TOYOTA MOTOR CORPORATION

Annual Report 2007

Year ended March 31, 2007

Building a **Platform** for **Growth**

Established in1937, Toyota Motor Corporation—which celebrates its 70th anniversary this year—has developed into one of the world's best known automobile manufacturers. The Toyota Group sold over 8.5 million vehicles under the Toyota, Lexus, Daihatsu, and Hino brands in more than 170 countries and regions in fiscal 2007. Further, the Company's production is firmly rooted in local communities, with 52 companies manufacturing vehicles and parts in 26 countries and regions. Toyota had approximately 300,000 employees on a consolidated basis at the end of fiscal 2007.

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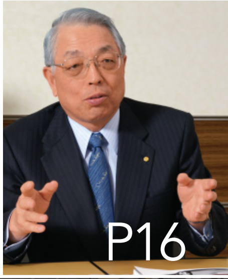
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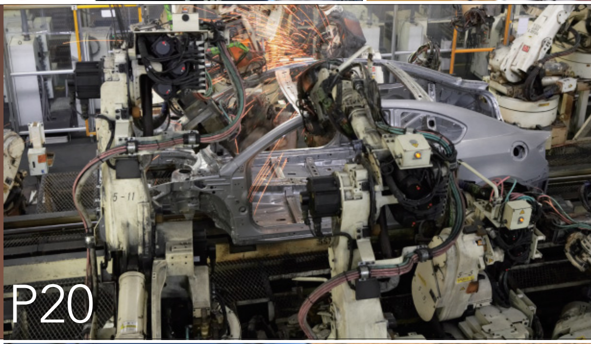
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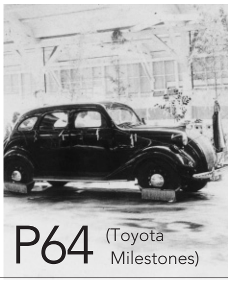
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Building a **Platform** for **Growth**

The platform of a car largely determines basic performance and driving feel. Without solid bases, vehicles lack stability and comfort. Companies are the same. They need strong platforms to perform well and keep growing.

In Toyota's management platform, technological, supply, and sales capabilities drive growth, supported by quality, cost, and human resources. At Toyota, we are building a rock-solid management platform that will launch us toward new levels of achievement.

In this year's annual report, Toyota's chairman discusses how, since its founding, Toyota has upheld its unique manufacturing mind-set and focused on fostering human resources. Also, in an interview, the president explains measures for consolidating foundations and Toyota's forward-looking management strategies. In a special feature section, we hear from one of Toyota's executive vice presidents and other personnel about Toyota's focus on strengthening the international competitiveness of production and a range of initiatives to consolidate foundations and realize future growth. We hope this report furthers readers' understanding of Toyota.

Financial Highlights

Toyota Motor Corporation
Fiscal years ended March 31

Consolidated Performance (U.S. GAAP)

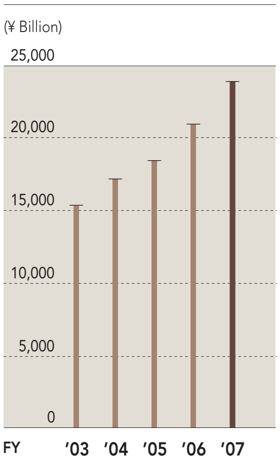
	Yen in millions			U.S. dollars* in millions	% change
	2005	2006	2007	2007	2006 vs 2007
For the Year:					
Net Revenues	¥18,551,526	¥21,036,909	**¥23,948,091**	**$202,864**	+13.8
Operating Income	1,672,187	1,878,342	**2,238,683**	**18,964**	+19.2
Net Income	1,171,260	1,372,180	**1,644,032**	**13,927**	+19.8
ROE	13.6%	14.0%	**14.7%**	—	—
At Year-End:					
Total Assets	¥24,335,011	¥28,731,595	**¥32,574,779**	**$275,941**	+13.4
Shareholders' Equity	9,044,950	10,560,449	**11,836,092**	**100,263**	+12.1

	Yen			U.S. dollars*	% change
	2005	2006	2007	2007	2006 vs 2007
Per Share Data:					
Net Income	¥ 355.35	¥ 421.76	**¥ 512.09**	**$ 4.34**	+21.4
Annual Cash Dividends	65.00	90.00	**120.00**	**1.02**	+33.3
Shareholders' Equity	2,767.67	3,257.63	**3,701.17**	**31.35**	+13.6
Stock Information (March 31)**:**					
Stock Price	¥3,990	¥6,430	**¥7,550**	**$63.96**	+17.4
Market Capitalization (Yen in millions, U.S. dollars in millions)	¥14,403,890	¥23,212,284	**¥27,255,481**	**$230,881**	+17.4

* U.S. dollar amounts have been translated at the rate of ¥118.05=US$1, the approximate current exchange rate at March 30, 2007.

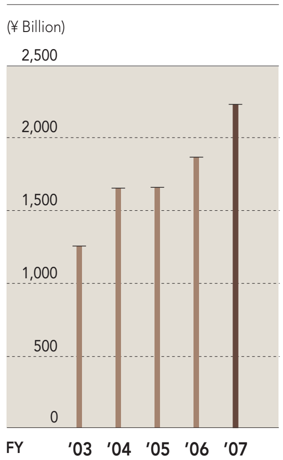
Net Revenues

+13.8%
¥23.95 trillion
A new record



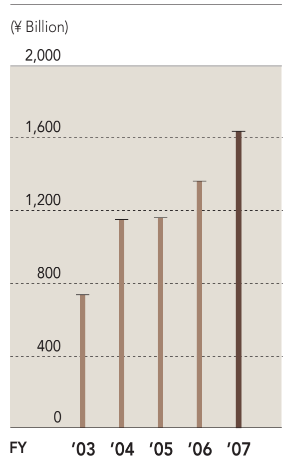
Operating Income

+19.2%
¥2.24 trillion
A new record



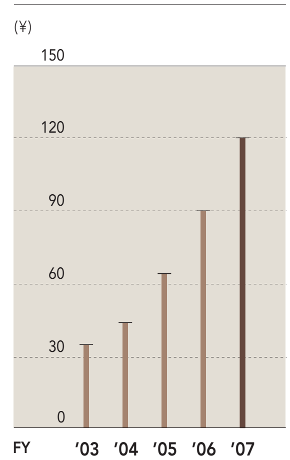
Net Income

+19.8%
¥1.64 trillion
A new record



Cash Dividends per Share

+¥30.00
Annual Cash Dividends per Share ¥120.00
8 consecutive years of increased dividends



Note: Fiscal years ended March 31

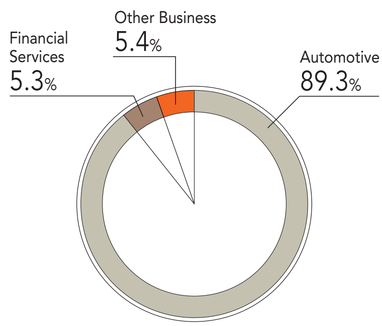
At a Glance

Toyota Motor Corporation
Fiscal years ended March 31

Consolidated Segment Information

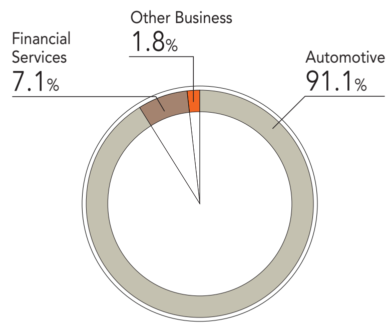
Business Segment

Net Revenues



FY 2007

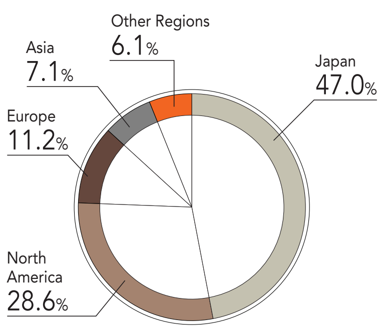
Operating Income



FY 2007

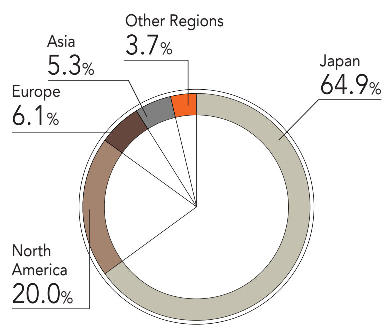
Geographic Segment

Net Revenues



FY 2007

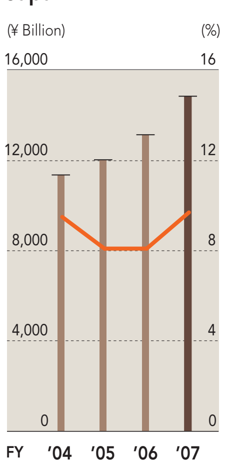
Operating Income



FY 2007

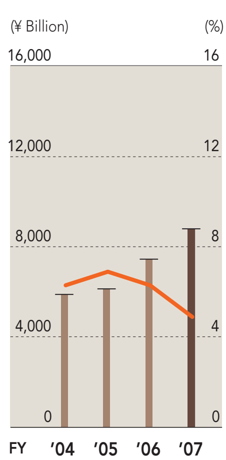
Net Revenues

Japan



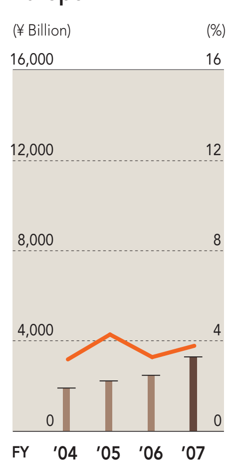
Operating income margin (Right scale)

North America



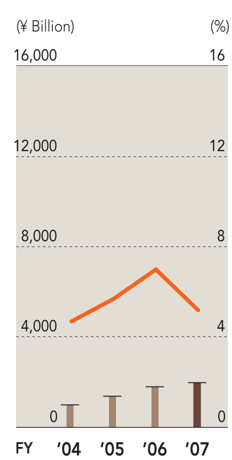
Operating income margin (Right scale)

Europe



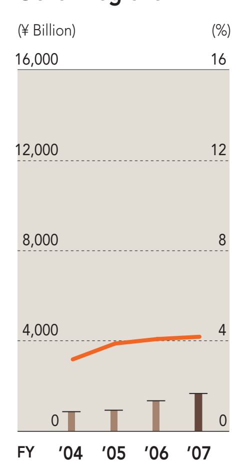
Operating income margin (Right scale)

Asia



Operating income margin (Right scale)

Other Regions



Operating income margin (Right scale)

Note: Fiscal years ended March 31

Consolidated Vehicle Production and Sales

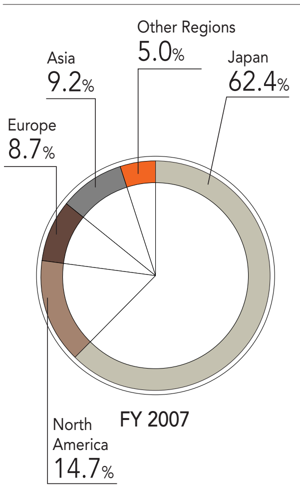
	Thousands of units			% change
	2005	2006	**2007**	2006 vs 2007
Vehicle Production by Region:				
Japan	4,534	4,684	**5,100**	+8.9
Overseas Total	2,697	3,027	**3,080**	+1.8
North America	1,156	1,201	**1,205**	+0.3
Europe	596	623	**709**	+13.9
Asia	647	836	**755**	–9.7
Other Regions	298	367	**411**	+12.0
Consolidated Total	7,231	7,711	**8,180**	+6.1
Vehicle Sales by Region:				
Japan	2,381	2,364	**2,273**	–3.9
Overseas Total	5,027	5,610	**6,251**	+11.4
North America	2,271	2,556	**2,942**	+15.1
Europe	979	1,023	**1,224**	+19.6
Asia	833	880	**789**	–10.3
Other Regions	944	1,151	**1,296**	+12.6
Central and South America	185	233	**284**	+21.8
Oceania	239	251	**268**	+6.7
Others	520	667	**744**	+11.6
Consolidated Total	7,408	7,974	**8,524**	+6.9
Vehicle Production by Brand:				
Toyota / Lexus	6,393	6,848	**7,225**	+5.5
Daihatsu	745	763	**855**	+12.1
Hino	93	100	**100**	0.0
Consolidated Total	7,231	7,711	**8,180**	+6.1
Toyota Group Total*	7,719	8,460	**9,080**	+7.3

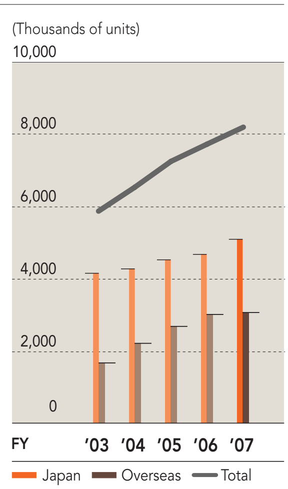
* Includes 488 thousand units in fiscal 2005, 749 thousand units in fiscal 2006, and 900 thousand units in fiscal 2007 produced by unconsolidated companies—principally in the United States (at New United Motor Manufacturing, Inc., a Toyota-General Motors joint venture company), China, the Philippines, and Malaysia—that do not appear in the consolidated totals.

Vehicle Production

+6.1% 8.18 million units

A new record

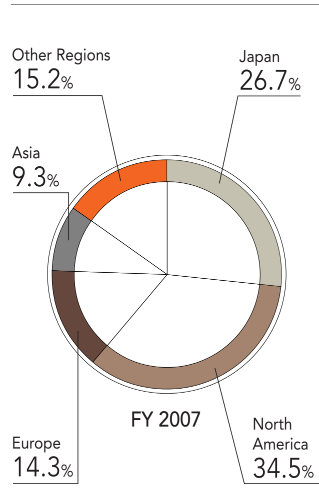


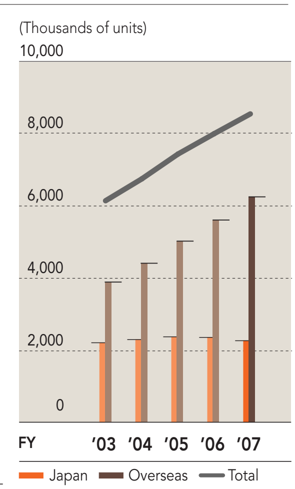


Vehicle Sales

+6.9% 8.52 million units

A new record





Note: Fiscal years ended March 31

Chairman's Message

Tokyo Head Office

"By focusing on its core manufacturing principles, Toyota is committed to building cars that customers love the world over."

In fiscal 2007, ended March 31, 2007, Toyota again posted solid business results. On behalf of Toyota's management team, I would like to sincerely thank our shareholders, customers, suppliers, and local communities for their constant support and understanding, which continue to underpin Toyota's growth.

This year, Toyota celebrates its 70th anniversary. Looking back, our development and growth is a result of sticking to manufacturing basics while focusing on making cars that meet customer needs. "Making things" is not simply making products by using machines and materials. It also embraces the know-how and skills our predecessors garnered through repeated trial and error as well as a sense of accomplishment and pride. We believe that "making things" is about developing people. So we have taken a long-term approach that aims to cultivate employees. As Toyota continues to grow, I believe that one of my major responsibilities is to pass on this approach to manufacturing to the next generation.

The first sentence of *The Toyoda Precepts*, which asserts Sakichi Toyoda's philosophy, states, "Be contributive to the development and welfare of the country by working together, regardless of position, in faithfully fulfilling your duties." This philosophy is the foundation for Toyota's success and management mind-set to this day. As we look to *The Toyoda Precepts* as our guiding principles, we want to continue to develop the Company while contributing to the development of the automotive industry and international society. We will also step up our efforts to tackle environmental issues. My pledge to you is that we will maintain our focus on earning the trust and respect of people around the world.

July 2007

Fujio Cho

Fujio Cho, Chairman

President's Message

Lexus showroom in Midland Square, Nagoya, Aichi Prefecture

"I am committed to steadily improving Toyota's corporate value by continuing to pursue farsighted innovations and building a solid management platform."

Building a **Platform** for **Growth**

In fiscal 2007, ended March 31, 2007, Toyota posted new records for net revenues and all income categories for the second year in a row. At the same time, we increased dividends paid to our shareholders for the eighth consecutive year. I am particularly pleased that we were able to increase revenues and earnings despite tougher-than-usual business conditions in the automotive industry.

I am confident that the global automotive industry has growth potential. Centered on emerging markets, automotive markets worldwide are likely to continue to expand in the medium-to-long term. However, competition is intensifying. We have entered an era in which companies that do not have the flexibility to respond precisely to a multitude of changes will not survive. By maintaining a sense of crisis in that respect, I will adopt a management approach that balances aggressiveness and prudence.

In the two years since I became Toyota's president, I have reasserted the importance of building a solid foundation for sustainable growth. Given that the source of our growth is innovation, we will invest efficiently in research and development to continue building vehicles that meet customer needs. In securing our foundation, we intend to steadily tackle three key areas: quality, cost competitiveness, and personnel training.

Toyota's tradition and strength stem from carrying out these clear steps in an honest, steadfast, and uncompromising manner. Avoiding complacency over recent successes, I am committed to steadily improving Toyota's corporate value by continuing to pursue farsighted innovations and building a solid management platform. As we pursue that goal, I ask our shareholders for their continued support.

July 2007

K. Watanabe

Katsuaki Watanabe, President

An Interview with the President

Katsuaki Watanabe, President

Market Overview

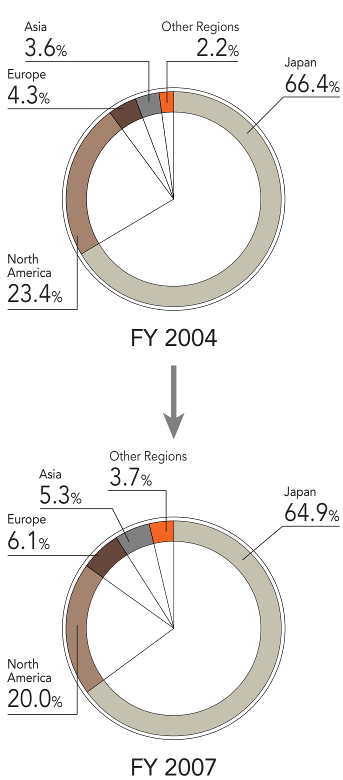
Q Looking back over the past year, what were the main industry and market trends?

A Competition is becoming more intense, especially in the areas of environmental technologies and cost competitiveness.

Worldwide, the deep-seated demand for automobiles remained unchanged. However, differences among regional automotive markets emerged throughout the year. Markets in the United States and Europe remained solid, and the Chinese market continued to see strong growth. On the other hand, Asian markets slumped, especially in Indonesia and Taiwan. And, Japan's market shrunk year on year, mainly in the registered vehicle category.

