



Akira Onishi President

Top Message

Remain Loyal to the Founding Spirit and Take Up Challenges More Than Ever in This Age of Change

In this section, I would like to talk about how Toyota Industries, which commemorated its 90th anniversary in 2016, intends to achieve sustained growth by responding to changes in social structure and customer needs while remaining loyal to our founding spirit and set of values.





1 Learning from Our Own History

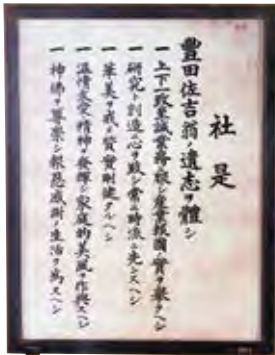
Looking back on our history, I feel fortunate that Sakichi Toyoda was our founder, both in business and spiritual aspects.

Let us first look at the business aspect. We were founded in 1926 to manufacture and sell the Type G automatic loom, which was invented and completed by Sakichi Toyoda, and celebrated 90 years in business in 2016. In 1933, then Managing Director Kiichiro Toyoda, who was Sakichi's eldest son, decided to enter into the automobile business based on his conviction and future vision and established the Automobile Department within the Company. This department was later spun off and evolved into Toyota Motor Corporation (TMC) and the Toyota Group. Some of our stakeholders may well know about this story, as TMC and its founder Kiichiro were featured in TV drama series in Japan. Not contenting himself with the success of the textile machinery business, he decided to advance into the automobile industry, which was still in its early stage of development, and turned the seed into a concrete business. I think this successful attempt to extend the reach from the core industry in one era to another core industry in the succeeding era may well be called a miracle. The success provided great encouragement to Toyota Industries to embark on full-fledged business diversification in the postwar period.

Next, let us talk about the spiritual aspect. The spirit of Sakichi Toyoda has been captured in the five articles of the Toyoda Precepts, which serve as Toyota Industries' corporate creed. The Toyoda Precepts, which were announced in October 1935 on the fifth anniversary of his passing, have not become dated, maintaining their universality. With many companies struggling to confirm their raison d'être, we are extremely grateful to have this distinct set of values to which we can always go back and find inspiration.



"Open the window. It's a big world out there!"
(Words by Sakichi Toyoda)



Toyoda Precepts that reflect the spirit of founder Sakichi Toyoda, serving as our corporate creed and becoming the basis of our Basic Philosophy

Now, I would like to look back on our history from the perspective of business diversification. We started diversifying our business on a full scale in the postwar period in 1953, when demand for spinning and weaving machinery dropped sharply on the rebound to special procurements during the Korean War. We had focused almost solely on textile machinery up until then but began to seek business diversification in an effort to stabilize our business foundation and make a leap forward in the future. In the process, we launched production of engines, vehicle assembly and development and production of lift trucks and car air-conditioning compressors, all of which have become our mainstay businesses now.

For us, business diversification was a necessity because relying only on textile machinery provided a limited opportunity for growth. However, business diversification is never easy, often accompanied by many "lights" (fruits of success) and "shadows" (risks of failures). We were no exception and experienced several setbacks.

In 1954, with the aim of finding a new market, we made a major investment and established a company in Mexico to produce textile machinery. This was our first full-scale advancement into a market outside Japan, but the business environment turned difficult and forced us to withdraw from the country in 1959. We also initiated production and sales of tillers, farm tractors and other agricultural machinery in 1956. Again, products' unstable performance and cash-flow problems of sales dealers compelled us to totally withdraw from the field in 1969. More recently, we have withdrawn from consumer electronics-related businesses, such as liquid crystal displays (LCD), electronic substrates and organic electroluminescence (EL) products, and sold our stakes in several subsidiaries since 2000.

These withdrawals were as a result of painful decisions based on many factors, such

as changes in the business environment. Each had a certain impact but fortunately did not cause a devastating blow to our management. This was because Toyota Industries, then led by our predecessors, had implemented thorough risk management to prepare for worst-case scenarios. Also, I believe that our efforts have not been in vain because we have learned many lessons from the process leading to the failures. In particular, we learned a great lesson in that we accumulated important insight and know-how when engaging in risks involving business diversification and the startup of new businesses.

2 Business Management Based on Our Uniqueness

Here, I'd like to highlight some of the various characteristics of Toyota Industries. Each has been formed through our more than 90 years of history and represents our uniqueness.

