with a constant monitoring system and key performance indicator in place. In FY 12 we reduced the following measures of energy: kilowatt-hours per total vehicles handled, and kilowatt-hours according to the surface area of the hub where vehicles are handled.

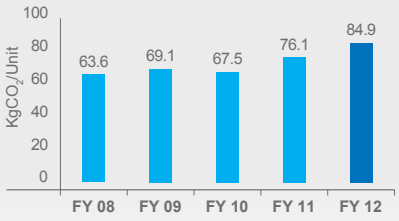
We also reduced the total amount of waste per vehicle but missed the target of total mixed waste. In FY 13 vehicle logistics will focus on this area and plan to make improvements.

### Ensuring environmental compliance

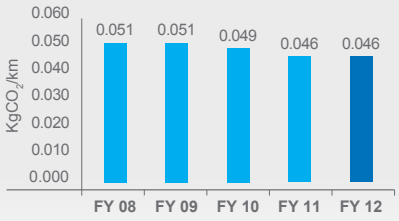
Our Vehicle Logistics Group is responsible for ensuring that all our vehicle logistics hubs maintain ISO 14001 accreditation, and achieve zero non-conformances. The group works with the Environmental Affairs and Corporate Citizenship (EACC) team to conduct our annual internal audit. At the end of every three-year cycle, VLG and EACC work with Vincote, our external auditor to certify our vehicle logistics hubs for ISO 14001 accreditation.

This financial year our UK hubs, Derby and Grimsby, and Kolin in the Czech Republic, underwent external auditing. All three sites achieved zero non-conformances, meeting our target. In FY 13/14 Malmo and Adapazari hubs will go through the same process and we are confident we will be able to repeat this year's positive results.

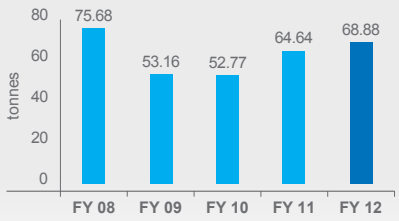
$KgCO_2$/vehicle




$KgCO_2$/km




Total $CO_2$



# PARTS SUPPLY CHAIN



TME's Parts Supply Chain Group (PSCG) is responsible for the procurement, storage and distribution of accessories and spare parts across the continent. The group manages the relationships with our suppliers in Europe, ensuring the availability of parts for all our models. PSCG also manages the exchange of parts within Toyota's global after-sales network.

## Parts Logistics Group

Our PSCG includes one central warehouse in Belgium and 13 regional depots. Over the years we have faced many challenges ranging from an increased regulatory context to declining business. Despite obstacles, TME has managed to continuously improve replenishment systems, resulting in both a more efficient service and environmental benefits.

## Reducing $CO_2$ emissions from transport

As demonstrated in the graph, there has been both a decrease in the total $CO_2$ emissions in tonnes and in emissions per kilometre.

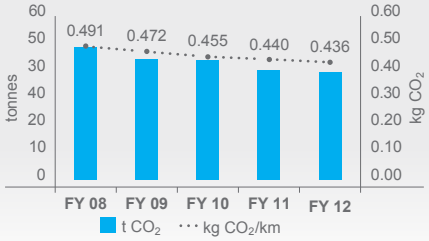
This improved performance was achieved with the start of a short-sea route to Turkey and Norway, continued improvements in our retail transport operations, and by reducing air freight from Toyota Parts Centre Europe by 9 percent. These optimisations are the result of the Toyota approach to continuously improve our business and activities with complete customer satisfaction in mind.

## Environmental impact of our warehouses

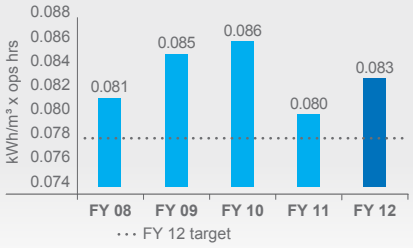
All TME depots are certified by the ISO 14001 environmental management system. Although our energy consumption was higher in FY 12 than our target, mainly due to severe winter conditions, we continue to improve energy management at all sites. Key challenges remaining include increasing our use of renewables and using more sustainable real estate, like our new depot in Spain.