Meanwhile, demand is shifting toward fuel-efficient vehicles and compact vehicles due to global oil price hikes and increasing concern over environmental issues. That trend will likely continue as gasoline prices remain high and countries strengthen environmental regulations. Due in part to those factors, I expect that competition in the global automotive industry will become even more fierce, especially in the areas of environmental technologies and cost competitiveness.

Operating Income by Region



Note: Fiscal years ended March 31

Performance Evaluation

Q Given those market trends, what is your evaluation of Toyota's business results?

A Despite tough business conditions, we increased revenues and earnings.

I think we deserve credit for achieving our best-ever performance while investing for the future. We were able to grow earnings in fiscal 2007 due to increased global vehicle sales and cost reduction efforts. This growth came despite more challenging business conditions, such as material price hikes and tougher sales competition as well as higher fixed costs, such as capital investment and research and development expenses. In addition, I think we have established a balanced earnings structure in each region.

Management Issues

Q What issues does Toyota need to overcome in order to achieve sustainable growth?

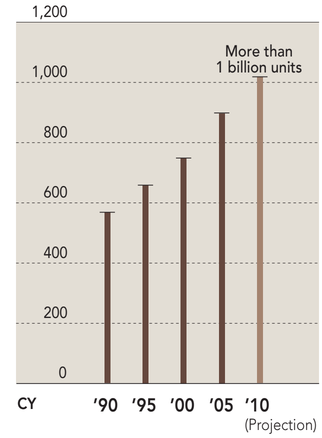
A For sustainable growth, we need to turn issues and risks into opportunities.

In the past 20 years, car ownership around the world has increased by 100 million vehicles every five years. By 2010, ownership is projected to exceed one billion vehicles. Led by Brazil, Russia, India, and China, emerging markets have fueled that growth. In regions that already have widespread motorization, such as Europe and North America, we expect demand for cars that offer new technologies and concepts to continue to grow steadily.

However, there is a long list of issues that we must address in order to benefit from those growing markets—environmental and safety measures, responses to energy diversification, the maintenance of uniform quality worldwide, the development of low-cost technologies, cost reductions to offset hikes in material costs, among others. But, if we change our way of thinking, overcoming such issues and risks will lead to major business opportunities. With that in mind, I want to clear these obstacles one at a time and advance Toyota's growth.

Worldwide Automobile Ownership

(Millions of units)



Notes 1: Toyota estimates
2: Different from fiscal year figures

Management Philosophy and Targets

Q Would you explain your basic management approach and Toyota's management targets?

A With an operating income margin target of 10% in the medium-to-long term, we will improve quality across many different facets of our operations.

Since my appointment as president, I have consistently impressed upon everyone at Toyota that without quality improvement there cannot be growth. I believe that rather than vehicle sales and other volume-related results we should take pride in quality—or the extent to which the vehicles we build meet the needs of our customers. Therefore, I would like to improve many different aspects of Toyota's operations to become number one globally in terms of products, manufacturing speed, manufacturing cost, and sales services. Through those efforts, I want to build a rock-solid foundation for further dramatic improvements.

I firmly believe that by strengthening our overall quality in this way we will achieve high levels of profitability. Our medium-to-long-term profitability target is to reach and maintain a consolidated operating income margin of 10%. It is important to maintain such high levels of profitability so that growth in net revenues translates directly into growth in earnings.

Strategies for Building Our Foundation

Q Specifically, what measures is Toyota taking to secure its foundation?

A We will further improve Toyota's quality levels.

In an effort to build a solid foundation for sustainable growth, we are focusing on three areas: quality, cost competitiveness, and personnel training. Of those, quality has been my number one priority over the past year. And, the Toyota Group, including suppliers and dealers, has made concerted efforts to improve quality, Toyota's lifeblood.

As part of our Customer First initiative, we are reinforcing our systems for building in quality that reflects the customer's perspective. Literally going back to the drawing board, we are painstakingly improving "design quality" by analyzing the causes of problems from the design stage, which is the source of quality. We are also honing our ability to analyze quality on production lines by introducing in-line measurement. And, we are reasserting our basic conviction that assembly processes build in quality by introducing a team-leader system for training production personnel. Moreover, in an effort to improve quality through production and development, we are collaborating closely with suppliers. Through this range of initiatives, we are steadily producing results. Having said that, quality improvement never ends. Therefore, to avoid complacency, we will use those initiatives as a starting point for further quality improvement efforts.

Q **Would you explain the progress of Toyota's cost reduction initiatives?**

A **Our cost reduction efforts are counteracting higher material costs and growing earnings.**

In fiscal 2007, while absorbing an increase in material costs, Toyota achieved cost reductions of roughly ¥100 billion. Cost reductions will become more important than ever as a way of strengthening cost competitiveness, prevailing against market competition, and securing high earnings given such anticipated trends as continuing increases in material prices, a shift in demand toward compact cars, and the further introduction of new technologies as part of environmental and safety measures.

One example of our cost reduction efforts is the Value Innovation initiative, which began in 2005. Through this initiative, we look to reduce costs in the development and design stages by taking a systems-based approach. Using Value Innovation, we have prepared plans for models all the way through to 2010, and we will incorporate the benefits of the initiative in new models released during the coming fiscal year.

Q **What steps is Toyota taking in personnel training?**

A **True to our basic belief that manufacturing is about developing people, we are concentrating on personnel training.**

At Toyota, we believe that a combination of people and technology lies at the heart of a company's competitiveness. Therefore, we are moving forward with personnel training based on the philosophy that developing human resources is a key part of manufacturing. These efforts extend beyond simply having employees acquire knowledge and skills that development, production, or sales divisions need. Globally, we are implementing programs to enable all employees to embrace Toyota's culture and values and understand the Toyota Way.

An important factor in training employees is the establishment of systems that encourage coworkers to share goals and work as a team. Bearing that in mind, this year we introduced a team-leader system in divisions to make it easier for senior employees to develop the skills of their junior colleagues through on-the-job training. I believe that asking for advice and being asked for advice will naturally create relationships conducive to good workplace communication and increase employees' learning speed.

Growth Strategies

Q From a medium-to-long-term viewpoint, what is Toyota's growth strategy?

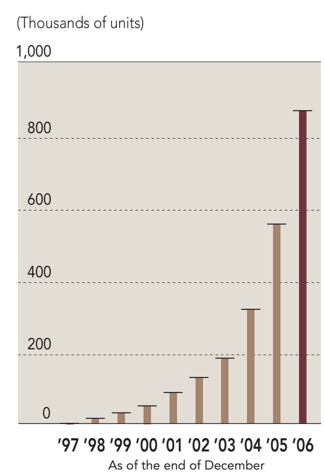
A We will pursue long-term technological innovation to propel growth for the future.

Technological innovation will be central to our growth plans. I believe that technological capabilities—not only in product development but also in production engineering—will be the most important factor for future success. Advanced technology development, particularly in the fields of the environment, energy, and safety, is Toyota's responsibility as an automaker and a precondition for survival amid ever-increasing competition. By rigorously developing such technologies ahead of our competition, I want to take on the challenge of realizing dream cars that make the air cleaner as customers drive them and cars that avoid accidents and injury.

As for development initiatives in environmental technologies, Toyota recently identified hybrids as a core technology that will contribute to the solution of environmental issues. We are currently moving forward with the development of next-generation systems. Since launching the Prius in 1997 as the world's first mass-produced hybrid vehicle, we have diversified our lineup of hybrid models. As a result, cumulative worldwide sales of hybrid models passed the one-million-vehicle milestone in May 2007. Hybrid vehicles help curb emissions of CO_2 compared to vehicles powered only by gasoline engines. I believe we have made a significant contribution to the reduction of CO_2, said to be a cause of global warming. We are also accelerating our efforts to develop practical plug-in hybrids.

To cater to energy diversification among regions, we follow a strategy of providing *the right vehicle for the right place at the right time* by developing environmentally friendly technologies or deploying eco-cars that reflect the infrastructure and customer needs of each region. For example, last year we concluded an agreement with Isuzu Motors Limited for the joint development of diesel engines that place even less burden on the environment. Also, in Brazil, where bioethanol is a widely used fuel, we recently launched a flexible-fuel Corolla that runs on pure bioethanol.

Cumulative Hybrid Vehicle Sales

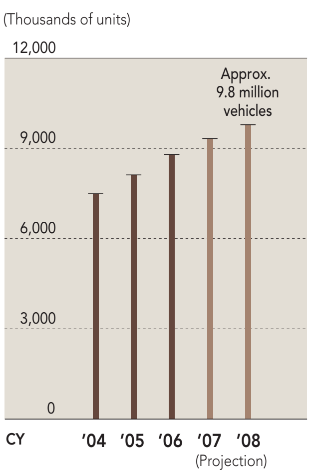


Q Would you explain Toyota's sales plans and the market strategies that will support them?

A We plan to increase sales globally by aggressively rolling out appealing new products.

In the medium term, we are targeting Group vehicle sales* of about 9.8 million units in 2008. In 2006, Group vehicle sales totaled 8.81 million units,

Group Vehicle Sales Projections



Note: Different from fiscal year figures

and we project sales of 9.34 million vehicles in 2007 (as of the announcement on December 22, 2006). We aim to steadily grow sales worldwide by continuing to bring new products to market that meet the needs of customers.

Our strategy is to continuously launch products that will stimulate market demand. For example, having unveiled a hybrid version of the Lexus LS in Japan in May 2007, we are releasing it in regions around the world in stages. Similarly, we launched the new Corolla—a core global model—in Japan during fiscal 2007, and we are now introducing it in markets worldwide. Further, the strategic Auris model is already selling in Japan and in countries throughout Europe. In addition, full-fledged production and sales of the new Tundra have begun in the North American market. And, Toyota will have more new-model launches in Japan during the second half of 2007 than it did in the entire previous year.

The ability to draw on a full product lineup to achieve balanced sales in regions worldwide is one of Toyota's strengths. Another of our major competitive advantages is that we cater to regional characteristics by carefully adjusting strategies across all operational stages, from product development to production and sales. We want to meet the needs of even more customers by building vehicles that reflect the requirements of each region.

* Worldwide retail vehicle sales of Toyota, Daihatsu Motor Co., Ltd., and Hino Motors, Ltd., which are calculated on a different basis than consolidated vehicle sales

Q Faced with escalating global demand, what kind of measures is Toyota taking?

A Toyota will continue to increase local production capacity to strengthen its vehicle supply capabilities.

Vehicle supply capabilities are as fundamental to maintaining stable growth as technological and marketing capabilities. At Toyota, we are continuously increasing overseas production capacity to cater to growing demand in regions around the world. In 2006, new plants came on line in Texas, in the United States, and Guangzhou, in China, and we ramped up production capacity at plants in France and Thailand. In 2007, production started up at new plants in Thailand and in Tianjin, China, while production of the Camry began at Fuji Heavy Industries' North American plant. Through that series of projects, in roughly two and a half years, from January 2005 to the end of March 2007, our overseas production capacity rose by more than 1.1 million vehicles. We have slated the end of 2007 for the start-up of a new plant in Russia, 2008 for the completion of a second plant in Canada, and around 2010 for the completion of a new plant in Mississippi, in the United States. We will continue to increase production capacity in a globally balanced way while reflecting our basic philosophy of "building vehicles where demand is found" by making overseas manufacturing companies more self-reliant and growing hand-in-hand with local economies.

Performance Outlook

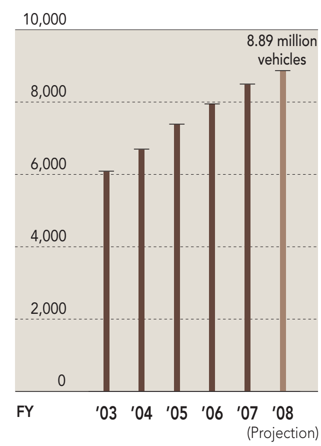
Q What is the outlook for Toyota's business results in the current fiscal year?

A We expect to record further gains in revenues and earnings as sales volumes increase globally.

In the current fiscal year, ending March 31, 2008, we anticipate year-on-year increases of 366,000 units in consolidated vehicle sales, to 8.89 million units; 4.4% in net revenues, to ¥25.00 trillion; 0.5% in operating income, to ¥2.25 trillion; and 0.4% in net income, to ¥1.65 trillion. (Please see Message from the Executive Vice President Responsible for Accounting on page 16 for information on performance outlook assumptions.)

We expect an increase in vehicle sales in regions across the world, including in Asia, which saw vehicle sales decline in fiscal 2007. Given currency exchange rate fluctuations and material cost trends, business conditions by no means warrant optimism. However, while investing for future growth, we aim to achieve higher revenues and earnings again in the current fiscal year.

Consolidated Vehicle Sales



Note: Fiscal years ended March 31

Policies for Returns to Shareholders and Capital Efficiency

Q What are Toyota's basic policies with respect to returning profits to shareholders and capital efficiency?

A While targeting a consolidated dividend payout ratio of 30%, we will continue investing to expand operations.

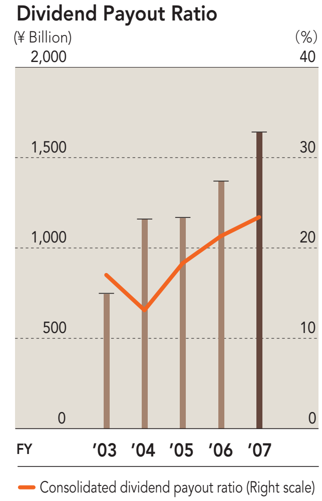
Regarding returns to shareholders, in the past several years we have steadily increased cash dividends each year in line with our improving performance. Toyota's consolidated dividend payout ratio target is 30% in the medium-to-long term. In fiscal 2007, we paid a significantly higher annual dividend of ¥120.00 per share, up ¥30.00 per share from the previous fiscal year. As a result, the consolidated payout ratio reached 23.4%.

In addition, the Company flexibly acquires shares of its own stock to improve capital efficiency. During the Ordinary General Shareholders' Meeting in June 2007, the Company received authorization to acquire up to 30 million shares of its own stock, for a maximum aggregate purchase price of ¥250 billion.

The automotive industry is a growth industry, and expanding the operations of vehicle manufacturers requires a large amount of funding. Therefore, we intend to step up investment to further increase earnings and corporate value while consistently returning profits to shareholders. Specifically, we will invest in advanced development that will further improve product appeal and establish next-generation technologies. We will also enlarge and augment our production and sales systems for the further expansion of Toyota's global operations.

I would like to ask our shareholders for their continued trust, support, and understanding.

Net Income and Consolidated Dividend Payout Ratio

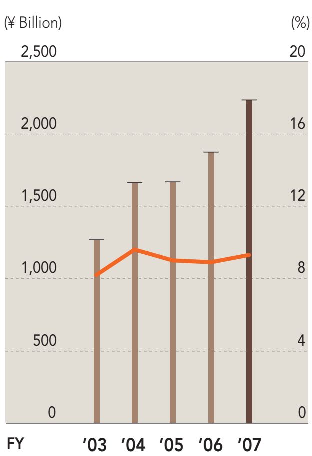


Note: Fiscal years ended March 31

Message from the Executive Vice President Responsible for Accounting*

Mitsuo Kinoshita, Executive Vice President

Operating Income



Operating income margin (Right scale)

Note: Fiscal years ended March 31

■ Fiscal 2007 Business Results

1. Performance Overview

In the fiscal year ended March 31, 2007, Toyota posted record business results across the board. On a consolidated basis, Toyota achieved a year-on-year increase of 550,000 units in vehicle sales, to 8,524,000 vehicles; a 13.8% increase in net revenues, to ¥23,948.0 billion; a 19.2% increase in operating income, to ¥2,238.6 billion; and a 19.8% increase in net income, to ¥1,644.0 billion.

Due to various factors contributing a total of ¥720.0 billion to income, which offset expenses associated with operational expansion of ¥359.7 billion, operating income increased ¥360.3 billion and surpassed ¥2 trillion for the first time. Factors that contributed to increased income were sales efforts (¥330.0 billion), cost reductions (¥100.0 billion), and the effect of changes in currency exchange rates (¥290.0 billion).

In fiscal 2007, we were able to advance the development of technologies and products for the future while achieving a large increase in earnings, which resulted from increased vehicle sales through favorable overseas sales and cost reductions and other factors. Also, we believe that we have managed to move toward a more globally balanced earnings structure by growing earnings in Europe and Central and South America. Toyota will continue to build a rock-solid base through the improvement of technology, supply, and marketing and their supporting factors: product quality, cost, and human resources. Toyota will continue to work toward stable, long-term growth by taking in opportunities while avoiding or absorbing risks in all product segments and regions.

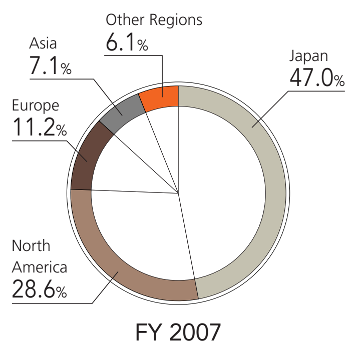
2. Geographic Segment Information

In Japan, earnings were significantly higher, with a 13.0% increase in net revenues, to ¥14,815.3 billion, and a 35.4% rise in operating income, to ¥1,457.2 billion. Earnings were up due to a significant increase in vehicle exports resulting from Toyota's raising of domestic production capacity in the previous fiscal year to meet heavier overseas demand.

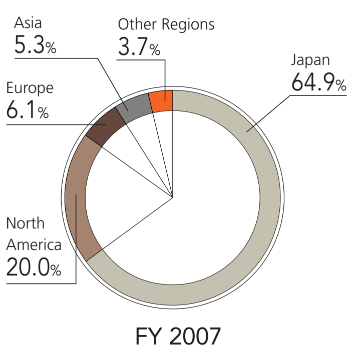
In North America, net revenues increased 17.5%, to ¥9,029.7 billion, while operating income decreased 9.3%, to ¥449.6 billion. Despite incurring temporary expenses related to the start-up of the Texas plant, Toyota maintained high income levels due to strong sales of such new models as the RAV4, Camry, FJ Cruiser, and Yaris.

* Responsibilities include accounting related operational areas (see Directors and Auditors on page 54)

Net Revenues by Region



Operating Income by Region



Note: Fiscal year ended March 31

Financial Strategy

1. Growth
·Continue forward-looking investment for growth

2. Efficiency
·Enhance profitability and capital efficiency

3. Stability
·Maintain solid financial base

Balanced implementation of 1. – 3. over the medium to long term

Sustainable growth

In Europe, Toyota recorded a large rise in earnings, with increases of 29.9% in net revenues, to ¥3,542.1 billion, and 46.2% in operating income, to ¥137.3 billion. Favorable sales of core models, including the Yaris, Aygo, and RAV4, contributed to higher earnings.