1) The Origin of the Toyota Group

As mentioned earlier, Toyota Industries was founded to manufacture and sell the Type G automatic loom invented by founder Sakichi Toyoda and is considered the origin of the Toyota Group. That we are able to collaborate with Toyota Group companies and encourage positive competition in quality, cost and other areas provides us with a tremendous advantage.

Also, we hold a significant number of stocks in TMC and other Toyota Group companies. Such a capital connection is one means to ensure even closer collaboration among Group companies, which is essential in prevailing over ever-intensifying competition in the automobile industry. Financial stability facilitates investments for future growth.



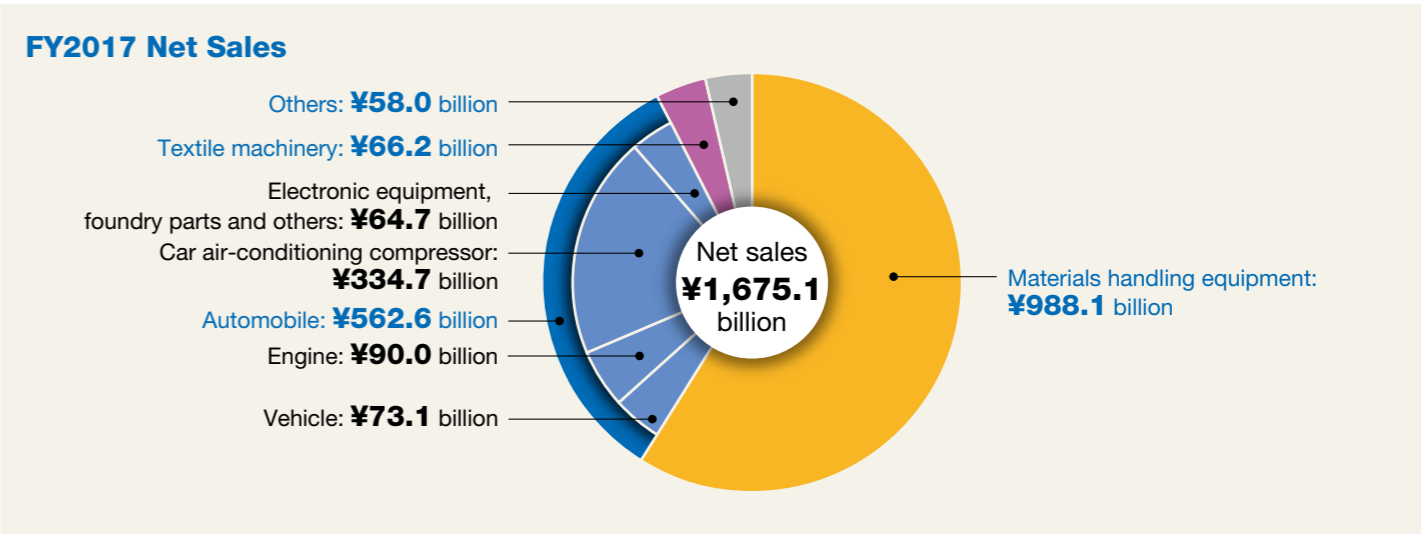
Employees assigned to Toyoda de Mexico S.A.



Type G automatic loom

2) Balanced Business Portfolio

A large portion of our business portfolio is accounted for by non-automobile businesses, mainly materials handling equipment, reflecting one of our characteristics of not exclusively relying on automobile-related businesses. This diversified business portfolio has translated into the dispersion of management risks and a more stable business performance, as underperforming results in one business segment can be covered



by favorable results of the remaining segments. Indeed, in our more than 90 years of history, we recorded an operating loss only once in fiscal 2009, in which results were negatively affected by the collapse of Lehman Brothers and the subsequent global financial crisis. This is proof of our strengths derived from engaging in diverse businesses.

3) The Name Did Not Speak for Itself

Our original company name was TOYODA AUTOMATIC LOOM WORKS, LTD. However, as we moved forward with business diversification, the ratio of textile machinery in total sales dropped to around 4%, causing a mismatch between the company name and its business portfolio. To reflect the actual portfolio and with a view to globalizing business, the company name was changed to TOYOTA INDUSTRIES CORPORATION in 2001. Our company name in Japanese still retains the “automatic loom” part in respect for our original business and founding spirit.