All of our depots have reached their target to send zero waste to landfill. However, we have seen an increase in waste per 1,000 pieces shipped. During the next business cycle, we will be looking at actions to improve our waste handling at these facilities.

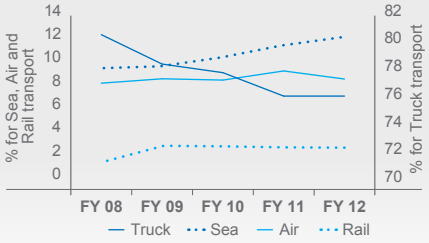
$CO_2$ Emissions from logistics: Service parts



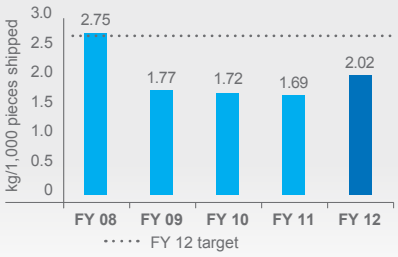

Warehouse energy use per m³ x operational hours




Transport methods evolution (share in km)




Mixed waste per 1,000 pieces shipped



# PARTS SUPPLY CHAIN
## CONTINUED



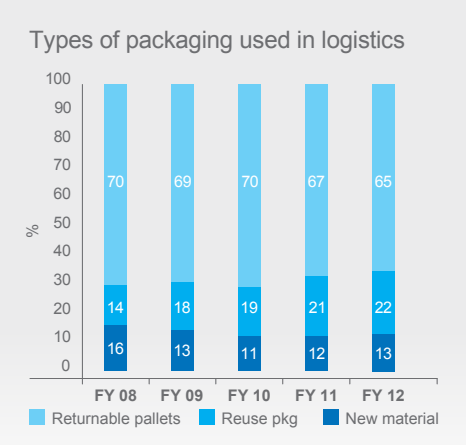
### Reducing packaging material

Some highlights of FY 12 results:

- Minimise individual packaging (FY 12: -20 tonnes)
- Optimising shipping packaging (FY 12: -107 tonnes)
- Reuse packaging material for dealer distribution, e.g. Austria -7 tonnes; Portugal -19 tonnes.

Our strategy to focus on reuse of one-way packaging is resulting in continued increase (22 percent in FY 12 versus 14 percent in FY 08), as shown in the graph.

Our expanding business to Eastern countries has resulted in a slight increase of new material because these countries are one-way packaging destinations.




### How UK dealer networks achieved a 15 percent $CO_2$ reduction during FY 12

A nationwide programme of energy saving measures in the United Kingdom has delivered significant reductions in carbon emissions across Toyota's dealership network, with a 15 percent fall during FY 12. This puts the business firmly on course to achieve its goal of an average 20 percent reduction from 2009 levels in its Toyota and Lexus retail centres' carbon footprint by the end of FY 14. More than 3,700 tonnes of $CO_2$ have been saved over the course of a year, equivalent to the emissions from 22.2 million kilometres driven by an average car.

The coordinated scheme allows Toyota to monitor and act on the energy usage of its entire UK dealer network. Following a pilot, all Toyota and Lexus dealerships were surveyed to identify where savings could be made. Dealership managers received training in energy management and all premises were equipped with devices to monitor energy usage.

Performance has been supported by a range of practical measures that have been simple and in many cases cost-free to implement. These include adjustment of heating and air-conditioning systems to match building occupancy hours; automatic, remote powering down of computer equipment; and a heating inhibitor system that automatically

switches heaters off after a preset time when workshop doors are open. Some locations have also made individual investment in low energy equipment, such as LED lighting, which can perform up to 65 percent more efficiently than the previous fittings.

The scheme reflects Toyota's commitment to lead the motor industry in minimising the environmental impact, not just of the vehicles it makes, but of its entire manufacturing and business operations.