In Asia, net revenues were up 8.9%, to ¥2,225.6 billion, but operating income was down 19.2%, to ¥117.6 billion. The decrease in operating income was mainly attributable to lower vehicle sales associated with downturns in certain markets, such as Indonesia and Taiwan.

In Other Regions, net revenues grew 20.0%, to ¥1,922.7 billion, and operating income was up 24.3%, to ¥83.5 billion. This increase resulted from strong sales of the IMV* series in Central and South America and Africa and the Camry in Oceania.

Furthermore, equity in earnings of affiliated companies was up 27.5%, to ¥209.5 billion, mainly due to the strong performances of domestic affiliated companies and joint venture companies in China.

■ Financial Strategy

The three key components of Toyota's financial strategy are Growth, Efficiency, and Stability. We believe that the balanced pursuit of those three priorities over the medium-to-long term will allow us to achieve steady and sustainable growth as well as to increase corporate value.

1. Growth: Improving technology, supply, and marketing through continued forward-looking investments

We believe developing technology to create new markets, strengthening supply to meet global demands, and improving marketing to accurately reflect market demand require continued active investment in research and development and capital expenditures. In fiscal 2007, the benefits of its forward-looking investments to date enabled Toyota to maintain positive free cash flow even with capital expenditures** of approximately ¥1.5 trillion and research and development expenses of approximately ¥890 billion. We intend to continue to invest actively for stable, long-term growth.

* IMV: An abbreviation of Innovative International Multipurpose Vehicle, which refers to SUVs, pickup trucks, and other multipurpose vehicles that Toyota develops and produces overseas for markets worldwide.

** Excluding leased assets

2. Efficiency: Maintaining and improving profitability and capital efficiency

In fiscal 2007, Toyota's operating income margin was 9.3% and Return on Equity ("ROE") was 14.7%. Toyota has achieved significant improvements since fiscal 2002 when its operating income margin was 7.7% and ROE 7.8%. We will maintain high levels of profitability by introducing products efficiently through the development of core global models, realizing the benefits of innovative VI Activity cost reductions, expanding production systems that link plants in Japan and abroad, and developing and introducing highly efficient production engineering of the kind typified by the Takaoka plant's innovative production line. Furthermore, Toyota will continue to acquire its own shares with a view to maintaining and improving profitability and capital efficiency.

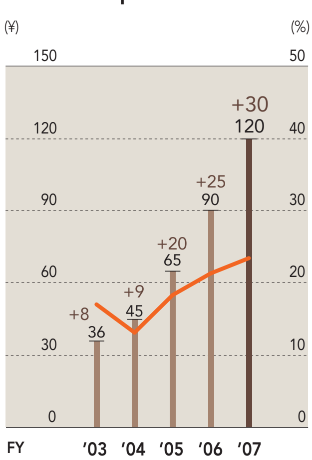
3. Stability: Maintaining a solid financial base

Toyota maintains a solid financial base by ensuring sufficient liquidity and stable shareholders' equity. At fiscal year-end, liquid assets* were approximately ¥4.2 trillion, while shareholders' equity amounted to approximately ¥11.8 trillion. Toyota's sound financial position enables it to continue investing for growth, even during rapid fluctuations in business and market conditions, and underpins the high credit ratings that enable access to low-cost, stable financing. In view of the expected growth in automotive markets worldwide, we believe that maintaining adequate liquid funds is essential for the implementation of forward-looking investment to improve products, and to develop next-generation technology, as well as to establish production and sales systems in Japan and overseas for the further global expansion of operations.

■ Dividends and Acquisition of Shares

Toyota regards the distribution of profits to its shareholders as one of its priority management policies and continuously strives to increase per share earnings. With respect to the payment of dividends, Toyota seeks to enhance the distribution of profits by striving to secure a consolidated dividend payout ratio of 30% over the medium-to-long term while giving due consideration to such factors as the business results of each term and new investment plans. Reflecting its dividend policy, in fiscal 2007 Toyota paid a significantly higher annual dividend of ¥120.00 per share, up ¥30.00 per share from the previous fiscal year. This annual dividend was Toyota's highest to date and marked the eighth consecutive year of increased dividends. Furthermore, the consolidated dividend payout ratio rose from the previous fiscal year's 21.3% to 23.4%.

Dividends per Share



Consolidated dividend payout ratio (Right scale)

Note: Fiscal years ended March 31

* Excluding finance subsidiaries

Toyota has mostly completed the acquisition of its shares pursuant to authorization that it received to acquire up to 30 million shares, for a maximum aggregate purchase price of ¥200 billion, from the 102nd Ordinary General Shareholders' Meeting in 2006. Also, in fiscal 2007 Toyota acquired a total of ¥299.5 billion, or 44.95 million of its own shares. Between fiscal 1997, when Toyota began acquiring its shares, and June 30, 2007, Toyota acquired a total of ¥2.54 trillion, or 681.29 million of its shares. Further, Toyota received authorization to acquire up to 30 million of its own shares, for a maximum aggregate purchase price of ¥250 billion, from the 103rd Ordinary General Shareholders' Meeting in 2007. In addition, the offer for the sale of shares made in November 2006 largely eliminated the risk of destabilizing the supply and demand balance resulting from the release of Toyota's shares by public institutions. However, Toyota intends to continue acquiring its own shares in order to respond to changes in business conditions and improve capital efficiency.

■ Consolidated Results Outlook for Fiscal 2008

In the fiscal year ending March 31, 2008, we project sales of 8.89 million vehicles, net revenues of ¥25.00 trillion, operating income of ¥2.25 trillion, and net income of ¥1.65 trillion on a consolidated basis. These projections assume currency exchange rates of ¥115=US$1 and ¥150=1 Euro. Further, we anticipate capital expenditure* of ¥1.50 trillion and depreciation* of ¥1.20 trillion. Remaining mindful of efficient utilization and with a view to heightening its capabilities in technology to develop future growth areas, Toyota plans to increase research and development expenditures by approximately ¥50 billion compared with fiscal 2007, to ¥940 billion. In fiscal 2008, we will continue to invest for growth while targeting higher earnings with efforts to increase vehicle sales and reduce costs.

July 2007

Mitsuo Kinoshita

Mitsuo Kinoshita, Executive Vice President

* Excluding leased assets

SPECIAL FEATURE

The Challenge: Strengthen Production Competitiveness

— Building a solid foundation for sustainable growth —

Toyota's mission has always been very clear—manufacture cars that meet customer needs. With the rapid global expansion of our operations, we must improve quality in many different areas to build a solid foundation for sustainable growth. Because manufacturing capabilities are the core of its competitiveness, Toyota has to further strengthen the competitiveness of its production for future growth. This year's annual report focuses on the steps we are taking to strengthen the international competitiveness of our production.

Toyota's vehicle sales worldwide have increased steadily in recent years. To keep pace, Toyota's vehicle production, particularly overseas, has grown significantly each year. We are further increasing production capacity and innovating production engineering technologies to deliver Toyota vehicles to more customers around the world.

Continuing Rapid Expansion of Vehicle Production Worldwide

In the past several years, consolidated vehicle production has grown at a sharp pace, increasing by between 500,000 and 600,000 vehicles each year. In the last five years, Toyota met rapidly growing demand by ramping up production in regions across the world and building new plants—increasing production capacity by 2.87 million vehicles. As a result, we manufactured vehicles or components at 52 companies in 26 countries and regions as of June 30, 2007. We will continue the crucial task of expanding our production capacity to improve our ability to supply products because increasing demand will likely persist worldwide.

In 2006, Toyota started up plants with a combined production capacity of 400,000 vehicles in Texas, the United States, and in Guangzhou, China. In addition, we raised the production capacities of our plants in France and Thailand. In 2007, our third plant in Thailand and our third plant in Tianjin, China, started operations. Also, Camry production began at the North American plant of Fuji Heavy Industries Ltd. Other facilities slated to come on line include a plant in Russia at the end of 2007, a second plant in Canada in 2008, and another plant in the United States, in Mississippi, around 2010.

Innovating to Further Cultivate Global Operations: The Role of Production

Automotive markets worldwide have grown continuously and are expected to continue to grow, especially in emerging markets and North America. Toyota has catered to global demand by localizing production. To advance localization, we have overcome a range of challenges, such as improving capital investment efficiency, maintaining uniform quality worldwide, and accelerating human resources development. However, among auto manufacturers competition for survival in global markets will likely get stronger. We have entered an age in which only the truly competitive will prevail.

As an automaker, manufacturing lies at the core of our competitiveness. By continuing to innovate production engineering technologies, which underpin manufacturing, and strengthening international competitiveness, Toyota will sustain dynamic growth. At the same time, we will build cars that satisfy customers around the world.

In the following section, Takeshi Uchiyamada, Executive Vice President responsible for production, explains Toyota's basic approach to manufacturing and the challenges that our production-related divisions face. In the third section, we report on specific steps we are taking to innovate automotive production.

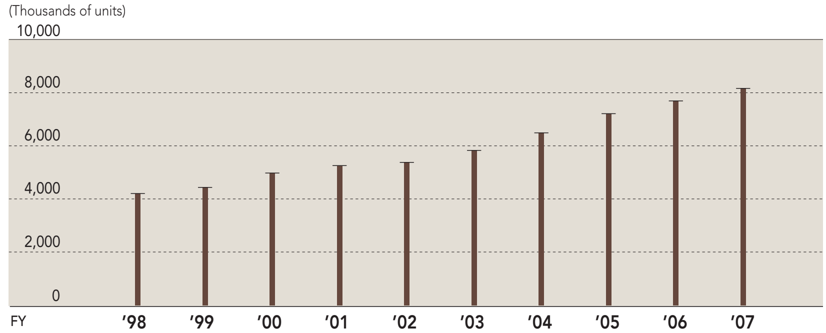
Expansion of Overseas Production Capacity: Results and Plans

	2006	2007		2008	Around 2010
North America	Texas 200,000 vehicles	SIA* 100,000 vehicles	Mexico +20,000 vehicles	Canada second plant 150,000 vehicles	Mississippi 150,000 vehicles
Europe	France +30,000 vehicles	Russia 20,000 vehicles			
China	Guangzhou 200,000 vehicles	Tianjin third plant 200,000 vehicles			
Asia and Other Regions	Thailand +90,000 vehicles	Thailand third plant 100,000 vehicles	South Africa +90,000 vehicles		

Note: Production capacity is as of June 2007.
* SIA: Subaru of Indiana Automotive, Inc., the North American plant of Fuji Heavy Industries Ltd.

Consolidated Vehicle Production

(Thousands of units)



Note: Fiscal years ended March 31

Part II: Strengthening International Competitiveness

— An Interview with an Executive Vice President —

We believe it is vital for our production sites to continuously evolve. Fortunately, Toyota has not only the strength in depth of its engineering team but also the many opportunities the divisions have to innovate production engineering technologies based on the "Toyota Production System."

Takeshi Uchiyamada,
Executive Vice President, Production

Toyota must continually strengthen the competitiveness of its production-related divisions to supply high-quality cars to customers worldwide in a timely, cost-efficient, and stable manner. In the following interview, Takeshi Uchiyamada, Executive Vice President with overall responsibility for production, talks about the challenges Toyota's production-related divisions face as operations expand globally and how they are overcoming them.

Q First, would you explain Toyota's basic approach to manufacturing?

A Our basic philosophy is to "build vehicles where demand is found" while relentlessly innovating production engineering.

Toyota is strengthening its production in line with two overall strategies. First, we build vehicles where the demand is found. By manufacturing in regions where demand exists, we shorten lead time from order to production while creating local employment and contributing to the development of local economies. Second, we pursue innovation in production engineering technologies and systems to achieve efficient production while ensuring uniform quality worldwide. Toyota now has production bases around the world as a result of this strategy. Widespread operations have two significant advantages; they steadily supply Toyota vehicles to various markets and they hedge against demand fluctuation risks.

We seek *kaizen* and *kaikaku*. *Kaizen* means continuous pursuit of incremental improvements. *Kaikaku* means revolutionizing for benefits on a bigger scale. Together, these two approaches help us to continuously and dramatically strengthen our competitiveness.

Q What kind of challenges does the rapid global expansion of Toyota's operations present to the production-related divisions?

A The main challenges are catering to fluctuating global demand, innovating production engineering technologies, and establishing self-reliant overseas manufacturing companies.

Overseas production has almost doubled in the past five years, with consolidated overseas annual production now at 3.08 million vehicles. In its long history, Toyota has never experienced such rapid expansion.

Given the speed of change, I think our production-related divisions face three main challenges. First, we have to improve our ability to respond to fluctuations in global demand. Second, we need to innovate production engineering technologies to significantly improve the efficiency and quality of plants around the world. Finally, our overseas manufacturing companies must become more self-reliant.

Q Regarding the first issue, responding to global demand fluctuations, what steps is Toyota taking?

A We are developing a "global link production system" that enables us to respond rapidly and flexibly to changes in demand.

It would be easy if demand in various regions was always stable, allowing all of our plants to maintain the rate of operation at a high level. But reality proved different. Driven by regional, timing, and product-related factors, demand changes quickly and causes differences among the rate of operation at each plant.

For example, we often have an overseas plant that cannot keep up with demand and a plant in Japan with spare capacity. Neglecting such imbalances leads to losing opportunities and lowers the overall rate of operation. To remedy the situation, the plant in Japan may take part of the production on behalf of the overseas plant. This is only possible if plants have flexible production lines that can handle multiple models. A "global link production system" will enable us to limit investments needed to increase the production capacity of overseas plants. The "global link production system," focused on improving flexibility, is becoming an important way of dealing with global demand fluctuations. (Please see Part III: Innovation Up Close for further information on the "global link production system.")

Q What measures is Toyota taking in production engineering technologies innovation?

A We are stepping up the development of production engineering to improve efficiency and quality.

Since its establishment, the Company has followed a manufacturing philosophy that is reflected in the "Toyota Production System." Guided by this philosophy, we aim to provide customers with better, more affordable products more quickly by innovating production engineering. I think this mind-set is one of Toyota's greatest assets. We look to incorporate ideas, equipment, and manufacturing methods that allow us to efficiently make high-quality products with easy maintenance and reduced environmental burden. Toyota aims to dramatically outperform previous benchmarks through technological innovation—not just improvements of 10% or 20% but of 50% or even more. (Please see Part III: Innovation Up Close for further information on production engineering technologies innovation.)

Q Would you explain the third challenge the production-related divisions are facing: promoting the self-reliance of overseas manufacturing companies?

A We intend to accelerate human resources development.

We have started up production lines for vehicles and components at 16 new overseas plants in the past five years in response to the recent rapid increase in vehicle demand. And, more plants are on the way. These new overseas plants must be self-reliant so that they can be fully competitive, even without support from Japan.

The most important factor in realizing self-reliance is the prompt cultivation of individuals to support the local production activities. At Toyota, we have already achieved significant successes through the introduction of systems and programs for human resources development. However, we need to pick up the pace of such initiatives as we move forward. Toyota will commit significant resources to training personnel in Japan and overseas based on the philosophy that "making products means making people." (Please see Part III: Innovation Up Close for further information on promoting the self-reliance of overseas manufacturing companies.)

Q What advantages does Toyota have that will enable it to continue production innovation?

A Our advantages are the depth of our engineering team and the many opportunities that we have to innovate production engineering technologies.

We believe it is vital for our production sites to continuously evolve. Production-related divisions have recently been very busy starting up new plants and changing over production lines due to the rapid growth of operations around the world. But, at the same time, this has given us many opportunities to introduce new production engineering technologies. In other words, our continued strong growth has spurred production engineering technologies innovation.

In addition, Toyota has divisions specializing in production engineering that are independent from production divisions. I do not think that any other automaker devotes the amount of resources to production engineering that we do. Our numerous production engineers bring formidable collective expertise to problem solving on issues that arise while developing production. Fortunately, Toyota has not only the strength in depth of its engineering team but also the many opportunities the divisions have to innovate production engineering technologies based on the "Toyota Production System."

At Toyota, we are building production networks that can respond flexibly to demand fluctuations across global markets. We are also developing production engineering technologies that will lead to groundbreaking improvements in production efficiency. In addition, we are moving forward with a broad list of measures to strengthen the international competitiveness of production, including stepping up the pace of personnel training to increase the self-reliance of overseas manufacturing companies. In this section, we take a look at some of the specific challenges Toyota is tackling.

Meeting Demand Fluctuations

Expanding Production and Demand Fluctuation Risk:

Demand for Toyota vehicles is growing rapidly in many regions around the world. We would lose sales opportunities if the production and supply capabilities of our plants are unable to keep up. However, only focusing capital investment on meeting demand in each region increases the risk of declining business performance when changes in demand leave surplus production capacity. Therefore, Toyota must anticipate and respond flexibly and swiftly to changes in regional demand to maintain international competitiveness.

Offsetting Demand Fluctuations through the "Global Link Production System":

Toyota is introducing the "global link production system" to enable flexible responses to global demand shifts. Simply put, plants with low operating rates will take on part of the production of plants with high operating rates. We aim to raise our overall production capacity utilization and production capacity by establishing a mutually supportive global system based on monitoring demand trends and the operating status of plants in regions worldwide.

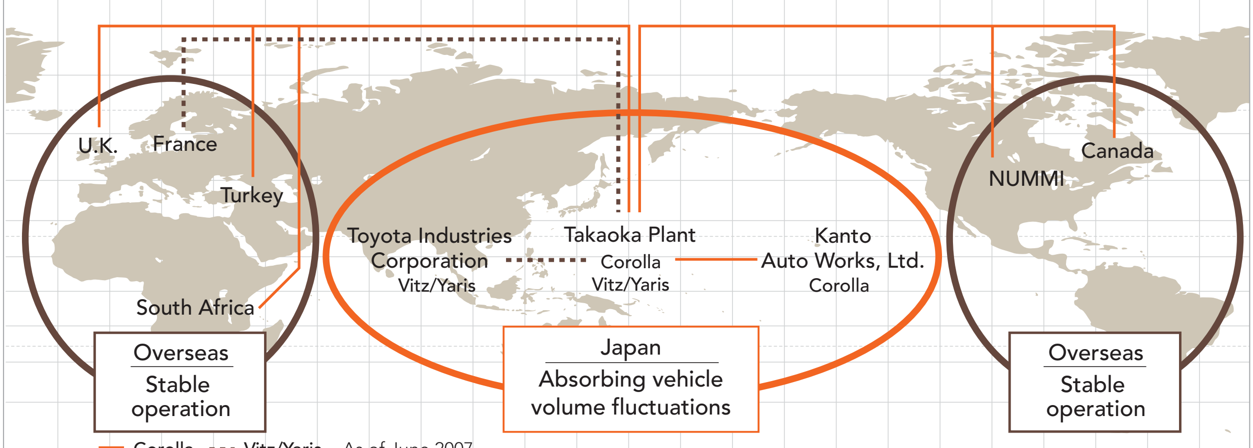
We are working to ensure that each plant fully realizes its potential production capacity and increases its flexibility to enable diverse model mix production through the "global link production system." This system will give us the advantage of flexible production capacity around the world and will center on our core global models: the Corolla, Camry, Yaris (Vitz in Japan), and IMV* series.