4) Aggressive M&A

Since acquiring BT Industries AB, the world’s leading manufacturer of warehouse trucks based in Sweden, in 2000, we have been proactively conducting M&A. We are one of the few companies in the Toyota Group to seize such opportunities, and expanding or reinforcing business by creating synergies through M&A is another of our unique characteristics. We do not, however, place priority on M&A. Our basic stance is to develop business on our own and leverage M&A to accelerate business transformation and complement areas in which we are lacking or weaknesses.

5) Holding the World’s No. 1* Share for Three Products

We boast the world’s No. 1 share for lift trucks, car air-conditioning compressors and air-jet looms. Holding the top share for these unrelated products is perhaps another proof of our strengths originating from engaging in diverse businesses.

* Survey by Toyota Industries Corporation

3 Overview of the Characteristics and Potential of Each Business

Here, I would like to provide an overview of our businesses along with the potential of each.

1) Materials Handling Equipment

We position materials handling equipment as one of our mainstay businesses and have implemented a range of initiatives to promote growth. For example, we made BT Industries into our subsidiary in 2000 and unified manufacturing and marketing operations by taking over TMC’s Industrial Equipment Sales Division in 2001, thereby establishing a structure to undertake comprehensive operations from development and production to sales and after-sales services. As a response to the global financial crisis that started in 2008, we worked to reinforce our management platform further in order to compensate for a drop in sales of lift trucks during the financial crisis and promoted sales expansion initiatives in the post-crisis market recovery period.

Since 2013, we have conducted M&A in rapid succession and expanded our value chain. These include U.S.-based Cascade Corporation, the world’s leading manufacturer of lift truck attachments; Tailift Co., Ltd., a Taiwan-based lift truck manufacturer with a strong presence in emerging countries; and the materials handling

equipment division of TMC’s U.S.-based sales financing subsidiary. As a result, we have steadily increased our global market share and expanded revenues. In the future, we will seek synergies with these companies for an even greater outcome.

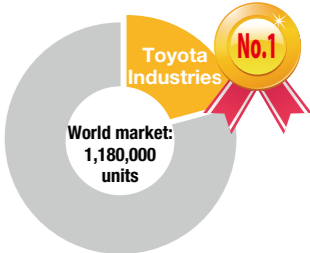
We see modest but sustained growth of the lift truck market mainly in emerging countries. In recent years, needs for automated and more efficient logistics have been growing in line with increasing e-commerce transactions, and we expect that a decline in the labor force in Japan and other countries will accelerate this trend. Under these circumstances, we have decided to further strengthen the Logistics Solutions Business that provides packaged system solutions to customers’ logistics-related issues as a new priority area. In April and May 2017, we acquired a 100% stake in two logistics systems companies, U.S.-based Bastian Solutions LLC and Netherlands-based Vanderlande Industries Holding B.V., by investing approximately ¥29.0 billion and ¥144.0 billion, respectively. While the aim of the acquisition of BT Industries was to complement our product lineup, the acquisition of the two companies was to extend the business domain to peripheral areas and facilitate a qualitative change of the Materials Handling Equipment Business.

In the Materials Handling Equipment Business, we engage in the full spectrum of operations from development and production to sales and after-sales services. This gives us a great deal of strategic leeway and allows us to conduct business with a sense of speed. We intend to accelerate business growth on a global scale by drawing on our strengths in the field of lift trucks, for which we hold the top market share, and by responding to all logistics needs of customers.

2) Automobile

We engage in automobile-related businesses while utilizing our strengths we gained