# HUMAN RESOURCES

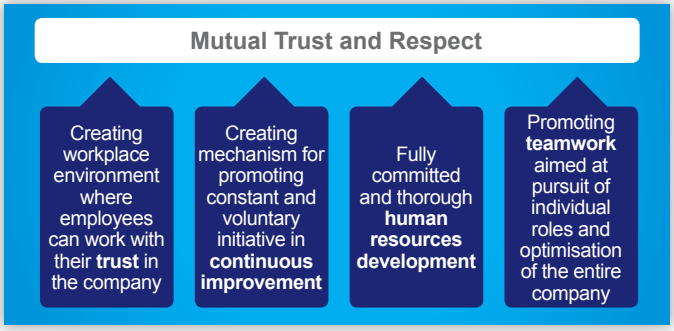


## Our philosophy and values

Toyota's fundamental philosophy towards stakeholders, including employees, is expressed and shared through our key Global corporate value sets, as noted below:

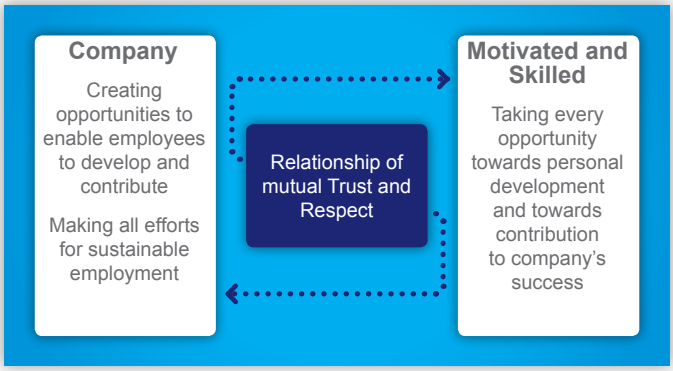
- Guiding Principles at Toyota → a summary of Toyota's corporate philosophy – latest Global adaptation 1997
- Toyota CSR Policy → our social responsibilities towards stakeholders – latest Global revision 2008
- Toyota Way 2001 → Toyota values and working methodologies – issued in 2001, Toyota Way in HR Management – Toyota HR direction – issued in 2002
- Toyota Code of Conduct → expected behaviour within the workplace and society – latest TME revision 2013.


Towards its employees, Toyota primarily focuses on building a relationship of mutual trust and respect. Details on how to establish this relationship are embodied in the globally applied Toyota Way in HR Management, which emphasises four main objectives for all global Toyota companies:




The Code of Conduct translates the Toyota Corporate Philosophy into concrete guidelines and rules on how to behave ethically in daily business life. In 2013 a revised TME Code of Conduct was launched. An online e-learning training for all TME employees was used to reinforce the understanding of the Code of Conduct.

Toyota commits to make every effort to provide a stable work environment and improve working conditions. In return, we expect our employees to be committed to Toyota's mission, to act with integrity and to use all opportunities towards personal and team development, thereby contributing towards Toyota's success.




## Communicating effectively across TME

Two-way communication is essential to establish trust between Toyota and our employees. To support this, a number of daily and periodic communication initiatives are managed at local levels and across Europe. One example of a periodic regional initiative is the quarterly Pan-European Employee Briefing. These briefings are organised to ensure that consistent and thorough communication is made available to all our European employees to allow them to understand and clarify the company direction and short- to mid-term challenges.

In line with EU and National legislation in the countries where we operate, employee representation bodies are in place to communicate and foster the relationship of mutual trust and respect in Toyota. Regular information sharing and mandatory consultations with European and national bodies contribute to maintaining and strengthening our unique and fundamental relationship between employees and the management. As part of Toyota's Corporate Social Responsibility Policy, we recognise our employees' right to freely associate or not to associate, in compliance with the laws of the countries in which we operate.

As agreed with our European Works Council, also termed the Toyota European Forum (TEF), we hold two plenary meetings a year to discuss business topics affecting our operations. European Senior Management and 26 TEF employee representatives attend, representing various business in Europe. In preparation for these plenary meetings, and to discuss intermediate topics, four working committees are organised each year with the key TEF employee representatives.

# HUMAN RESOURCES
## CONTINUED



### Driving Employee Engagement

Every two years we assess the motivation of our employees by conducting a Europe-wide survey, covering approximately 18,000 employees across our European affiliated entities. The latest survey was conducted in FY 12 and highlighted improving results.