* IMV: An abbreviation of Innovative International Multipurpose Vehicle, which refers to SUVs, pickup trucks, and other multipurpose vehicles that Toyota develops and produces overseas for markets worldwide.

Transforming the Role of Link Production:

Link production is not new to Toyota. Since Toyota's early days, mother plants in Japan have ensured initial quality and stable supply by undertaking joint production when new overseas plants start

An Example of a Global Link Production System: Link Production of the Corolla and Vitz/Yaris



As of June 2007


France plant (TMMF)

up production. The geographical coverage and complexity of such supporting relationships have increased with our growing international operations. Today, the role of Toyota's link production has gone beyond domestic mother plants simply backing up the production of overseas plants. Link production is becoming a way of channeling our collective strength to cater to global demand. Link production, which continues to evolve, ensures future supply stability while hedging risks related to demand fluctuations.

Growing beyond Japan-Centered Support:

The foundation of Toyota's link production lies in the relationship between mother plants and new overseas plants. As plants in Japan increase their ability to manufacture a wide variety of models, they are able to stabilize the operations of overseas plants by flexibly and quickly supporting their production needs. For example, our Takaoka plant in Japan supports increasing overseas demand for the Yaris (Vitz in Japan) through its connection with our plant in France (TMMF).

Moreover, link production exclusively among overseas plants has recently begun in earnest. We have established mutually supportive links

Avoiding Sales Losses through Link Production

Toyota prepares production plans based on medium-to-long-term demand projections. However, changes in macroeconomic factors, such as the fluctuations of crude oil prices or currency exchange rates, can very quickly affect demand for automobiles. Our production engineering and production divisions are expanding the "global link production system" to reduce sales losses due to such demand fluctuations. Our mission is to construct a "global link production system" that maximizes vehicle output and earnings while getting the most out of existing resources and working hard to curb new investment.

Without a doubt, link production is making a significant contribution to Toyota's progress. Demand for small, fuel-efficient models, such as the Corolla and Yaris, has increased rapidly around the world, spurred by recent hikes in crude oil prices. Thanks to an effectively functioning "global link production system," we have maintained a timely supply of these vehicles and avoided losing sales opportunities.

Norifumi Miura
Project General Manager
Strategic Planning Group
Global Strategic Production
Planning Division

among plants in Thailand, Indonesia, South Africa, and Argentina under the IMV project, which seeks to build an optimized production and supply system. Link production among overseas plants is clear evidence of the steady evolution of Toyota's global production networks.

Aiming for the Largest Benefits from the Smallest Links:

So far, we have presented link production as an example of how we are responding to the risk of demand fluctuations. However, recklessly increasing link production among plants could lower the efficiency of investment and production. Toyota is mindful of that risk and will build a "global link production system" that is carefully calibrated to achieve the maximum efficiency.

Therefore, in addition to forging links, we will have to draw out the full potential of each manufacturing company in order to raise its production capacity and operating rate. And, production engineering technologies innovation will become more important than ever as a means of enabling plants worldwide to realize flexible and lean operations.

Yaris

Production line of Hilux VIGO, IMV series

Innovating Next-Generation Production Engineering Technologies

Innovation Challenges:

Toyota's multifaceted production engineering technologies innovation has three main challenges:

- **Increasing the flexibility of production lines,**
- **Developing simple and streamlined production methods and equipment, and**
- **Ensuring high quality through production processes.**

Our production-related divisions must tackle these perennial challenges to maintain global competitiveness. We must be able to adjust to changing production needs while constantly setting new targets and working toward them through production engineering technologies innovation. Finding new solutions is particularly important today, with operations expanding rapidly worldwide and a series of new manufacturing companies coming on stream.

Real Production Efficiency:

In theory, a production line continually manufacturing a large volume of the same model would achieve the highest production efficiency. However, even though such a rigid production line is very efficient when operating at full capacity, if sales of the model decline the line's operating rate would be down. And, it would not be easy to change the production line over to another model.

On the other hand, a single production line with the flexibility to build several models simultaneously improves a plant's ability to adapt to a range of different production needs. Such production lines make it easier to adjust production plans to sales trends. They also maintain high plant capacity utilization because changing or adding models requires minimal time and labor.

Global Body Line Innovation:

Toyota has developed production lines that can manufacture multiple models more efficiently amid diversifying demand and shortened delivery times in the world's automotive markets. The Global Body Line (GBL) is an example of these efforts.

Toyota has been introducing its groundbreaking body-welding line, GBL, at plants in Japan and overseas since 1996. As a result, GBL is now the mainstay body-welding line in operations worldwide. Typically, between 4,000 and 5,000 spot welds and a variety of processes are needed to assemble the body of a car from roughly 300 stamped parts. At this stage, accuracy is critical. Because a car's body is critical to vehicle design, riding comfort, and driving performance, welding processes must have assembly accuracy within one millimeter of product drawings. To achieve the required accuracy in body assembly, devices called jigs hold stamped parts in position to be welded together. GBL significantly improves production efficiency through an innovative jig mechanism. Not only that, GBL adapts easily to large or small production volumes.

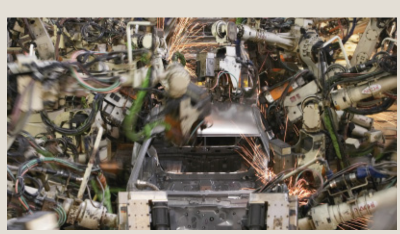
GBL's predecessor, the Flexible Body Line system, positioned jigs on the outside of the car body and circulated jig pallets. As a result, a production

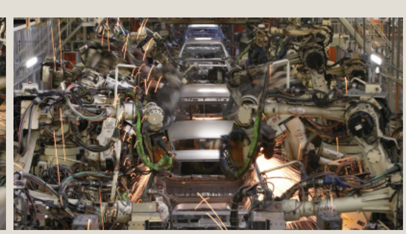
Evolving GBL

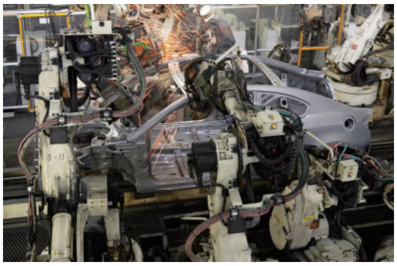
In 1985, Toyota developed the Flexible Body Line (FBL), which radically reduced jig replacement work arising from model changeovers and allowed the mixed production of four or five models. In 1996, pursuing a revolutionary new concept, we developed the Global Body Line (GBL) that added to the merits of FBL the ability to handle an even more flexible mix of models. We introduced GBL in almost all of our plants because it can adapt to a range of production volumes—from high-volume production lines at plants in Japan, North America, and Europe to low-volume production lines at plants in such countries as Vietnam and the Philippines.

The introduction of GBL has drastically increased the efficiency of body-welding processes. Compared with FBL, GBL has reduced costs for model changeover and addition by 70% while cutting initial investment costs, floor space, maintenance costs, and CO_2 emissions in half. In addition, GBL can produce up to eight models simultaneously. Aiming to further evolve GBL, we are developing a next-generation body-welding line at our Takaoka plant.

Akitoshi Ichino
General Manager
Project Planning Department
Body Assembly Engineering Division






GBL, the innovative body-welding line

line with a monthly output of 20,000 vehicles needed 50 jigs and jig conveyors. GBL, on the other hand, innovatively positions jigs on the inside of the car body and only requires one jig, drastically reducing capital investment. Another major advantage of GBL is that we can introduce it at plants with small production volumes. GBL enables easy access for welding from the outside by placing the jig inside the car body. This radically improves the workability of the manual welding process and parts setting that are used by some smaller plants.

Length of Production Lines Halved by the Set Parts System:

Innovation in production engineering technologies is also transforming assembly processes for attaching interior and exterior parts and power train components, such as engines, to painted car bodies. One example of production innovation on assembly lines in recent years is the Set Parts System (SPS).

On assembly lines, operators set thousands of parts to each car body on a conveyor. It is important to create conditions that are easy to work in, as manual operation plays such a central role in those processes. SPS is innovative because it does away with the assembly lines' parts racks and greatly improves operators' work environment and efficiency. Traditionally, the interior and exterior parts assembled to car bodies were kept on racks alongside the production lines. This meant that operators had to go over to the racks and select a part each time they needed one. Under SPS, we moved the assembly parts to a separate area, put all of the parts needed for each vehicle in work boxes in advance, and placed the boxes with the vehicles on the assembly line.

As a result, operators no longer have to go all the way over to parts racks to choose and collect parts. Instead, they can concentrate on assembly. Furthermore, by getting rid of parts racks, SPS has shortened production lines by more than half while substantially improving operational efficiency and production lead times. We are constantly evolving such production systems and introducing them at plants worldwide.

Simplified and Slim Production Equipment:

One of Toyota's basic approaches to manufacturing is to look for straightforward manufacturing methods that use simplified and slim production equipment. Such methods benefit many different aspects of our operations, including production efficiency, space efficiency, initial investment, quality, ease of maintenance, new plant start-ups, human resources development, and workplace environments.

If production equipment becomes smaller, it needs less space and the transportation distance between equipment is shortened. This reduces the overall length of production lines and production lead times. Additionally, slim production equipment enables the use of smaller plants, which dramatically improves production and investment efficiency. Moreover, simplified equipment means less complex


Production line without parts racks thanks to SPS

manufacturing, making learning new skills and maintenance easier, thereby improving quality. This strategy is not difficult to explain, but putting it into practice requires considerable technological innovation. And in such efforts to simplify, we have set the bar high for ourselves.

Original Ideas:

We think out of the box to develop easy-to-use and slim production equipment. One example is the injection molding machines that make bumpers and other plastic parts. Based on previous thinking and production methods, molding dies had to be very large because several thousands of tons of pressure were applied when plastic was injected into molding dies. Maintenance was also challenging; operators had to wear safety ropes and climb the machines to maintain them.

Approaching the problem from a different angle, we saw that by greatly reducing the pressure used to inject the plastic we would be able to downsize the molding dies. Of course, to realize that idea we had to overcome a large number of technical hurdles. As a result of those efforts, today we have reduced the volume of bumper plastic injection molding machines by half, the volume of stamping dies by two-thirds, and die clamping force by three-fourths.

Clearly, such innovations in production engineering technologies are realizing enormous benefits. They not only strengthen the competitiveness of existing plants but also accelerate Toyota's global development by significantly reducing the labor and cost needed to start up new plants. Traditionally, it took nearly three months for production lines at overseas plants to become fully operational after start-up. Now, it takes about three weeks. In addition, initial costs for the construction of new plants have been cut roughly in half.

Quality Assurance Systems: Improving quality is a major focus of our production-related divisions' technology innovation efforts. Quality is Toyota's lifeline. The number one reason customers choose Toyota vehicles is for their high quality. We are moving forward with strong efforts to maintain product quality as the structure and performance of vehicles become increasingly complex and advanced and as overseas production increases rapidly.

To ensure high quality, it is important to examine designs meticulously to develop manufacturing processes and equipment that meet the required quality standards. Accordingly, Toyota's production engineering experts are involved from the early stages of design and prototype development to create designs that enable easy quality assurance and manufacturing. Under this system, the advice those experts provide helps employees from various production-related divisions understand the quality standards they have to meet and reflect them in production processes and equipment.

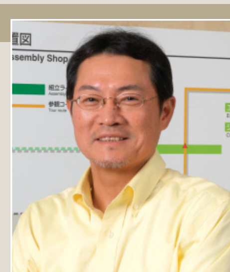
Built-in Quality: We have long believed in building quality into products in the production process. By this we mean that, rather than inspectors ensuring quality, each operator and piece of equipment ensures quality so that defective products are never passed on to the next process. Therefore, operators can stop the production line to avoid forwarding defective products on to the next process if they discover a defect or something unusual. We are strict about ensuring quality on the spot and then sending the product to the next process as opposed to making a lot of defective products and then repairing them.

A recent initiative is the stepped-up introduction of in-line measurement. This involves continuously measuring the precision of products in respective processes and controlling process trends based on statistics derived from the accumulated data. We can anticipate defective parts and always keep production equipment in operating status by monitoring product-precision trends that are approaching threshold values. In addition to helping us anticipate the occurrence of defective parts, understanding trend figures enables us to deal with single items rather than lot units if a defect arises. This initiative is a typical example

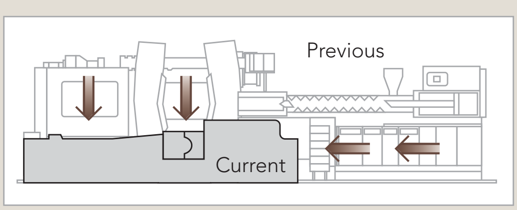
Simpler, Streamlined Production Equipment

How far can production equipment be streamlined and simplified? Toyota's in-house development and innovation of original production engineering is constantly testing established ideas and preconceptions. For example, our production robots can operate in small spaces that people cannot get into, allowing us to drastically shorten assembly lines. Changing over to robots has also enabled the development of a conveyor system that is less than one-tenth of the weight and length of the previous system, which weighed tens of tons and was several dozen meters long. In addition, we have fundamentally reviewed the processes of such processing machines as stamping machines, molding presses, and casting machines to create significantly simplified and downsized equipment that suits part sizes.

No longer limited to production engineering, streamlining and simplification are becoming a theme in the innovation of production control systems. For example, we are changing "Andon" from letters to graphic symbols. Coupled with simpler, slimmer equipment, such innovations enable anyone anywhere to use and maintain equipment and systems—making a major contribution to our current efforts to rapidly develop operations globally.



Hisanori Nakamura
General Manager
Production Process Engineering
Innovation Division



Downsized injection molding machine for bumpers

Andon

In-line measurement process

of how we build quality in production processes.

Advancing the Self-Reliance of Overseas Manufacturing Companies

Self-Reliance Promotion:
Toyota is establishing self-reliant overseas operations to maintain a timely, lower-cost, and stabler supply of quality cars around the world. Overseas production is on the brink of surpassing domestic vehicle production. Therefore, we are moving from the traditional system whereby mother plants in Japan provided comprehensive support to new overseas plants toward a network of global collaborations.

In particular, we have focused efforts on prompt human resources development. We have implemented a variety of measures to ensure that locally employed personnel acquire skills and contribute to operations as soon as possible. We are also pursuing innovations to make it easier for new plants to start up and become independent. In production engineering, those innovations include efforts on a worldwide scale to simplify and standardize production equipment and systems. In addition, we are implementing a variety of other support programs designed to help overseas manufacturing companies become self-reliant.

Controlling Processes through In-Line Measurement

In addition to rejecting defective parts, a distinctive feature of in-line measurement is that it enables process control to stop the occurrence of defective parts in the first place. Previously, we measured the precision of vehicle bodies, an assembly line end item. Now, we can build in high quality at each stage of the process by also measuring the precision of the vehicle at several points along the way.

In addition, by monitoring trend figures in daily production, we can quickly see which process is developing an irregularity. We can then prevent the occurrence of defective parts by making adjustments before the process reaches its threshold value. Also, if a defect occurs, we can use the accumulated data from upstream and downstream processes to analyze and identify the cause of the problem. Currently, we are introducing the in-line measurement system at overseas plants in stages.

Tetsuaki Yoshikawa
General Manager
Engineering Service Department
Tsutsumi Plant Body Manufacturing Division

In-line measurement

In-line measurement (measurement using infrared laser)

Personnel Training at GPC:
Before locally employed personnel begin working on production lines, they undergo rigorous skills training. Toyota has inculcated the standard works that form the foundation of the "Toyota Production System" at its plants around the world. Personnel must acquire skills to follow those standard works correctly. We established the Global Production Center (GPC) in July 2003 to improve the efficiency and speed of such skills acquisition. GPC is located in the Motomachi plant in Japan. Here, skilled technical personnel from plants in Japan develop and use teaching methods that incorporate technical training devices as well as manuals that include animation and other visual aids. GPC has cut the time required for skills acquisition by more than half thanks to the use of standardized intensive training methods.

More than 10,000 personnel have graduated from GPC in the four years since its establishment. In addition to Japan, we are developing GPCs in North America, the United States; Europe, the United Kingdom; and Asia-Oceania, Thailand. These new facilities are implementing parallel, large-scale skills-training efforts around the world. This marks a transition from the previous phase in which Japanese trainers taught overseas personnel to a new phase in which local trainers pass on their skills to local personnel as well as personnel from other countries.

Overview of Shop-Based Activities Advancing activities for separate production-process shops

	Stamping-based activities	Painting-based activities	Assembly-based activities	……
Motomachi Plant	Stamping staff	Painting staff	Assembly staff	
Takaoka Plant	Stamping staff	Painting staff	Assembly staff	
Tsutsumi Plant	Stamping staff	Painting staff	Assembly staff	
⋮	⋮	⋮	⋮	
Production Engineering	Stamping staff	Painting staff	Assembly staff	

Shop-Based Support System:

Toyota undertakes shop-based activities to improve specific production processes in order to standardize and disseminate constantly evolving production engineering and techniques around the world. Until now, mother plants in Japan have mainly shouldered technical support for overseas plants. However, problems with this approach have emerged with the introduction of new technologies and the increasing production of models sold only in local markets.

To rectify this, we created a system that staff members of each shop from domestic plants and production engineering departments use to identify the best-practice or global best processes. This system cross-sectionally links the staff at stamping shops, paint shops, and other shops. Grouped by shop, staff members gather and share information on transferring technology to overseas plants and on human resources development as well as consider concrete ways of achieving these tasks.

The support provided to overseas plants lost uniformity because mother plants in Japan have long traditions and have evolved their own unique manufacturing styles. Therefore, we prepared basic plant requirements, which summarize the common elements of plants' approaches, as a standardized tool to help overseas manufacturing companies learn and become self-reliant. Such initiatives are forming a major part of Toyota's efforts to further the self-reliance of overseas manufacturing companies.

Global Human Resources Development:

Toyota's human resources development aimed at increasing the self-reliance of overseas manufacturing companies goes beyond skills training of key production personnel. Worldwide, we are also introducing a broad spectrum of programs for the medium-to-long-term training of production-related personnel.