Market Share of Lift Trucks



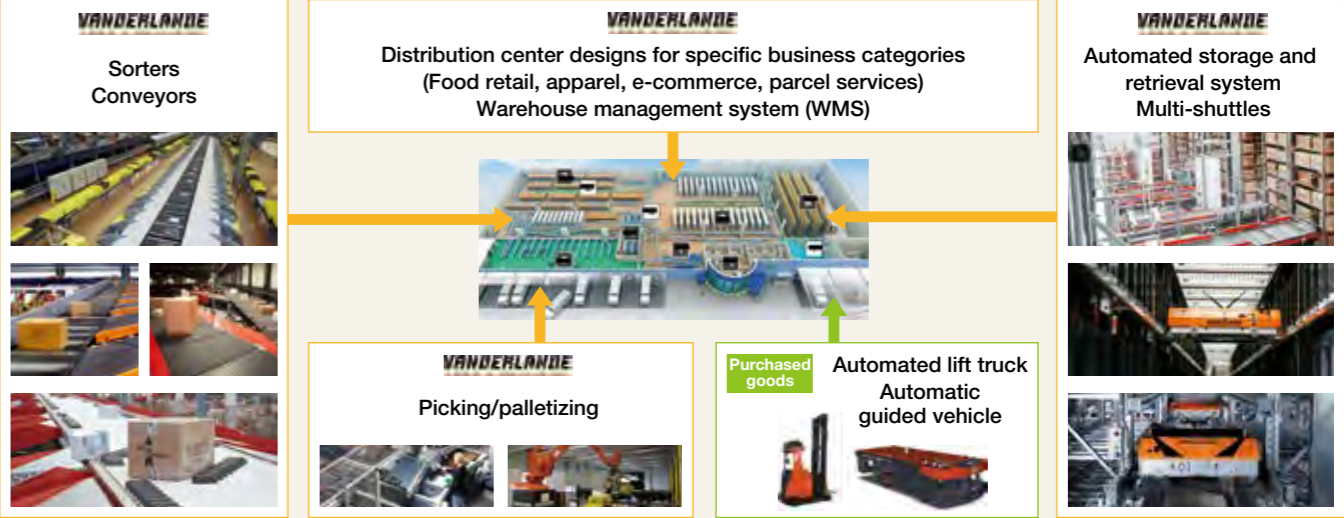
The size of the world market and market share are surveys by Toyota Industries Corporation (2016).



BT Brand Products



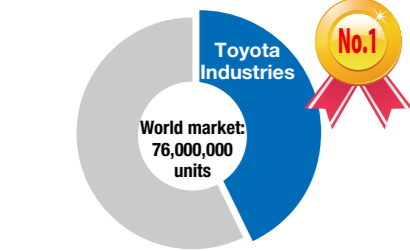
Overview of Vanderlande’s Business for Warehouses and Parcel/Postal Services



Provide a total system for distribution centers, from receiving of deliveries to shipment
Propose solutions targeting industry’s leading companies

Top Message

Market Share of Car Air-Conditioning Compressors



The size of the world market and market share are surveys by Toyota Industries Corporation (2016).



On-site inspection at an engine production base in India (TIEI)



Local design operations at a car air-conditioning compressor production base in Germany (TDDK)

through our involvement in every aspect of an automobile, from vehicle assembly to such key components as engines, car air-conditioning compressors and car electronics products.

In the field of vehicle assembly, we have sought ways to achieve higher productivity and profitability in the smallest plant space as compared with other automobile body manufacturers in the Toyota Group and have accordingly implemented thoroughgoing *kaizen* (improvement) activities. Through these endeavors, we have achieved a lean production structure and higher quality. Our quality, in particular, is highly regarded by TMC, and we received a Special Award from TMC in 2016 as a token to celebrate our winning the Superior Award for Quality Performance for five consecutive years. By applying these strengths in other business fields, we have augmented our overall manufacturing capabilities. The Vehicle Business is also at the core of our manufacturing operations in that it assumes the role of disseminating the Toyota Production System to other business divisions.

In the Engine Business, we expect continued demand for diesel-engine automobiles for use as commercial vehicles and sports utility vehicles (SUV) mainly in emerging countries, where an expansion of the automobile market is anticipated. We will work to ensure the smooth transition and consolidation of diesel engine development and production functions from TMC into our operations and strive to cultivate expertise and set up an efficient business structure. We also plan to increase our competitive edge and subsequently expand sales of turbochargers mounted in diesel engines. As for gasoline engines, we will hone our already superior level of quality and flexible production structures to expand our product lineup.

In the Car Air-Conditioning Compressor Business, another mainstay business besides the Materials Handling Equipment Business, we hold a more than 40% share in the world market. With increasingly stringent automobile fuel efficiency regulations being enforced worldwide, we have always been leading the industry in the development of products with excellent fuel efficiency and environmental performance. At the same time, we have been meeting a broad range of customer needs with our extensive lineup of products for both internal-combustion vehicles and electric-powered vehicles. In terms of manufacturing, we are differentiating ourselves from the competition with superior production engineering capabilities that enable us to manufacture high-quality products as well as the ability to produce and supply products stably on a global basis. Moreover, we have expanded production outside Japan and reinforced our business in each region, staying close to our customers. As an example, we have increased the ratio of locally procured parts through such measures as producing key components in the United States. We will continue to take on the challenge of achieving a 50% world market share on the back of growing global automobile sales and an increase in the number of vehicles equipped with air conditioners due to global warming, and at the same time, by leveraging our strengths to expand sales.