The FY 12 results showed a positive trend, with an average 6 percent increase in employee engagement across Europe. Scores from the National Marketing and Sales Companies (NMSCs) employees trended particularly strongly and in line with other high-performing companies. When compared to the FY 10 survey, the responses from our manufacturing plants and head offices also demonstrated higher engagement rates.

We go beyond simply sharing the results of our employee survey. In FY 12, all Toyota organisations in Europe ran workshops to analyse the results, identify root causes and put solutions in place. At Toyota Motor Europe (TME), roughly 15 workshops were held, involving up to 100 employees from across the organisation. These employees identified no less than 50 solutions for each area. For motivation-related issues common to all areas of the company, a cross-functional team came up with five actions in areas including: communications, career management, appraisal processes and management training.

To supplement the quantitative results from the employee motivation survey, we initiated qualitative activity through New Management Direction (NMD) Action Groups at TME. External consultants interviewed 150 individuals across grades and functions to pinpoint barriers to employee satisfaction and engagement at TME. The focus was on creating an action-oriented mindset and showing that change is not only possible, but desirable.

The results of the interviews were analysed and grouped into seven themes: Shared Vision; Leadership; Decision Making; Working Together; De-Prioritisation; Knowledge Management; and People Management. For each of these themes, groups of volunteers, regardless of title or responsibility, were empowered to come up with concrete actions – big and small – that would make a visible change to the company culture and ways of working. Their teamwork led to several initiatives – from regular discussion forums with Vice Presidents and a new system for storing and sharing files and data, to leadership and management development programmes. It also led to grass-roots activities where employee groups now take on issues and solve them together, outside the normal hierarchy.

Toyota is committed to employee education and development. We provide various forms of training, from structured learning in the classroom to on-the-job instruction. In FY 12 we continued to work on strengthening our three main themes – Graduate Development (GDP), Management Development and reinforcement of the Toyota Way.

### Toyota Way management training → Reinforcing Toyota values

We want to ensure that our employees have a deep understanding of our values and that they apply them on a daily basis in their ways of working. We continuously monitor and update our existing Toyota Way training offer.

### Management development training

Increasing management capability and continuous development of managerial talent is a top priority for Toyota. One of the key responsibilities of managers at Toyota is the development of their team.

We have our learning and development programme introducing new training modules that focus on improving managers' coaching and development skills of their team.

All of the training modules are built around the On-the-Job Development Programme which is the core Toyota Way management training.

# HUMAN RESOURCES
## CONTINUED



### Graduate Development Programme

The TME Graduate Development Programme is an 18-month course designed to quickly equip newly hired graduates with the skills they will need to begin their career at Toyota. The programme which had been temporarily postponed during the economic crisis, is now fully re-established. Graduates receive a combination of classroom and practical training, including:

- A six to seven week assignment as a member of the production team at a Toyota Manufacturing Company
- Sales training (including visits to some retailers)
- Classroom training of Toyota Way, Toyota Business Practices (problem solving)
- Optional on-the-job six week cross-functional training.

### Diversity and equal opportunities

We believe in equal opportunities and have a clear policy on diversity and inclusion, with zero-tolerance for any form of discrimination. All incidents of discrimination and/or human rights violations are monitored by the TME compliance officer on the basis of a formal compliance check on labour-related issues. No incidents were reported in FY 12.

Female employees account for 30 percent of our Regional Headquarters' and National Marketing and Sales Companies' (NMSCs) staff with 14 percent in our European Manufacturing Centres (EMCs). This compares favourably to other companies in our industry.

Additionally, we have 38 nationalities represented in our Regional Headquarters alone.

Nineteen percent of our employees in our Regional Headquarters are aged 45 or older, with 34 percent in the NMSCs and 15 percent in the EMCs. An employment plan for TME aimed at older workers was published in June 2013. This contains specific measures to increase the participation of 45 year-old and upwards employees, helping to secure their employment.