For example, "Pro-Win" Professional-Will Interact Needs is a three-year program for developing professionals in production-related divisions. In addition, we implement personnel exchange programs that account for more than 250 trainees each year. The "OT-Clab" Overseas Trainee-Culture and Business initiative develops future production managers by sending young employees from Japan to overseas production bases as trainees. In the opposite direction, employees from overseas manufacturing companies come to Japan for a limited period under the "ICT" Intra-Company Transferee program.

Progress toward Self-Reliance:

The multifaceted initiatives that we pursued to increase the self-reliance of overseas manufacturing companies are steadily showing results. One example is the production of the Camry

Global Production Centers Overseas

Richard Finchett
Senior Manager
European Global Production Center

In March 2006, the European Global Production Center (E-GPC) was established at Toyota's U.K. plant as a branch of the Global Production Center (GPC) in Japan. At E-GPC, our job is to develop trainers that will work in the production-related divisions of Toyota's European plants. I went to GPC to learn how to become a trainer in February 2004. Using that experience, I now teach trainers in Europe.

E-GPC serves plants in the United Kingdom, France, Turkey, Poland, Portugal, the Czech Republic, South Africa, and Russia. Although certain difficulties arise because trainees come from countries with different languages, customs, and cultures, that makes my job even more rewarding. On average, trainees come here for one week. Then, they return to their plants and use the know-how and skills gained at E-GPC to train their team members. In addition, we plan to have trainers come from plants around Europe to teach at E-GPC.

at the Kentucky plant. For a previous model change, the mother plant, Tsutsumi, sent more than 1,000 support personnel per month to Kentucky. Also, we had to shut down the production line for almost a month. Last year's changeover to the new model Camry was a big improvement. The mother plant, Tsutsumi, did not send any support personnel, and the shutdown period was cut in half.

Additionally, we regard the recent start-ups of new plants in Texas and Mexico as models for establishing self-reliant North American manufacturing companies that do not need mother plants in Japan. Both plants achieved trouble-free start-ups through local support from their respective mother plants in Kentucky and Indiana. We plan to replicate these successes at other overseas operations to increase the number of self-reliant manufacturing companies.

Toyota Hosts Global Production Strategy Summit

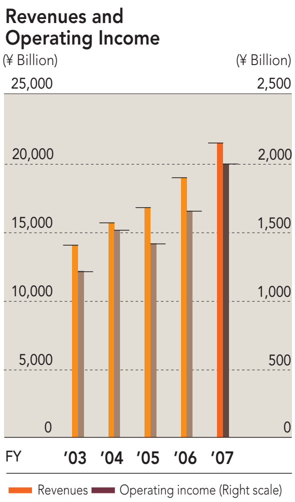
Keiichi Kanda
General Manager
Operation Management Department
Global Strategic Production Planning Division

In April 2006, senior managers from manufacturing companies around the world gathered in Japan for Toyota's first Global Production Strategy Summit. At the summit, we presented our goal of increasing the self-reliance of production operations and asked participants to formulate plans to achieve that goal. Following that, we hosted a second summit in November 2006. At this summit, senior managers from manufacturing companies around the world debated issues and measures for achieving greater self-reliance based on the proposals from overseas manufacturing companies. From this, they issued the Five-Year Plan for Self-Reliance as a road map for measures going forward.

Further, in April 2007 managers debated more detailed measures for achieving self-reliance at a summit held in the United States for companies that coordinate manufacturing in respective regions. We plan to convene such summits regularly to encourage further brainstorming among the managers of respective companies and build momentum in the drive toward self-reliance.

We believe that measures to strengthen the international competitiveness of production will become an even more important factor in maintaining our advantage in markets worldwide. Toyota will continue the timely supply of cars that customers love around the world through a combination of the basic manufacturing approach reflected in the "Toyota Production System," the constant innovation of production engineering technologies, and the passion that our members around the world invest in vehicle manufacturing.

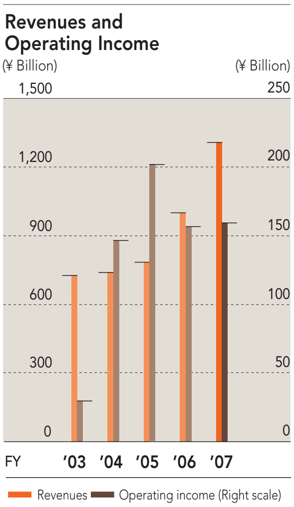
Business Overview



Automotive Operations

Revenues . . . .¥21,928.0 billion (+13.4%)
Operating income . . . . ¥2,038.8 billion (+20.4%)

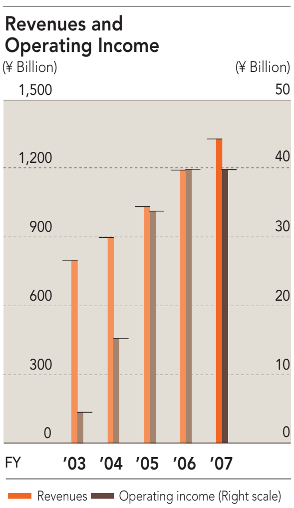
In fiscal 2007, consolidated revenues increased 13.4%, to ¥21,928.0 billion, with strong vehicle sales in North America and Europe offsetting sales declines in Japan and Asia. Operating income was up 20.4%, to ¥2,038.8 billion. The increase in operating income was mainly due to increases in both production volume and vehicle units sold, the effect of changes in exchange rates, and cost reduction efforts, partially offset by an increase in expenses related to business expansion.



Financial Services Operations

Revenues . . . . ¥1,300.5 billion (+30.5%)
Operating income . . . . ¥158.5 billion (+1.7%)

In fiscal 2007, consolidated revenues grew 30.5%, to ¥1,300.5 billion, due to higher auto sales financing that accompanied brisk vehicle sales. Meanwhile, operating income rose 1.7%, to ¥158.5 billion, as a steady increase in financing volume offset the valuation losses on interest rate swaps stated at fair value of sales finance subsidiaries in North America.



Note: Fiscal years ended March 31

Other Business Operations

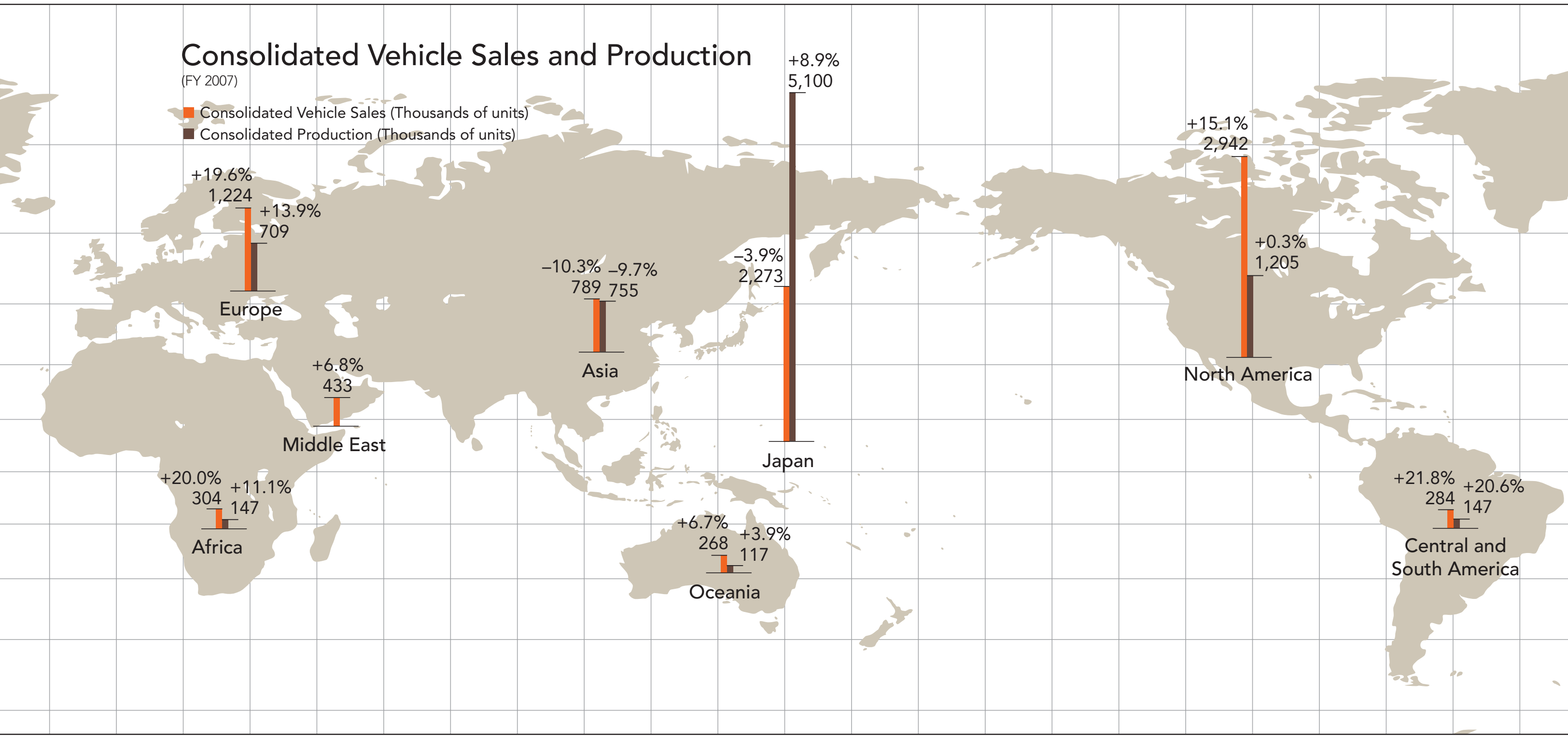
Revenues . . . . ¥1,323.7 billion (+11.2%)
Operating income . . . . ¥39.6 billion (–0.2%)

In fiscal 2007, consolidated revenues were up 11.2%, to ¥1,323.7 billion, while operating income was ¥39.6 billion, remaining at the same level as in fiscal 2006. Included in other business operations, the housing business achieved favorable production and sales.

Market Summary

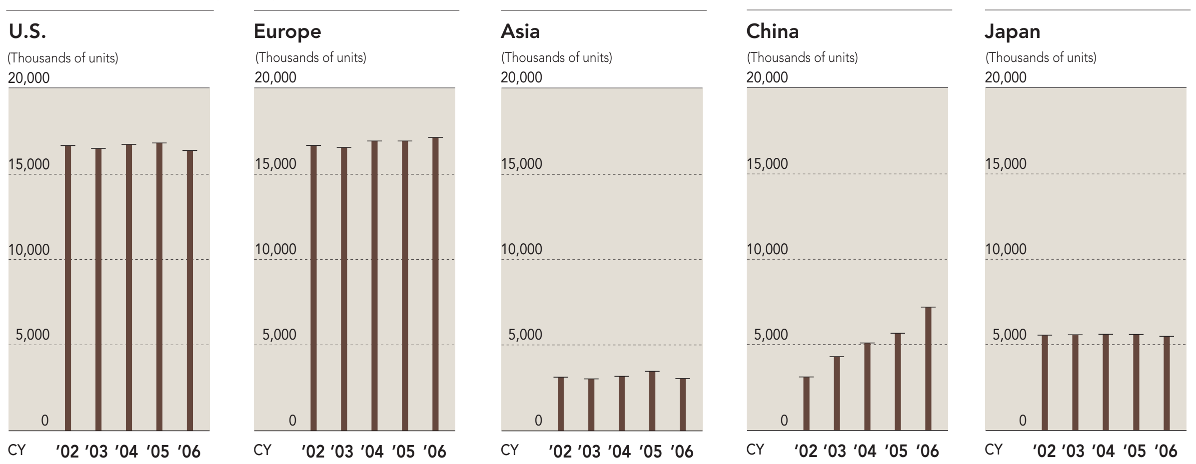
Consolidated Vehicle Sales and Production

(FY 2007)



Principal Market Data

Automotive Market (Sales)



Source: Toyota Motor Corporation Note: market definitions—Europe: Germany, France, the United Kingdom, Italy, Spain, the Netherlands, Belgium, Portugal, Denmark, Greece, Ireland, Sweden, Austria, Finland, Switzerland, Norway, Poland, Hungary, and the Czech Republic; Asia: Indonesia, Thailand, the Philippines, Malaysia, Singapore, Vietnam, Taiwan, and South Korea; Japan: minivehicles included.

LEXUS


LS600hL


IS220d

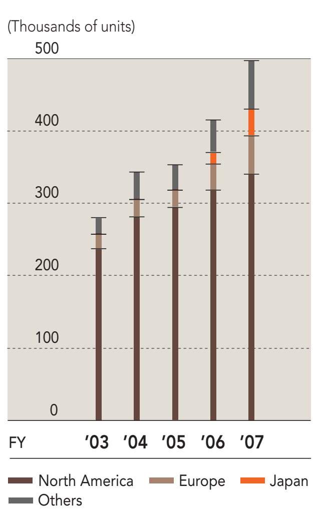
GS450h


SC430


GS430

Toyota is developing Lexus into a powerful global premium brand.

Lexus Vehicle Sales



Note: Lexus vehicle sales are calculated on a retail basis and are different from consolidated vehicle sales (shipments).

Fiscal years ended March 31

Market Strategy

Cultivate the Lexus Brand in Markets Worldwide

In fiscal 2007, Lexus sales were up a sharp 20%, to approximately 490,000 vehicles. Viewing Lexus as a global premium brand, Toyota is building brand power and expanding sales. While more than 60% of worldwide sales are in North America, to grow sales of Lexus-brand vehicles we will significantly increase sales in such regions as Japan, Europe, and China. In 2007, we expect to sell more than

500,000 Lexus-brand vehicles around the world.

In North America, fiscal 2007 Lexus sales remained strong, rising 6%, to 340,000 vehicles. Lexus market share in the U.S. luxury brand segment rose to 16% in 2006, and Lexus earned the rank of best-selling luxury brand for the seventh straight year.

In Japan, where the Lexus brand entered its second fiscal year on the market, we expanded the network of Lexus dealers from the first fiscal year's 151 to 163 and sold more than 36,000 vehicles. We will further consolidate recognition of Lexus as a premium brand and steadily build a customer base.

In Europe, fiscal 2007 Lexus sales jumped 48%, to more than 50,000 vehicles, thanks to the expansion of the dedicated Lexus dealer network and the stepped-up introduction of diesel and hybrid models.

In Asia, including China, Lexus sales rose 48% in fiscal 2007, to approximately 67,000 vehicles. In China, we are concentrating on strengthening sales. Focusing on large cities, we expanded the network of dedicated Lexus dealers to 23.

Note: Lexus vehicle sales are calculated on a retail basis and are different from consolidated vehicle sales (shipments).

Product Strategy

Create True Luxury through Craftsmanship and Leading-Edge Technologies

From fall 2006, we began introducing a new model of the flagship Lexus LS in stages worldwide. Merging the latest technologies with craftsmanship and an uncompromising commitment to true luxury, the Lexus LS460 earned high acclaim from the outset, and strong sales of the model continue. We believe that the Lexus LS460's superior driving performance, advanced safety technology, excellent environmental performance, and meticulously crafted features set the standard for new-era prestige sedans.

Around the world, the Lexus LS460 has earned praise from customers and many other quarters. Domestically, it was chosen as the 2006–2007 Japan Car of the Year in November 2006. Overseas, the model has received numerous accolades. In April 2007, automobile journalists chose the Lexus LS460 as the 2007 World Car of the Year—the first time a Japanese car has received this award. Other Lexus vehicles are also widely admired. For example, this year the Lexus IS won the "Das Goldene Lenkrad" (Golden Steering) in Europe.

Our product strategy for Lexus is to expand the lineup of models in stages while continuing to improve driving and environmental performance to strengthen their appeal. In an effort to expand the Lexus brand into new vehicle segments, we unveiled a sports car, the latest Lexus LF–A concept vehicle, at the North American International Auto Show in January 2007. Additionally, we are strategically developing hybrid offerings. Having already marketed hybrid versions of the Lexus RX SUV in April 2005 and the Lexus GS sedan in March 2006, we rolled out a hybrid version of the flagship Lexus LS model, the Lexus LS600h, in May 2007 in Japan. The launch of this latest hybrid is another step toward realizing our goal of creating new-era prestige sedans under the Lexus marque.

Craftsmanship Lives on in Lexus

Under the Lexus brand, we take a meticulous approach to manufacturing in the pursuit of true luxury. At the Tahara plant in Japan, which manufactures Lexus models, we ensure quality befitting of a global premium brand by dovetailing leading-edge production equipment and production engineering with the craftsmanship of highly skilled workers. To pass on that craftsmanship to the next generation, all Lexus-model production employees undergo specialized training.

We seek ultimate quality that can only be achieved through the high-level marrying of the Lexus brand's famous manufacturing quality and employees' senses—in other words, that can only be achieved through expert craftsmanship.

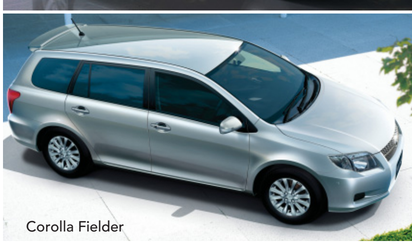
Crankshaft polishing by master craftsman

Automotive Operations | Financial Services Operations | Other Business Operations

Japan


Corolla AXIO

Auris

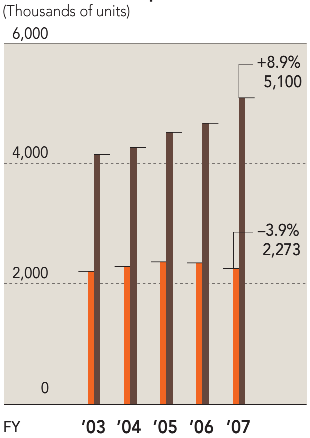

Corolla Fielder


Estima Hybrid

BLADE

In a weak domestic market, Toyota aims to establish a solid earnings base and further increase its large market share by developing products that stimulate market demand.

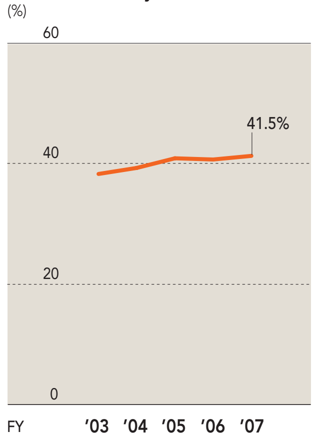
Consolidated Vehicle Sales and Production in Japan
(Thousands of units)



Consolidated vehicle sales
Consolidated production

Note: Fiscal years ended March 31

Domestic Market Share Including Minivehicles (Toyota, Daihatsu, Hino)
(%)



Market Conditions

Weak Demand Delays Market Recovery

In fiscal 2007, total domestic new-vehicle sales including minivehicles declined 4.1%, to 5.62 million vehicles, while sales excluding minivehicles decreased 8.3%, to 3.58 million vehicles. In recent years, consumer spending in Japan has been flat, and customers have tended to delay vehicle replacement. At the same time, demand has shifted toward minivehicles and used vehicles. The market excluding minivehicles has trended below 4 million vehicles in the past several years. In fiscal 2008, the market will likely remain unchanged year on year.