With accelerated vehicle electrification, we expect an expansion in sales of hybrid vehicles (HV), plug-in hybrid vehicles (PHV), electric vehicles (EV) and fuel cell vehicles (FCV) in accordance with regional characteristics and user needs.

Amid this environment, the Car Electronics Business serves to capture the general and market trends in the field of automobile electrification through the provision of products to TMC and other automakers around the world. Going ahead, we will step up our efforts in our specialty fields in the respective business domains of drive systems, auxiliary power source devices and charging infrastructures. In addition, we aim to develop proprietary electrification technologies not only for products of other companies but also for our own lift trucks, car air-conditioning compressors and textile machinery.

This strategy will in turn serve to provide even greater competitiveness to these top share products.

3) Textile Machinery

In the Textile Machinery Business, we expect continued expansion of demand for yarns and fabrics for clothing and other daily essentials on the back of such factors as an increase in the world population and further economic growth mainly in emerging countries. The use for industrial purposes, such as circuit boards in IT products, is also expected to increase.

In the textile machinery industry, many players, including leading European manufacturers, are fiercely competing for survival. Our comprehensive corporate strengths are superior to these competitors, and we believe we are well positioned to benefit as a survivor of the competition. Additionally, Uster Technologies AG, a Swiss-based yarn quality measurement instrument manufacturer we acquired in 2012, excels at formulating effective brand strategies and is expected to contribute to an improvement of our profitability over the medium to long term.

As indicated above, we have been undertaking business by drawing on the strengths of each business and responding to changes in the market environment. Since 2000, we have also promoted our strategy of “concentration and selection.” More specifically, we have withdrawn from LCD and other consumer electronics-related businesses and sold our stakes in logistics-related subsidiaries while proactively promoting business partnerships and M&A to add greater strengths to our mainstay businesses. As a result of channeling management resources in a well-focused manner, we have been able to build a unique and distinct business portfolio.

4 Human Resources—Always the Most Important Management Resource

The first article of the Toyoda Precepts that encapsulate the spirit of founder Sakichi Toyoda starts with the phrase “Always be faithful to your duties.” The article signifies the importance of encouraging joint efforts and faithful execution of duties among all members of Toyota Industries regardless of their rank. The second article refers to “studious and creative,” which represents Sakichi’s personal conviction. I find it an important message that the precepts put the value of employees’ joint efforts first and foremost. There may be different interpretations for this, but I personally think it implies the importance of nurturing people and encouraging cooperation, because it is people who make a difference, inventing new things and realizing innovation.

We often say human resources are the most important asset of a company. People ultimately create value in every company operation, be it development, manufacturing or sales. Only when a company strives to nurture employees and ensure their own as well as their families’ happiness, can they exert their full potential, find their work rewarding and vitalize the company.

We also recognize that utilization of diverse human resources is another important issue. Toyota Industries is based in a rural area called Mikawa in Aichi Prefecture, and our corporate culture has inherently valued uniformity, unfaltering integrity and humility. However, our business and human resources became suddenly and increasingly diversified as we proceeded with rapid globalization of operations through such efforts as business diversification and M&A. Of the Toyota Industries Group’s total workforce of more than 50,000 employees, slightly over 30,000 are now non-Japanese. Rapid



Kariya Plant, a mother plant of car air-conditioning compressors



Global Learning Center (Nishio, Aichi Prefecture)



In-house skills contests



R&D meeting of the
Materials Handling Equipment Business

globalization of operations poses a risk of causing insufficiencies in human resources development, but looking at the situation from a different angle reveals an opportunity to nurture globally capable human resources in an optimum environment. The environment allows many employees to interact with people of different backgrounds and value perceptions and to have a satisfying experience of extending their potential. With subsidiaries outside Japan, we intend to facilitate people-to-people interaction on a steady basis through personnel exchanges and joint projects in order to cultivate human resources who possess diverse values and play active roles in a global environment. In fact, after the acquisition of BT Industries, many of those involved have accepted cultural differences, and through patient, repeated communications, have generated a significant outcome both in terms of business and human resources development. These steady efforts during this time have become an important asset of Toyota Industries.