# MAINTAINING A HEALTHY AND SAFE WORKPLACE



At TME, the health and safety of our employees is a top priority. During FY 12 we identified and reduced risks in our operations through various initiatives that involved all levels of the organisation. For example, we established a cross-functional Health and Safety Management Working Group. This aligned activities across all TME operations and planned company-wide communications, in order to share best practice more quickly and efficiently. Below we set out our health and safety activities across our operations, together with our key performance indicators:

## Reducing accidents at Toyota Motor Europe Headquarters (Head Office, Technical Centre and Zeebrugge)

After a slight increase in Lost Time Injuries (LTI) during FY 11, we started a new approach called 'Learning Opportunities' to understand, prevent and prepare for unplanned events. During FY 11, the majority of accidents were caused by not following personal protection equipment requirements, untidy work areas, or incorrect posture in manual lifting of heavy loads. We incorporated these factors into a FY 12 Safety Action Plan, designed to help foster a safety culture. Through these initiatives, we managed to reduce our injury loss time by over 70 percent in FY 12, compared to FY 11. For FY 13, we are focusing on 'slip, trip, fall and cut' accidents, as these represent the next most common category of incidents.

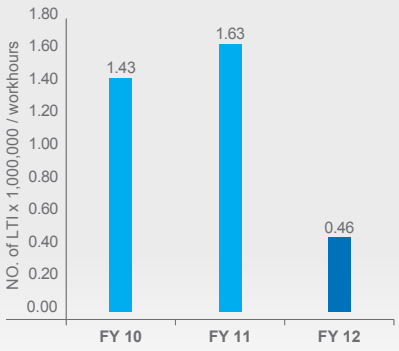
## Making manufacturing safer

Our goal is to become the benchmark for manufacturing safety in Europe. During FY 12 we held several safety-promotion initiatives in our plants which helped to reduce the LTI rate. These included: increased participation of our top management in safety activities throughout our plants; strengthening our machinery and ergonomics risk-assessment systems; and developing our employees safety awareness to further improve their ability to identify hazards and work safely. We also continued to develop our regional information-sharing system on risk reduction. This should lead to an increase in both the quality and quantity of information shared, further reducing the possibility of incidents reoccurring.

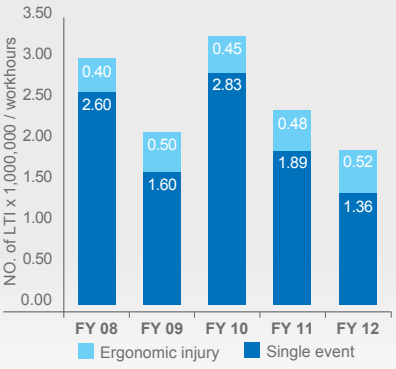
## Improving the safety of our European spare parts operation

In order to satisfy customers, our 13 warehouse centres handle more than 15 million moves of parts each year. Our objective is to enable the movement of parts in the safest possible way. Consistent efforts have led to greater management involvement, better risk identification, and a considerable improvement in the safety performance of our warehouse operations. This resulted in a 43 percent decrease in the number of accidents during FY 12 compared to FY 07. We continue efforts to reach our ultimate goal of zero accidents.

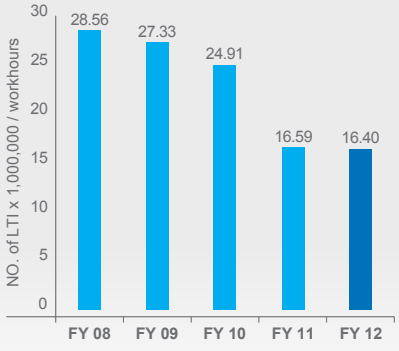
LTI frequency rate – TME HQ




LTI frequency rate – Manufacturing safety




LTI frequency rate – Regional parts centres and TPCE



# PROMOTING ENVIRONMENTAL THINKING



Participants of Toyota Motor Kazakhstan's Green Month Campaign.

## Toyota Green Month Campaign: Promoting environmental awareness

In June 2012, TME launched the 9th Green Month Campaign, an annual company initiative involving around 60 Toyota affiliates in more than 30 countries. The initiative featured activities that promote employee awareness and engagement with environmental issues. The European Commission (EC) included Green Month as a satellite event to their Green Week, which this year focused on water conservation.