Performance Overview

Market Share Reaches New Record

Given difficult market conditions, consolidated domestic sales in fiscal 2007—including those of Daihatsu Motor Co., Ltd., and Hino Motors, Ltd.—declined slightly, to approximately 2.27 million vehicles, despite product marketing efforts. Consolidated domestic production increased 8.9%, to 5.10 million vehicles, due to higher overseas demand.

Meanwhile, market share including minivehicles rose to a record 41.5%, up from 40.9% in fiscal 2006. Sales of such new models as the mainstay Corolla, which was fully remodeled in October 2006, were brisk. As a result, in 2006 the Corolla ranked first in domestic automobile sales ranking (excluding minivehicles) for the fourth consecutive year. Moreover, seven of the 10 best-selling cars were Toyota models, testifying to Toyota's strong presence in the domestic market.

Market Strategy

Trigger Demand by Developing Market-Creating Products

Faced with continuing tough conditions in Japan's automotive market, Toyota will develop new and appealing market-creating products to achieve medium-to-long-term growth. In new model development, Toyota will further emphasize car manufacturing that draws on the Company's collective strengths. In particular, we will focus on improving fuel efficiency and environmental performance while including more leading-edge safety technologies and equipment. From the second half of 2007, we will pursue a sales strategy that is based on the launch of a series of new models.

In sales of Toyota-brand vehicles, we will maintain Japan's four-sales-channel system, comprising Toyota, Toyopet, Corolla, and Netz dealers, which we established through the reorganization of our sales channels in 2004. We will make full use of the advantages of the four-sales-channel system to accurately respond to structural changes in the market. And, we will carefully cater to the diverse needs of customers through sales and after-sales services that reflect the philosophy of putting the customer first.

10th-Generation Corolla

In October 2006, we unveiled the first fully remodeled Corolla in six years and renamed the sedan the Corolla AXIO. In addition to being the top-selling car in Japan, the Corolla accounts for about 1.4 million vehicle sales annually in more than 140 countries and regions. With more than 30 million vehicles sold to date, it has become Toyota's best-selling car and a symbol of the Company.

Combining reliable basic performance with an upmarket feel, the latest Corolla throws out given ideas about compact cars. It features state-of-the-art equipment not normally offered in compact cars, such as a rearview monitor, which gives a video image of the area behind the vehicle when reversing, an optional Pre-crash Safety System for active and passive safety that uses millimeter-wave radar, and an Intelligent Parking Assist system. Additionally, a newly developed 1.8-liter engine and Super CVT-i (Continuously Variable Transmission-intelligent) transmission give the Corolla outstanding driving and environmental performance.

Pre-crash Safety System

Intelligent Parking Assist system

Domestic Lineup Highlights (Toyota brand)

2006 June		Full remodeling of the Estima Hybrid
	October	Full remodeling of the Corolla and the Corolla Fielder
		Launch of the Auris
	December	Launch of the BLADE (high-end hatchback)

North America


Tundra


RAV4


FJ Cruiser

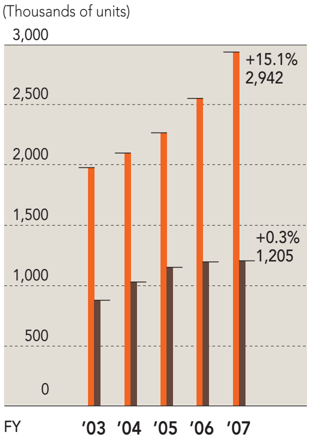

Camry Hybrid


Yaris

Toyota aims to continue to localize operations in North America, which has an automotive market that promises to expand, and work in harmony with local communities.

Consolidated Vehicle Sales and Production in North America

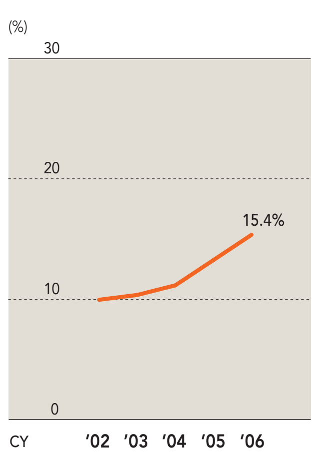
(Thousands of units)



Consolidated vehicle sales
Consolidated production*
* Excluding vehicles produced by NUMMI (unconsolidated company)

Note: Fiscal years ended March 31

Market Share in North America



Note: Different from fiscal year figures

Market Conditions

Demand Expected to Grow Steadily

In fiscal 2007, total sales in the U.S. automotive market were down 3.1% year on year, to 16.5 million vehicles. Meanwhile, in the Canadian market sales increased year on year for the second straight year, to 1.62 million vehicles. In the North American market, as in the previous fiscal year, gasoline price increases curbed sales of large vehicles and spurred demand for small and medium-sized vehicles with good fuel efficiency. Additionally, given recent growing interest in large, fuel-efficient vehicles, demand for fuel-efficient vehicles across all segments is increasing. In the medium-to-long term, vehicle demand in the U.S. market will likely continue to grow, fueled by sustained economic strength and population growth.

Performance Overview

11th Consecutive U.S. Sales Record

In North America in fiscal 2007, Toyota sold a record 2.94 million vehicles and built 1.20 million vehicles on a consolidated basis. Including Toyota-brand vehicles built by unconsolidated New United Motor Manufacturing, Inc., North American production amounted to approximately 1.57 million vehicles. In the United States, Toyota achieved a new vehicle retail sales record for the 11th year in a row, amounting to 2.60 million vehicles.

The Camry, fully remodeled in fiscal 2006, sold well and in 2006 retained its title as the best-selling passenger car in the United States for the fifth year running. In fiscal 2007, our Kentucky plant added to the Camry's popularity by starting up production of the Camry Hybrid. Strong sales continued across other models, such as the RAV4, Yaris, Prius, and FJ Cruiser, which is only sold in the U.S. market. Focusing on younger, Generation-Y customers, the Scion models saw a steady increase in sales. Also, sales of the remodeled Tundra, a full-size pickup truck, have been strong since its launch in February 2007.

Market Strategy

Achieve Sustainable Growth by Further Increasing Localization and Making Products More Appealing

To cater to growing demand in the North American market, Toyota is raising local production capacity in stages. Our sixth vehicle production base in North America, a new plant in Texas, started production of the new Tundra in November 2006. And, in April 2007 our capital tie-up partner Fuji Heavy Industries began consignment production of the Camry for the North American market at its plant in Indiana. In 2008, we plan to begin RAV4 production at a second Canadian plant. Further, in February 2007 Toyota announced plans to build a new plant, in Mississippi, which will begin manufacturing the Highlander SUV around 2010.

In addition to our existing product strategies of expanding our lineup of hybrid vehicles and bringing new models to market under the Scion brand that target younger customers, we will use the launch of the new Tundra as a trigger to strengthen our pickup truck business.

Construction of a New Plant in Mississippi

Aiming to expand North American operations and continue localization, Toyota has chosen Mississippi as the site of a new plant that is scheduled to start production around 2010. The new plant will be our eighth vehicle production plant in North America. The following is an overview of the plant.

Company name:
Toyota Motor Manufacturing, Mississippi, Inc. (TMMMS)

Location:
Blue Springs, Union County, Mississippi

Product:
Highlander

Production capacity:
150,000 vehicles annually

Investment:
Approximately $1.3 billion

Number of employees:
Approximately 2,000

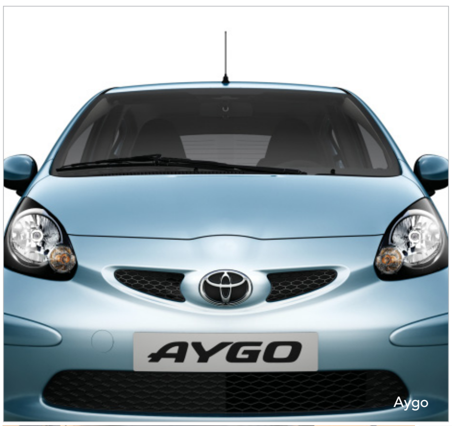
Mississippi plant's groundbreaking ceremony

Increase North American Annual Production Capacity to 2.17 Million Vehicles by around 2010 (planned)	
1. Canada (TMMC)	270,000 vehicles
2. California (NUMMI)*	400,000 vehicles
3. Kentucky (TMMK)	500,000 vehicles
4. Indiana (TMMI)	350,000 vehicles
5. Texas (TMMTX)	200,000 vehicles (began production in November 2006)
6. Fuji Heavy Industries' U.S. plant	100,000 vehicles (started up in April 2007)
7. Mexico (TMMBC)	50,000 vehicles (increase from 30,000 to 50,000 vehicles in 2007)
8. Canada, second plant	150,000 vehicles (scheduled for start-up in 2008)
9. Mississippi (TMMMS)	150,000 vehicles (scheduled for start-up around 2010)

* The California plant is a Toyota-General Motors joint venture company that is accounted for using the equity method. Production capacity figures include vehicles for General Motors.
Note: Please see the Overseas Manufacturing Companies section on page 66 for full plant names.

Automotive Operations | Financial Services Operations | Other Business Operations

Europe



Aygo

Corolla

Auris

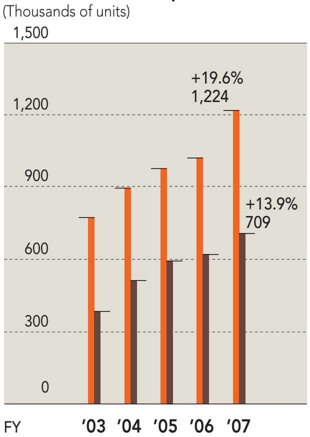
Yaris

Avensis

In the European market, which is characterized by fierce competition among many car manufacturers, Toyota will offer products with differentiated appeal and quality to heighten its brand presence.

Consolidated Vehicle Sales and Production in Europe

(Thousands of units)

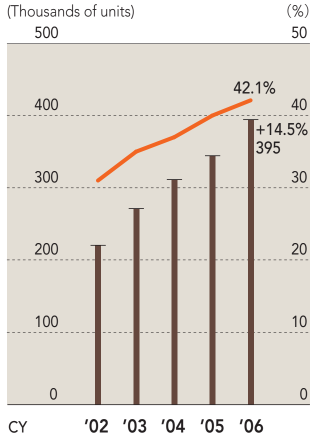


Consolidated vehicle sales
Consolidated production

Note: Fiscal years ended March 31

Diesel Vehicle Sales and Diesel Sales Ratio

(Thousands of units) (%)



Diesel sales ratio (Right scale)
Diesel vehicle sales

Note: Different from fiscal year figures

Market Conditions

Demand Stable at 17 Million Vehicles

In fiscal 2007, total sales across the European automotive industry (19 countries) amounted to 17.18 million vehicles, roughly the same level as in the previous fiscal year. Competition in the automotive market in Europe is challenging. In addition to the large number of car manufacturers competing in the region, customer needs and priorities with respect to cars differ in each country.

Although there have been some regional variations, the size of the European market as a whole has remained around 17 million vehicles over the past several years. Amid intense competition among local and global automakers to grow sales and revenues, demand in the market is expected to remain stable.

Performance Overview

Ninth Straight Sales Record Heightens Toyota's Presence

In Europe in fiscal 2007, Toyota extended its streak of sales records to nine years, selling 1.22 million vehicles on a consolidated basis. In a European market of 19 countries, Toyota ranked eighth in Europe's passenger car market, and market share reached 5.8%. Supported by robust sales, consolidated production exceeded 700,000 vehicles.

Among Toyota-brand vehicles, sales of our flagship mass production model, the Yaris, remained strong. In December 2006, the one millionth Yaris rolled off the line at our plant in France, which began operations in 2001. In addition, the Aygo, a small passenger car that has been built by our joint venture company with PSA Peugeot Citroën in the Czech Republic since 2005, reached our initial sales target of 100,000 vehicles per year. As the start of a campaign that will cover countries throughout the region, Toyota began marketing the Auris—a strategic model for Europe and Japan—in the United Kingdom in February 2007.

Aiming to take advantage of demand for diesel vehicles, which represent more than half of the European market, we worked to step up diesel vehicle sales. As a result, diesel vehicles accounted for 42% of Toyota's European vehicle sales in 2006.

Market Strategy

Strengthen Brand Power by Cultivating Core Models and Emphasizing Quality

In Europe, we will advance the Toyota brand's market penetration by fostering core models in each vehicle segment and improving quality. Also, aiming to reflect the characteristics of the European market, we will increase the percentage of diesel vehicle sales and introduce more hybrid models. In production, we will continue to increase local production and procurement. In 2007, our plants in the United Kingdom and Turkey began production of the new Auris. Beginning in 2006, Toyota's plant in France, which builds the Yaris, increased annual production capacity from 240,000 to 270,000 vehicles. In addition, our Polish plant that manufactures manual transmissions is moving forward with plans to increase production capacity from the current level of 600,000 units a year to 720,000 units by mid-2009. And, Toyota's Russian plant, presently under construction in St. Petersburg, will begin production of the Camry in December 2007, with an initial annual output of 20,000 vehicles.

French Plant Builds One Millionth Yaris

Responsible for the production of the Yaris (Vitz in Japan) in Europe, our plant in France (TMMF) built its one millionth Yaris in December 2006. Since the start of production with an annual output of 150,000 vehicles in January 2001, the plant has increased its capacity in stages. Today, it has an annual production capacity of 270,000 vehicles and employs 3,950 people. A perennial favorite in the region, the Yaris was chosen as the European Car of the Year in 2000 and had vehicle sales of 1.6 million by the end of 2006.

One millionth Yaris

European Annual Production Capacity in 2008 (planned)

1. United Kingdom (TMUK)	285,000 vehicles
2. France (TMMF)	270,000 vehicles
3. Turkey (TMMT)	150,000 vehicles
4. Portugal (TCAP)	10,000 vehicles
5. Czech Republic (TPCA)	100,000 vehicles*
6. Russia (TMMR)	20,000 vehicles (to increase to 50,000 vehicles)
Total	**835,000 vehicles**

* Toyota-brand vehicles only

Note: Please see the Overseas Manufacturing Companies section on page 66 for full plant names.

Asia and Other Regions

Camry

Corolla

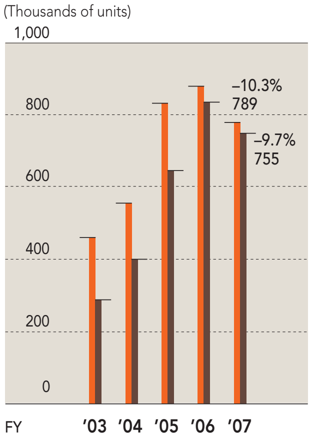
Hilux VIGO

Innova

Ban Pho plant, Thailand

Toyota is accelerating efforts to lay a foundation for growth by increasing operational development in Asia, Central and South America, and other emerging markets where vehicle demand is burgeoning.

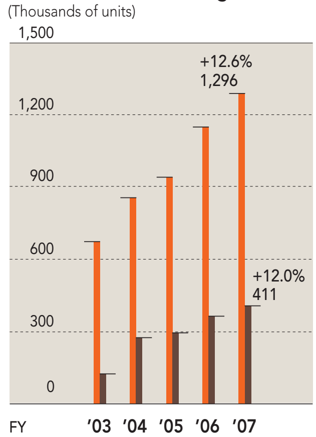
Consolidated Vehicle Sales and Production in Asia
(Thousands of units)



Consolidated vehicle sales
Consolidated production

Note: Fiscal years ended March 31

Consolidated Vehicle Sales and Production in Other Regions
(Thousands of units)



Consolidated vehicle sales
Consolidated production

Market Conditions

Asian Market Shrinks but Markets Grow in Other Regions

In fiscal 2007, mainstay Asian markets, including Indonesia and Taiwan, slumped due to the effect of crude oil price increases. The Chinese market maintained robust growth and continued to develop into one of the world's major automotive markets. Meanwhile, automotive markets in Central and South America and Africa expanded steadily.

Markets are expected to continue growing mainly in Central and South America, Africa, and the Middle East.

Performance Overview

Contrasting Sales in Asia and Other Regions

In Asia in fiscal 2007, sales downturns in Indonesia and Taiwan resulted in a roughly 10% decrease in Toyota's sales, to 789,000 vehicles, and a roughly 9% year-on-year decline in production, to 755,000 vehicles, on a consolidated basis.

In Other Regions, such as Central and South America, Oceania, and Africa, consolidated sales reached 1.29 million vehicles, thanks to strong demand for the IMV* series and the Camry. Consolidated production reached 411,000 vehicles.

* IMV is an abbreviation of Innovative International Multipurpose Vehicle. Toyota has established an optimal production system, which includes purchasing, with key hubs in Asia, South Africa, and Argentina. This system supplies multipurpose vehicles to more than 140 countries and regions. As of June 2007, the IMV series consisted of pickup trucks, minivans, and SUVs produced in 9 countries.

IMV Project

New Plant in Thailand Boosts Supply Capability

Under the IMV project, we completed our third plant in Thailand, in Ban Pho, which began production of pickup trucks in January 2007. With an annual production capacity of 100,000 vehicles, the new plant will supply pickup trucks domestically and to markets in more than 90 countries and regions.

Mainstay IMV production bases in Indonesia, South Africa, and Argentina are steadily increasing production and exporting vehicles to markets worldwide. In fiscal 2007, IMV series sales were up 7.3%, to 570,000 vehicles.

China Strategy

Target Large Increase in Vehicle Sales by Improving Brand Value

In the Chinese market, which continues to grow rapidly, we will continue to carefully monitor future supply and demand trends while increasing local production capacity and steadily pursuing a product strategy aimed at improving brand value.

In May 2006, Guangzhou Toyota Motor Co., Ltd., began full-fledged production of the new Camry. In China, sales of the Camry are very strong, with 95,000 vehicles sold in fiscal 2007. In fiscal 2007, sales in China amounted to approximately 300,000 vehicles*. In addition, Tianjin FAW Toyota Motor Co., Ltd., began producing the new Corolla in May 2007. And, production of the Yaris will begin at Guangzhou Toyota Motor in mid-2008. Toyota plans to steadily increase vehicle sales by establishing a mass production system for core models while adding to its lineup and developing sales and after-sales networks.

* Vehicle sales in China refers to sales of vehicles produced in China and imported from Japan.