5 The Environment

In his book, *Sapiens: A Brief History of Humankind*, Israeli historian Yuval Noah Harari states: “We are more powerful than ever before, but have very little idea what to do with all that power.” About 70,000 years ago, we gained an ability to imagine, talk about and believe in things that do not physically exist (the Cognitive Revolution). From the Stone Age, when we began to spread from East Africa throughout the world, up until the present age, we have changed the ecosystem in a way that is beneficial to us, and in the process, have driven many living things to extinction. According to Harari: “We are consequently wreaking havoc on our fellow animals and on the surrounding ecosystem, seeking little more than our own comfort and amusement, yet never finding satisfaction. Is there anything more dangerous than dissatisfied and irresponsible gods who don’t know what they want?” In the urgent task of curbing global warming, the international community has failed to make concerted efforts. It is depressing to think of this as another example of the selfish actions of humankind. On the other hand, Harari admires

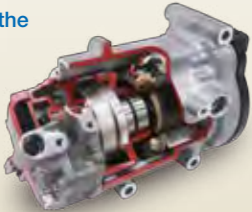
the power of humans to believe tomorrow will be better than today. We should start by doing whatever we can now and make constant and unwavering efforts.

In 2015, the Toyota Industries Group announced the Sixth Environmental Action Plan, a five-year plan covering the period from fiscal 2017 to fiscal 2021, in accordance with the Global Environmental Commitment that articulates our basic approach to environmental initiatives. Under the plan, we take on the challenge of establishing a zero CO₂ emissions society in 2050 and seek to create an enriched lifestyle in harmony with the natural environment. The plan’s keywords are “eliminating CO₂ emissions,” “recycling resources” and “protecting nature.”

As a corporate citizen, the Toyota Industries Group will proactively promote development of energy-saving, electrification and other technologies mainly in the fields of materials handling equipment and automobiles while developing and providing eco-friendly products. In this way, we will contribute to the realization of a zero CO₂ emissions society.

Product Development Supporting Electrification

(Products Mounted in the New Prius PHV)



ESBG27 electric compressor



New Prius PHV



DC-DC converter



On-board charger

6 Our Future Direction

As described earlier, we have a balanced business portfolio, not relying on one business but encompassing the Materials Handling Equipment Business (including the Logistics Solutions Business) and automobile-related and other businesses.

The Materials Handling Equipment Business is obviously a growth field. Also as part of this business, we need to respond flexibly to various forms of logistics. Reinforcement of the Logistics Solutions Business, in particular, represents our most significant “offensive” effort, and we regard this segment as a driver of our future growth. For the time being, our highest priority is to create a common vision with Bastian Solutions and Vanderlande, which we have acquired by making substantial investments, and to maximize synergies through collaboration between the two companies and our existing businesses of materials handling equipment and logistics systems in Europe, North America and Japan. We will regard it as a Company-wide effort and rotate the plan-do-check-act (PDCA) cycle toward achieving these goals. Early development of a relationship of trust and a structure of cooperation is important, and based on the resulting framework, we aim to produce steady and concrete outcomes.

Just as important is to implement “defensive” action (i.e., risk management) when conducting successful M&A. Building on our past experience, we will increase our sensitivity to impairment risk and take steady steps to ensure governance in the companies we have acquired by taking measures such as setting up an appropriate reporting system.

The automobile industry is also a growth industry, if we look at it from a global perspective, including emerging countries. Amid the severe global competition of many companies, we will forge ahead with R&D in such areas as the environment, safety, fuel efficiency and electrification while maintaining and improving our existing, stable business foundation. With several seeds of growth, we will go on the offensive by intensively focusing management resources, including the know-how we have accumulated at the company level, into this area.

These represent the direction we will pursue for the next few years. Each is a challenging task, and we will likely encounter difficulties in undertaking these tasks. Fortunately, our existing businesses are showing relatively stable business performance at the moment. By further increasing profitability of each business through such means as cost reductions, we are preparing for anticipated difficulties. Our stable financial foundation, which is another unique characteristic of Toyota Industries, and other factors will surely support overcoming the difficult challenges.

We will define our future course of action and implement a balanced mix of offensive and defensive initiatives in accordance with changes in the business environment. All members of Toyota Industries will make joint efforts toward steadily implementing these initiatives regardless of their rank.