Toyota Motor Kazakhstan (TMKZ), our newest National Sales and Marketing Company, participated for the first time achieving an impressive 55 percent engagement across their Toyota dealer network. Activities included a 'Republic Eco-Child Drawing Competition' on water preservation, with 298 participants. Employees received training and materials on how to improve private water use. A competition to save water at home among employees was conducted, with the winner managing to reduce their home water use by 60 percent during the month of the contest.

For the finale of Green Month, a team-building exercise succeeded in restoring 2,000 m² of Dum's territory at the Medeo National Park. Representatives from TMKZ, along with dealers, state authorities, NGOs, journalists and the Japanese Centre participated in garbage collection, cleaning and painting.

# ABOUT THIS REPORT



This is Toyota Motor Europe's seventh Sustainability Report. It covers the environmental, social and economic performance for the financial year 2012 (FY 12) from 1st April 2012 to 31st March 2013. We have been reporting on our environmental performance since 2001, and publishing an annual Sustainability Report since 2007. A dedicated network of people in our company have contributed to this report by providing high-quality, accurate and transparent information. We thank them for their ongoing commitment and support.

## Data collection and measurement

The environmental performance data in this report is gathered from internal reporting procedures. The methodology used is in line with the Greenhouse Gas Protocol of the World Business Council for Sustainable Development and the World Resources Institute. The social performance data is from formal statistics on customer relations, product quality, safety, health and human resources. The economic data comes from the finance group and is fully in line with corporate annual reporting procedures. This year, we have included ISO 26000 as a reference document to provide guidance to our report, while still making continued reference to the Global Reporting Initiative (GRI) for comparability.

The data for our manufacturing plant Toyota Caetano in Portugal (TCAP), is not covered in this report, because it is a joint venture in which Toyota Motor Corporation has a 27 percent share only. The data for Toyota Motor Manufacturing Russia (TMMR) is not included in this report, because it is under the responsibility of TMC and data is consolidated in the TMC Sustainability Report.

We welcome your comments on this report and invite you to share them with us via email at **info@toyota-europe.com**. We continue to work towards our European mission: to delight our customers by providing admired products, combining industry leading quality and innovation with an outstanding ownership experience, whilst respecting the environment and society.