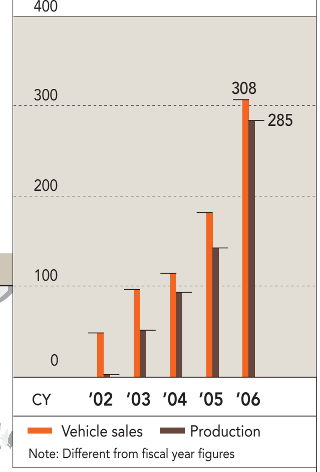
Tianjin FAW Toyota Motor's Third Plant Begins Production of New Corolla

A joint venture company established by China FAW Group Corporation and Toyota, Tianjin FAW Toyota Motor completed its third plant in Tianjin and began the production of the new Corolla in May 2007. Adding 200,000 vehicles to our annual production capacity, this latest plant will enable Tianjin FAW Toyota Motor to build 470,000 vehicles a year. We will sell the new Corolla built at this plant through a network of approximately 260 dealers across China developed by FAW Toyota Motor Sales Co., Ltd.

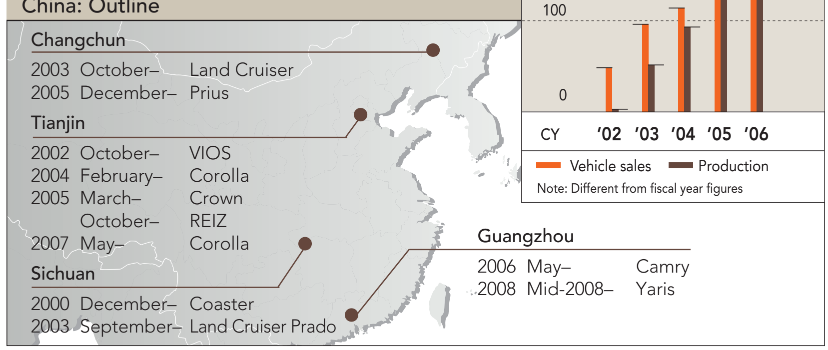
Tianjin FAW Toyota Motor's new Corolla

Vehicle Sales and Production in China

(Thousands of units)



China: Outline

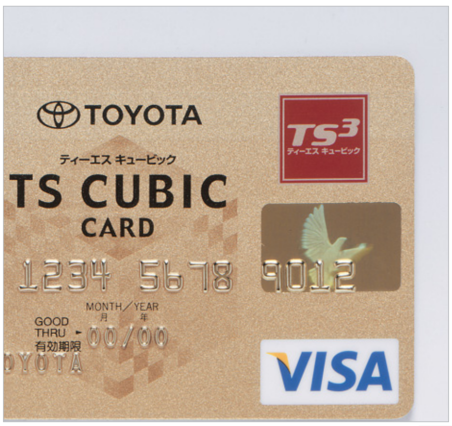


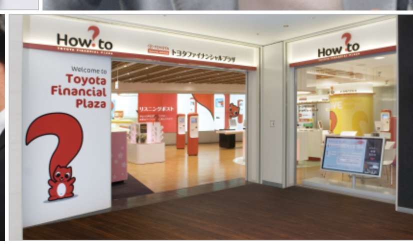
China: Operational Highlights

2006	May	Guangzhou Toyota Motor Co., Ltd., began production of the Camry
	June	Sichuan FAW Toyota Motor Co., Ltd., increased production capacity for the Land Cruiser Prado
	December	Guangzhou Toyota Motor Co., Ltd., decided to begin production of the Yaris from mid-2008
2007	April	Tianjin FAW Toyota Engine Co., Ltd., began production at second plant
	May	Tianjin FAW Toyota Motor Co., Ltd., began production of the new Corolla at third plant

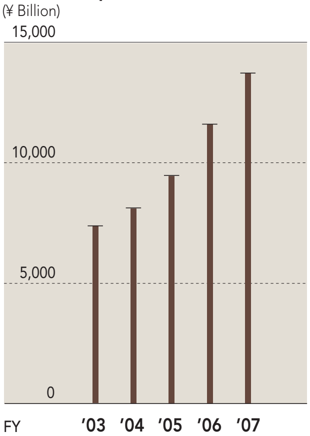
Automotive Operations | **Financial Services Operations** | Other Business Operations

In line with its global strategies for automotive operations, Toyota is extending the geographic reach of its financial services operations while developing auto sales financing services that stimulate demand and reflect regional characteristics.





Total Assets of Financial Services Operations
(¥ Billion)



Note: Fiscal years ended March 31

Performance Overview

Favorable Vehicle Sales and Attractive Financial Services Products Result in Record Number of New Contracts

In fiscal 2007, financial services operations concluded a record 2.54 million new contracts and realized solid growth in revenues, to ¥1,300.5 billion, and operating income, to ¥158.5 billion. These favorable results stemmed from stronger sales of Toyota- and Lexus-brand vehicles and the development of products and services catering to different countries' distinct needs through intense collaboration among regional management companies, distributors, and dealers.

Regional Strategy

Strengthen Auto Sales Financing Services in 31 Countries and Regions

Toyota's financial services operations are centered on Toyota Financial Services Corporation (TFS), which has overall control of financial services subsidiaries in Japan and overseas, and cover 31 countries and regions, including Japan. TFS provides financial services for vehicle purchases and leases to approximately 6.8 million customers. In particular, the TFS group is expanding operations in emerging markets that are showing dramatic growth. In China, the TFS group is rapidly establishing a system that will encompass more than 60% of the market for Toyota-brand vehicles. In fiscal 2007, the TFS group extended its sales area from Beijing to include Guangzhou, Tianjin, Shenzhen, and Shanghai. Plans call for further expansion to Jiangsu, Zhejiang, and other areas of Guangdong by the end of March 2008. And, in its first year of operation in Indonesia, the TFS group increased its sales bases from 7 to 14. We plan to enter other regions with careful consideration of management resource utilization and regional characteristics.

Meanwhile, in such mainstay markets as Europe, North America, Australia, and Japan, the auto sales financing environment is changing significantly. Excess liquidity is causing fierce competition among banks. At the same time, customers can easily access financial information through the Internet. We will respond to such changes by fostering closer relationships with customers. To that end, we are advancing our Customer for Life initiative to ensure long-term growth. As part of that initiative, we are issuing credit cards in Japan and the United States.

Total cardholders of the TS CUBIC CARD, issued by Toyota Finance Corporation, passed 6 million in fiscal 2007 thanks to a drive to recruit members that focused on Toyota dealers and to the expansion of tie-up card services. In addition, we started QUICPay* service in the small settlements market in April 2006. The number of QUICPay members exceeded one million in 12 months due to a drive to recruit QUICPay dealers and members.

* QUICPay is a type of electronic money based on a postpay service that does not require prior cash deposits.

Business Strategy

Expand Customer Base and Target Long-Term Earnings Growth

Under the slogan "Growth, Efficiency, Change," the TFS group steadily continued to implement initiatives from the previous fiscal year focusing on the themes of always putting the customer first, building business in developing countries, launching fresh initiatives to target earnings growth, and shifting to a low-cost business model.

In mainstay auto sales financing business, we are strengthening coordination among management companies, distributors, and dealers in regions worldwide. At the same time, we are offering customers easy payment plans through long-term loans for younger customers and fixed residual value products. Also, we provide package loans that include insurance and maintenance. Among other products catering to the needs of customers and specific regions, we introduced a lease for the Tundra in the United States and the Auris key for key product in Europe. Similarly, in Japan we are marketing such demand-generating products as the "Lexus Owners' Lease*" and "Rakuchin Corolla Credit**." In addition, the TFS group is bolstering financing products for fleets and used vehicles to expand its customer base and support Toyota's vehicle sales from a long-term perspective.

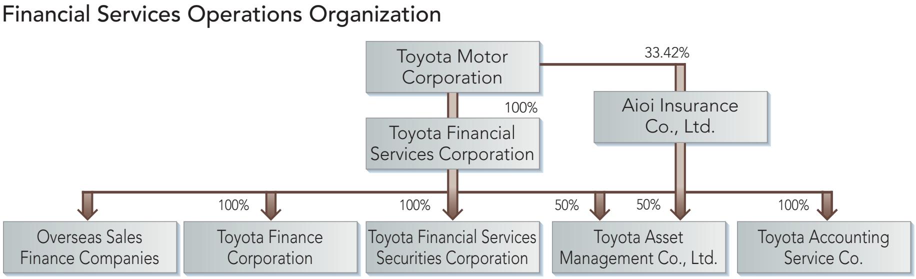
* Lexus Owners' Lease is a lease plan that lessens the burden of monthly payments by fixing vehicles' future trade-in prices.

** Rakuchin Corolla Credit is a payment plan that lessens the burden of monthly payments by fixing vehicles' trade-in prices three or five years in advance.

Overview of Toyota's Financial Services Operations	FY 2007
Total assets of financial services operations	¥13,735.4 billion
Revenues from financial services operations	¥1,300.5 billion
Operating income	¥158.5 billion
Credit ratings	AAA /Aaa
Operating areas	31 countries and regions worldwide
Market coverage	approx. 90%
No. of customers	approx. 13 million
No. of employees	approx. 8,000

Note: Fiscal year ended March 31

Financial Services Operations Organization



Toyota uses technologies and expertise cultivated in automotive operations to develop businesses in related peripheral areas, such as intelligent transport systems, information technology and telecommunications, housing, motorboat manufacturing, and environmental products.

Intelligent Transport Systems Business

Aiming to realize a society based on sustainable mobility, Toyota develops products and systems designed to enable the practical application of intelligent transport systems in the areas of safety, the environment, and comfort.

(additional details available at:
http://www.toyota.co.jp/en/tech/its/index.html)

Information Technology and Telecommunications Business

We believe that further integration of vehicles and communication is essential to enhancing the convenience and comfort of cars. Focusing on cell phones, Toyota is collaborating on the planning and commercialization of telecommunications-related products and services in partnership with general telecommunications service provider KDDI Corporation, which offers products ranging from cell phone services to fixed-line telephone domestic and international telecommunications services and Internet-related services. At the same time, we are developing a sales agency business that primarily handles KDDI cell phones.

e-Toyota Business

Toyota launched the GAZOO Internet-based information service in 1998. Today, the service provides information on new cars, used cars, and related services and a wide range of other information to 7.5 million members. In addition, Toyota expanded operations by entering the telematics field with the development of the G-BOOK information service for onboard terminals. We have steadily upgraded that service, developing G-BOOK ALPHA and G-link for Lexus-brand models, and we launched G-BOOKmX in May 2007. Overseas, we are introducing e-CRB—a cutting-edge customer relationship management network system—in Thailand, Australia, and China as part of efforts to build long-lasting, trusting relationships with customers.

(additional details available at:
http://www.toyota.co.jp/en/more_than_cars/gazoo/index.html)

Housing Business

Toyota is expanding its housing business by developing and supplying high-quality products that reflect current needs. In fiscal 2007, sales of homes were up 5.1%, to 5,807 units, due to the marketing of products with outstanding security, earthquake resistance, comfort, and durability.

(additional details available at:
http://www.toyota.co.jp/en/more_than_cars/housing/index.html)

Sincé Aventino

Marine Business

By making full use of the engine and other advanced technologies it has developed in automotive manufacturing, Toyota produces and markets motorboats and marine engines. In fiscal 2007, we continued to work to increase sales of our pleasure boat models.

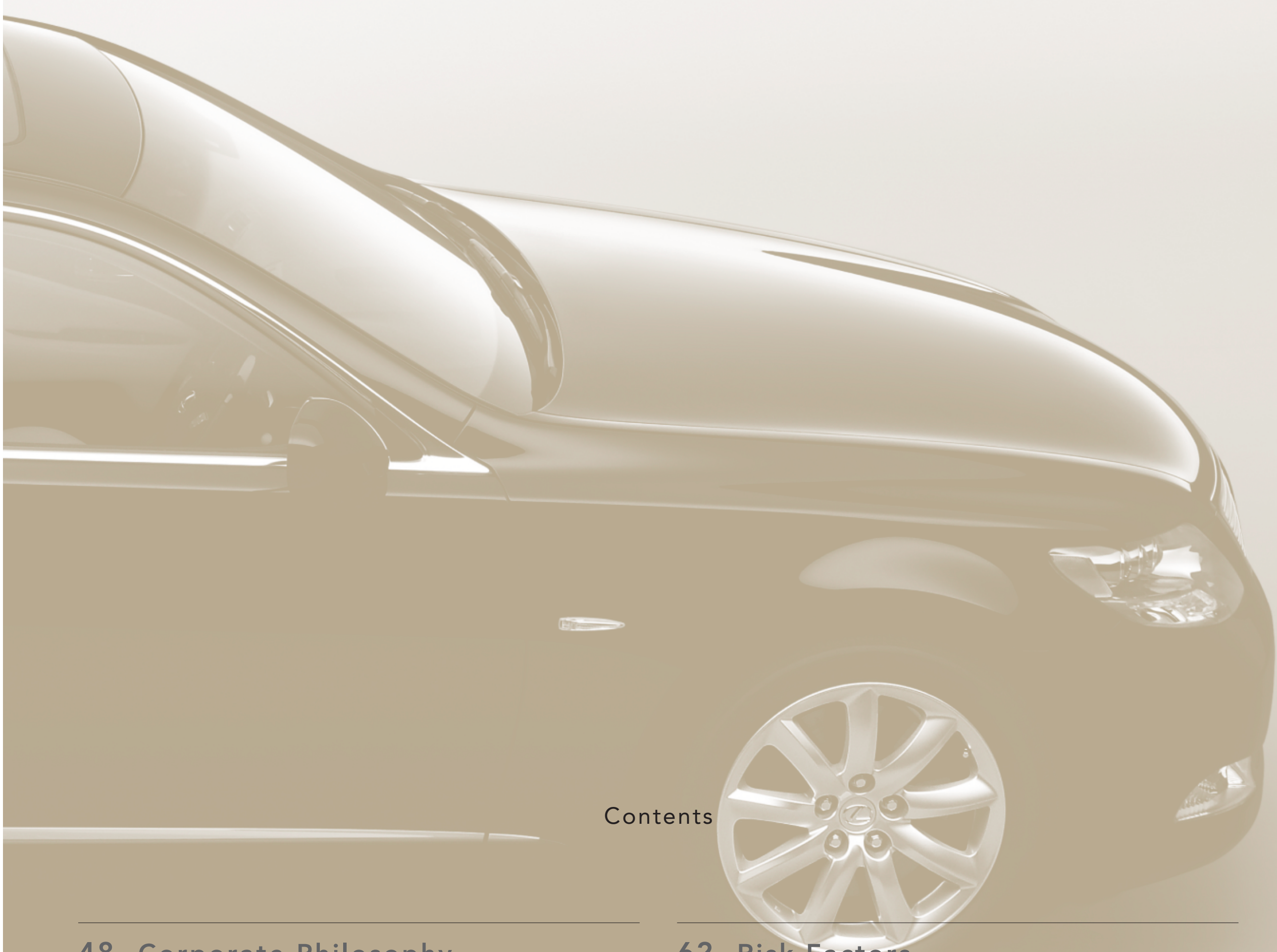
(additional details available at:
http://www.toyota.co.jp/jp/more_than_cars/marine/index.html)

Biotechnology and Afforestation Businesses

To contribute to the realization of a recycling society, Toyota is developing businesses in the fields of biotechnology and afforestation. Those operations include afforestation businesses in Australia and China, sweet potato cultivation and processing in Indonesia, and floriculture and rooftop greening in Japan. Additionally, in the field of bioplastics, we constructed a pilot factory within our Hirose plant and began operations in May 2005. Also, Toyota jointly developed an agent that promotes the production of fertilizer, "resQ45," with Menicon Co., Ltd. In July 2006, we launched the agent, which is efficient, reduces offensive odors, and lowers environmental burden.

(additional details available at:
http://www.toyota.co.jp/jp/more_than_cars/bio/index.html)

Management & Corporate Information



Contents

Corporate Philosophy

Since its foundation, Toyota has continuously strived to contribute to the sustainable development of society through the manufacturing and provision of products and services that lead the times. The foundations of these endeavors are the Guiding Principles at Toyota and an explanation paper entitled Contribution towards Sustainable Development that interprets the Guiding Principles at Toyota.

■ Guiding Principles at Toyota

The Guiding Principles at Toyota (adopted in 1992 and revised in 1997) reflect the kind of company that Toyota seeks to be in light of the unique management philosophy, values, and methods that it has embraced since its foundation. Toyota hopes to contribute to society through its corporate activities based on understanding and sharing of the Guiding Principles at Toyota.

[1.] Honor the language and spirit of the law of every nation and undertake open and fair corporate activities to be a good corporate citizen of the world.

[2.] Respect the culture and customs of every nation and contribute to economic and social development through corporate activities in the communities.

[3.] Dedicate ourselves to providing clean and safe products and to enhancing the quality of life everywhere through all our activities.

[4.] Create and develop advanced technologies and provide outstanding products and services that fulfill the needs of customers worldwide.

[5.] Foster a corporate culture that enhances individual creativity and teamwork value, while honoring mutual trust and respect between labor and management.

[6.] Pursue growth in harmony with the global community through innovative management.

[7.] Work with business partners in research and creation to achieve stable, long-term growth and mutual benefits, while keeping ourselves open to new partnerships.

■ Contribution towards Sustainable Development

In January 2005, Toyota prepared the Contribution towards Sustainable Development statement to explain in greater detail the Guiding Principles at Toyota and convey Toyota's commitment to contributing to sustainable development in harmony with society and the global environment, with an emphasis on all stakeholders.

■ We, TOYOTA MOTOR CORPORATION and our subsidiaries, take initiative to contribute to harmonious and sustainable development of society and the earth, based on our Guiding Principles.

■ We comply with local, national and international laws and regulations as well as the spirit thereof and we conduct our business operations with honesty and integrity.

■ In order to contribute to sustainable development, we believe that management interacting with its stakeholders as described below is of considerable importance, and we will endeavor to build and maintain sound relationships with our stakeholders through open and fair communication.