# KEY PERFORMANCE INDICATORS (KPIs)



## Key performance indicators (summary)

| ENVIRONMENTAL PERFORMANCE | FY 08 | FY 09 | FY 10 | FY 11 | FY 12 |
|---|---|---|---|---|---|
| ISO 14001 certified European Manufacturing Companies (EMC) | 7 | 7 | 7 | 7 | 7 |
| ISO 14001 certified National Marketing and Sales Companies (NMSC) | 26 | 28 | 28 | 28 | 28 |
| ISO 14001 certified Parts Distribution Centres (PDC) | 14 | 14 | 14 | 14 | 14 |
| ISO 14001 certified Vehicle Logistics Centres (VLC) | 9 | 9 | 9 | 9 | 9 |
| EMC energy usage (kWh/vehicle produced) | 1,495 | 1,442 | 1,706 | 1,656 | 1,779 |
| EMC Total energy usage (MWh) [1] | 881,854 | 784,735 | 794,707 | 778,782 | 780,029 |
| EMC $CO_2$ (kg/vehicle produced) | 443 | 419 | 501 | 481 | 500 |
| EMC total $CO_2$ emissions (1,000 tonnes) | 261 | 228 | 234 | 226 | 219 |
| EMC water usage ($m^3$/vehicle produced) | 2.11 | 1.90 | 2.07 | 2.06 | 1.94 |
| EMC total water usage (1,000 $m^3$) [1] | 1,242 | 1,035 | 964 | 969 | 849 |
| EMC total discharged water (1,000 $m^3$) [1] | 845 | 689 | 603 | 692 | 516 |
| EMC volatile Organic Compounds ($g/m^2$) | 18.9 | 18.4 | 18.5 | 18.01 | 17.24 |
| EMC total VOC emissions (tonnes) [1] | 1075 | 957 | 843 | 822 | 730 |
| EMC total waste-at-cost (tonnes) [1] | 15,061 | 11,038 | 10,078 | 10,624 | 9,404 |
| EMC waste-to-landfill (kg/vehicle produced) | 0 | 0 | 0 | 0 | 0 |
| Total waste-to-landfill (tonnes) [1] | 0 | 0.45 | 0.10 | 0.02 | 0.08 |
| EMC number of fines | 0 | 0 | 0 | 0 | 0 |
| EMC number of prosecutions | 0 | 0 | 0 | 0 | 0 |
| EMC number of complaints | 1 | 0 | 0 | 0 | 0 |
| $CO_2$ emissions – Production Parts Logistics (1,000 tonnes) | 87 | 72 | 61 | 60 | 53 |
| $CO_2$ emissions – Vehicle Logistics (1,000 tonnes) | 75.6 | 53.2 | 52.8 | 64.6 | 68.9 |
| $CO_2$ emissions – Service Parts Logistics (1,000 tonnes) | 48.4 | 44.2 | 43.8 | 40.3 | 39.4 |
| $CO_2$ emissions – Average Toyota vehicles sold in EU-27 ($gCO_2$/km) | 145 | 132 | 129 | 126.5 [2] | 121.8 |
| Remanufactured parts sales (units) | 63,635 | 58,601 | 59,640 | 76,717 | 61,783 |
| **SOCIAL PERFORMANCE** | **FY 08** | **FY 09** | **FY 10** | **FY 11** | **FY 12** |
| Employment (direct) – Head Office, NMSC, Logistics | 8,496 | 4,587 | 4,175 | 4,052 | 3,912 |
| Employment (direct) – EMC | 18,702 | 15,464 | 14,469 | 13,818 | 13,423 |
| Gender distribution – % of women in Head Office, NMSC, Logistics | 28 | 32 | 29 | 30 | 31 |
| Gender distribution – % of women in EMC | 9 | 11 | 11.5 | 12 | 14 |
| Injury frequency rate – EMC (no. of lost-in-time injuries x 1 million/no. of hours worked) | 3 | 2.2 | 3.3 | 2.4 | 1.9 |
| Injury frequency rate – Head Office, Zeebrugge, Zaventem (no. of lost-in-time injuries x 1 million/no. of hours worked) | 0.3 | 1.1 | 1.1 | 1.6 [3] | 0.46 |
| Injury frequency rate – Regional Parts Centres and Toyota Parts Centre Europe (no. of lost-in-time injuries x 1 million/no. of hours worked) | 28.6 [4] | 27.3 | 24.9 | 16.6 | 16.4 |
| Suppliers – purchased European content of core models (%) | >90 | >90 | >90 | >90 | >90 |
| Social contributions – total amount (million €) | 7.8 | 4.2 | 4.99 | 4.7 | 3.3 |
| Social contributions – % of total spent on social contributions linked to education, safety, environment | 66 | 69 | 73 | 60 | 62 |
| **ECONOMIC PERFORMANCE** | **FY 08** | **FY 09** | **FY 10** | **FY 11** | **FY 12** |
| Net revenue (million €) | 20,925 | 16,390 | 17,535 | 18,293 | 19,468 |
| Operating income (million €) | (995) | (252) | 116 | 163 | 246 |
| Vehicles produced in Europe | 589,794 | 544,050 | 465,868 | 470,348 | 438,540 |
| Engines and transmissions produced (calendar year) | 1,210,913 | 1,108,694 | 1,072,643 | 1,074,661 | 924,954 |
| Total sales Toyota and Lexus vehicles (calendar year) | 1,112,021 | 882,351 | 808,311 | 822,386 | 837,969 |
| Hybrid sales (calendar year) | 57,819 | 55,456 | 70,520 | 84,839 | 109,478 |
| Market share (%) | 5.3 | 4.9 | 4.4 | 4.2 | 4.6 |
| Annual investments (million €) | 777 | 229 | 283 | 239 | 432 |

1 Number of plants covered by result – 7
2 For TPCA joint venture – Toyota includes one third reporting of total production volume and emissions.
3 This number is different from the one provided in our last report. It has been updated after a late notification.
4 This includes direct emissions from fuels and indirect emissions from purchased electricity.

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