Customers	• Based on our philosophy of "Customer First", we develop and provide innovative, safe and outstanding high quality products and services that meet a wide variety of customers' demands to enrich the lives of people around the world. (Guiding Principles 3 and 4) • We will endeavor to protect the personal information of customers in accordance with the letter and spirit of each country's privacy laws. (Guiding Principles 1)

Employees	• We respect our employees and believe that the success of our business is led by each individual's creativity and good teamwork. We stimulate personal growth for our employees. (Guiding Principles 5) • We support equal employment opportunities, diversity and inclusion for our employees and do not discriminate against them. (Guiding Principles 5) • We strive to provide fair working conditions and to maintain a safe and healthy working environment for all our employees. (Guiding Principles 5) • We respect and honor the human rights of people involved in our business and, in particular, do not use or tolerate any form of forced or child labor. (Guiding Principles 5) • Through communication and dialogue with our employees, we build and share the value "Mutual Trust and Mutual Responsibility" and work together for the success of our employees and the company. (Guiding Principles 5) • Management of each company takes leadership in fostering a corporate culture and implementing policies, that promote ethical behavior. (Guiding Principles 1 and 5)
Business Partners	• We respect our business partners such as suppliers and dealers and work with them through long-term relationships to realize mutual growth based on mutual trust. (Guiding Principles 7) • Whenever we seek a new business partner, we are open to any and all candidates, regardless of nationality or size, and evaluate them based on their overall strengths. (Guiding Principles 7) • We maintain fair and free competition in accordance with the letter and spirit of each country's competition laws. (Guiding Principles 1 and 7)
Shareholders	• We strive to enhance corporate value while achieving a stable and long-term growth for the benefit of our shareholders. (Guiding Principles 6) • We provide our shareholders and investors with timely and fair disclosure on our operating results and financial condition. (Guiding Principles 1 and 6)
Global Society / Local Communities — Environment —	• We aim for growth that is in harmony with the environment throughout all areas of business activities. We strive to develop, establish and promote technologies enabling the environment and economy to coexist harmoniously and to build close and cooperative relationships with a wide spectrum of individuals and organizations involved in environmental preservation. (Guiding Principles 3)
— Community —	• We implement our philosophy of "respect for people" by honoring the culture, customs, history and laws of each country. (Guiding Principles 2) • We constantly search for safer, cleaner and superior technology to develop products that satisfy the evolving needs of society for sustainable mobility. (Guiding Principles 3 and 4) • We do not tolerate bribery of or by any business partner, government agency or public authority and maintain honest and fair relationships with government agency and public authority. (Guiding Principles 1)
— Philanthropy —	• Wherever we do business, we actively promote and engage, both individually and with partners, in philanthropic activities that help strengthen communities and contribute to the enrichment of society. (Guiding Principles 2)

Corporate Governance

Toyota's Basic Approach to Corporate Governance

Toyota's top management priority is to steadily increase corporate value over the long term. Further, our fundamental management philosophy is to remain a trusted corporate citizen in international society through open and fair business activities that honor the language and spirit of the law of every nation. In order to put that philosophy into practice, Toyota builds favorable relationships with all of its stakeholders, including shareholders, customers, business partners, local communities, and employees. We are convinced that providing products that fully cater to customer needs is essential to achieve stable, long-term growth. That philosophy is outlined in the "Guiding Principles at Toyota." Further, to explain those principles in more detailed terms, we prepared and issued the "Contribution towards Sustainable Development" statement in January 2005. Through such initiatives, Toyota is taking concrete measures to reinforce its corporate governance functions and to become an even more competitive global company.

Specifically, we have introduced a unique management system focused on prompt decision making for developing our global strategy and speeding up operations. Furthermore, we have a range of long-standing in-house committees and councils responsible for monitoring and discussing management and corporate activities from the viewpoints of various stakeholders to ensure heightened transparency and the fulfillment of social obligations.

Ultimately, however, a well-developed awareness of ethics among individuals is the key to successful governance systems. Without such awareness—regardless of the governance structure of a company—corporate governance cannot function effectively. Toyota has a unique corporate culture that places emphasis on problem solving and preventative measures, such as problem solving based on the actual situation on the site and highlighting problems by immediately flagging and sharing them. In other words, because Toyota's approach is to build in quality through manufacturing processes, enhancing the quality of everyday operations strengthens governance. Toyota's management team and employees conduct operations and make decisions founded on that common system of checks and balances and on high ethical standards.

Toyota's Management System

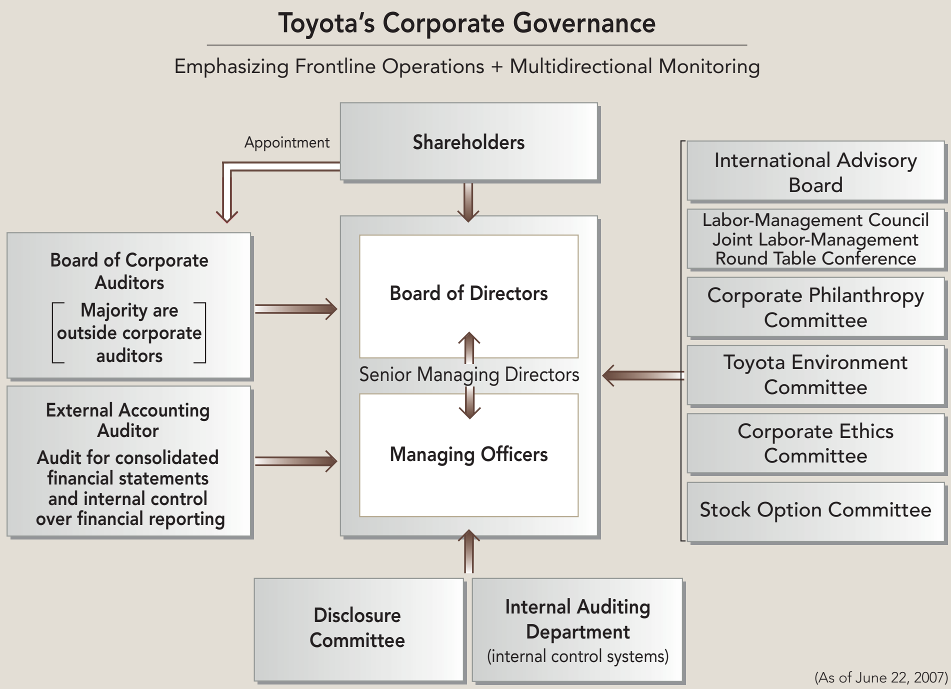
Toyota introduced its current management system in 2003. The main differences between the current system and the former system are that the current system set a new non-board position of Managing Officers and reduced the number of directors. Under the current system, with respect to various operational functions across the entire Company, the Chief Officers, who are directors, serve as the highest authorities of their specific operational functions while non-board Managing Officers implement the actual operations. The distinctive feature of this system is that, based on Toyota's philosophy of emphasizing developments on the site, the Chief Officers serve as the link between management and on-site operations, instead of focusing exclusively on management. As a result, this system enables the management to make decisions directly with on-site operations by reflecting on-site personnel opinions on management strategy and swiftly implementing management decisions into actual operations.

Further, as part of its management reforms, the Company abolished the retiring directors' bonus payments system at the close of the Ordinary General Shareholders' Meeting in June 2006 in order to further strengthen the linkage between directors' remuneration and the Company's business results and shareholders' returns and to establish a highly transparent remuneration system that reflects duties and achievements in each term of office.

To monitor the management, Toyota has adopted an auditor system that is based on the Japanese Corporation Act. In order to increase transparency of corporate activities, four of Toyota's seven corporate auditors are outside corporate auditors. Corporate auditors support the Company's corporate governance efforts by undertaking audits in accordance with the audit policies and plans determined by the Board of Corporate Auditors. (As of June 22, 2007)

Systems for Ensuring Appropriate Management

As a system to ensure appropriate management, Toyota has convened meetings of its International Advisory Board (IAB) annually since 1996. The IAB consists of approximately 10 distinguished advisors from overseas with backgrounds in a wide range of fields, including politics, economics, the environment, and business. Through the IAB, we receive advice on a diversity of business issues from a global perspective. In addition, Toyota has a wide variety of conferences and committees for deliberations and the monitoring of management and corporate activities that reflect the views of a range of stakeholders, including the Labor-Management Council, the Joint Labor-Management Round Table Conference, the Corporate Philanthropy Committee, the Toyota Environment Committee, and the Stock Option Committee.



Accountability

Toyota considers the appropriate disclosure of corporate and financial information as a critical responsibility in corporate governance, and the Company works to enhance its accountability to shareholders and other investors.

With respect to financial information, in addition to quarterly reporting of financial statements, we made financial statements timelier, more transparent, and more comprehensive by only issuing consolidated financial statements in accordance with U.S. GAAP from fiscal 2004. Further, in fiscal 2006 the Company started to disclose an outlook for consolidated business results of the next fiscal year. In response to the enactment of the U.S. Sarbanes-Oxley Act, Toyota has established the Disclosure Committee. The committee works to ensure the appropriate, timely, and fair disclosure of material information.

Compliance

To firmly establish corporate ethics and ensure strict compliance, Toyota's Corporate Ethics Committee, which is comprised of members drawn from the executive vice president level and above and representative corporate auditors, deliberates issues and measures relating to corporate ethics, compliance, and risk management.

For employees, an outside attorney provides the Compliance Hotline. Also, we are reexamining the compliance risks within each division, implementing countermeasures, and entrenching them. Toyota will implement the tenets of ethical business practice by further promoting the "Guiding Principles at Toyota" and the "Toyota Code of Conduct" and by educating and training employees at all levels and in all areas of operations.

For internal audit, the management and a specialized independent organization are working on establishing a solid system to evaluate the effectiveness of internal controls over financial reporting in accordance with Article 404 of the U.S. Sarbanes-Oxley Act, applicable to Toyota from the year ended March 31, 2007. In order to enhance the reliability of the financial reporting of Toyota, the three auditing functions, audit by Corporate Auditors, internal audit, and accounting audit by Independent External Auditors, aid in conducting an effective and efficient audit through meetings held periodically and as necessary to share information and come to understandings through discussion on audit plans and results.

Corporate Social Responsibility

To maintain stable, long-term growth in international society, companies have to earn the respect and trust of society and individuals. Rather than simply contributing to economic development through operational activities, growing in harmony with society is a must for good corporate citizens. Mindful of the foregoing, Toyota has a range of committees that are tasked with monitoring corporate activities and management in relation to social responsibilities, including the Corporate Philanthropy Committee and the Toyota Environment Committee.

Internal Control Systems and Toyota's Basic Approach

Based on the "Guiding Principles at Toyota" and the "Toyota Code of Conduct," we, together with our subsidiaries, have created and maintained a sound corporate culture. In our actual operations, we integrate into our business operation processes the principles of problems identification ("Mondai Hakken") and continuous improvements ("Kaizen") and make continuous efforts to train our employees who put these principles into practice.

With the above understanding, internal control has been developed under the following basic policies.

[1] System to ensure that the Directors execute their responsibilities in compliance with relevant laws and regulations and the Articles of Incorporation

1) Toyota will ensure that Directors act in compliance with relevant laws and regulations and the Articles of Incorporation, based on the Code of Ethics and other explanatory documents that include necessary legal information, presented on occasions such as trainings for new Directors.

2) Toyota will make decisions regarding business operations after comprehensive discussions at the Board meetings and other meetings of various cross-sectional decision-making bodies. Matters to be decided are properly submitted and discussed at the meetings of those decision-making bodies in accordance with the relevant rules.

3) Toyota will appropriately discuss significant matters and measures relating to issues such as corporate ethics, compliance, and risk management at the Corporate Ethics Committee and other meetings. Toyota will also discuss and decide at the meetings of various cross-sectional decision-making bodies policies and systems to monitor and respond to risks relating to organizational function.

[2] System to retain and manage information relating to performance of duties by Directors

Information relating to exercising duties by Directors shall be appropriately retained and managed by each division in charge pursuant to the relevant internal rules and laws and regulations.

[3] Rules and systems related to the management of risk of loss

1) Toyota will properly manage the capital fund through its budgeting system and other forms of control, conduct business operations, and manage the budget, based on the authorities and responsibilities in accordance with the "Ringi" system (effective consensus-building and approval system). Significant matters will be properly submitted and discussed at the Board meetings and other meetings of various bodies in accordance with the standards stipulated in the relevant rules.

2) Toyota will ensure accurate financial reporting by issuing documentation on the financial flow and the control system etc., and by properly and promptly disclosing information through the Disclosure Committee.

3) Toyota will manage various risks relating to safety, quality, the environment and compliance by establishing rules or preparing and delivering manuals, as necessary, in each relevant division.

4) As a precaution against events such as natural disasters, Toyota will prepare manuals, conduct emergency drills, arrange risk diversification and insurance as needed.

[4] System to ensure that Directors exercise their duties efficiently

1) Toyota will manage consistent policies by specifying the policies at each level of the organization based on the medium- to long-term management policies and the Company's policies for each fiscal term.

2) The Chief Officer, as a liaising officer between the management and operational functions, will direct and supervise Managing Officers based on the management policies and delegate the executive authority over each division to the Managing Officers so that flexible and timely decision making can be achieved.

3) Toyota from time to time will make opportunities to listen to the opinions of various stakeholders,

including external experts, and reflect those opinions in Toyota's management and corporate activities.

[5] System to ensure that employees conduct business in compliance with relevant laws and regulations and the Articles of Incorporation

1) Toyota will clarify the responsibilities of each organization unit and maintain a basis to ensure continuous improvements in the system.

2) Toyota will continuously review the legal compliance and risk management framework to ensure effectiveness. For this purpose, each organization unit shall confirm the effectiveness by conducting self-checks among others, and report the result to the Corporate Ethics Committee.

3) Toyota will promptly obtain information regarding legal compliance and corporate ethics and respond to problems and questions related to compliance through its corporate ethics inquiry office and other channels.

[6] System to ensure the appropriateness of business operations of the corporation and the business group consisting of the parent company and subsidiaries

1) Toyota will expand the guiding principles and the code of conduct to its subsidiaries as TMC's common charter of conduct, and develop and maintain a sound environment of internal controls for TMC. Toyota will also promote the guiding principles and the code of conduct through personal exchange.

2) Toyota will manage its subsidiaries in a comprehensive manner by clarifying the roles of the division responsible for the subsidiaries' financing and management and the roles of the division responsible for the subsidiaries' business activities. Those divisions will confirm the appropriateness and legality of the operations of the subsidiaries by exchanging information with those subsidiaries, periodically and as needed.

[7] System concerning employees who assist the Corporate Auditors when required

Toyota will establish a Corporate Auditors Department and assign a number of full-time staff to support this function.

[8] Independence of the employees described in the preceding item [7] from Directors

Any changes in personnel in the Corporate Auditors Department will require prior consent of the Board of Corporate Auditors or a full-time Corporate Auditor selected by the Board of Corporate Auditors.

[9] System for Directors and employees to report to Corporate Auditors, and other relative systems

1) Directors, from time to time, will properly report to the Corporate Auditors any major business operations through the divisions in charge. If any fact that may cause significant damage to the Company is discovered, they will report the matter to the Corporate Auditors immediately.

2) Directors, Managing Officers, and employees will report to Corporate Auditors on the business upon requests by the Corporate Auditors, periodically and as needed.

[10] Other systems to ensure that the Corporate Auditors conducted audits effectively

Toyota will ensure that the Corporate Auditors attend major Board meetings, inspect important Company documents, and make opportunities to exchange information between the Corporate Auditors and Accounting Auditor periodically and as needed, as well as appoint external experts.

Regarding significant differences in corporate governance practices between Toyota and U.S. companies listed on the New York Stock Exchange, please refer to the annual report on Form 20-F filed with the United States Securities and Exchange Commission. Form 20-F can be viewed at the Company's web site (http://www.toyota.co.jp/en/ir/library/sec/index.html).

Directors and Auditors

As of June 22, 2007

[Representative Directors]

Chairman of the Board

Fujio Cho

Vice Chairman of the Board

Katsuhiro Nakagawa

President, Member of the Board

Katsuaki Watanabe

Executive Vice Presidents, Members of the Board

(Main operational responsibilities)

Tokuichi Uranishi

Global Planning Operations, Overseas (Americas, Europe & Africa, China, Asia, Oceania & Middle East)

Kazuo Okamoto

Research & Development (R&D Management, Technical Administration, Design, Product Development, Vehicle Engineering, Motor Sports)

Kyoji Sasazu

Business Development / Purchasing / Housing

Mitsuo Kinoshita

Corporate Planning & Research / Government & Public Affairs / Global Audit / General Administration & Human Resources / Accounting / Information Systems / CSR & Environmental Affairs

Takeshi Uchiyamada

Production / TQM

Masatami Takimoto

Quality / Research & Development (Power Train, Future Project) / Fuel Cell System Development

Akio Toyoda

Product Management / IT & ITS / Global Planning Operations / Japan Sales Operations / Customer Service / Quality

[Directors and Auditors]

Senior Managing Directors
(Chief officer, Deputy chief officer, or Overseas subsidiary of residence)

Yukitoshi Funo
The Americas Operations Group / Toyota Motor Sales, U.S.A., Inc.

Shoji Ikawa
Production Engineering Group / Fuel Cell System Development Group

Satoshi Ozawa
General Administration & Human Resources Group

Takeshi Suzuki
Business Development Group / Accounting Group

Koichi Ina
Strategic Production Planning Group / Manufacturing Group

James E. Press
Toyota Motor North America, Inc.

Atsushi Niimi
Purchasing Group

Takeshi Yoshida
Product Development Group

Hiroshi Takada
Global Planning Operations Group

Shinzo Kobuki
Power Train Development Group

Teiji Tachibana
Government & Public Affairs Group / Housing Group

Akira Sasaki
China Operations Group / Toyota Motor (China) Investment Co., Ltd.

Shinichi Sasaki
Quality Group

Hiroshi Kawakami
Customer Service Operations Group

Akira Okabe
Asia, Oceania & Middle East Operations Group

Tadashi Arashima
Europe & Africa Operations Group / Toyota Motor Europe NV/SA

Yoichiro Ichimaru
Japan Sales Operations Group

Mamoru Furuhashi
Government & Public Affairs Group

Honorary Chairman, Member of the Board

Shoichiro Toyoda

Senior Adviser, Member of the Board

Hiroshi Okuda

Full-Time Corporate Auditors

Yoshikazu Amano
Masaki Nakatsugawa
Chiaki Yamaguchi

Corporate Auditors

Yoichi Kaya
Akishige Okada
Yoichi Morishita
Kunihiro Matsuo

Note: Mr. Yoichi Kaya, Mr. Yoichi Morishita, Mr. Akishige Okada, and Mr. Kunihiro Matsuo satisfy the qualifications of Outside Corporate Auditors as provided in Article 2, Item 16 of the "Corporation Act."

Environmental and Social Initiatives

[Environmental]

Energy / Global Warming

Toyota is taking a comprehensive approach to energy and global warming issues by promoting measures to reduce CO_2 emissions, in both the development and design stages as well as during production and logistics, while also taking action to improve traffic flows and promote reforestation.

- Cumulative sales of hybrid vehicles top one million units. (as of the end of May 2007)
- The goal to reduce CO_2 emissions from fixed emission sources was achieved.
- The CO_2 emissions reduction goal in the area of logistics was achieved by implementing measures, such as a shift to a mode of transport with low CO_2 emissions per unit and a reduction in the total distance traveled.

Recycling of Resources

In order to improve resource productivity, Toyota is promoting the effective utilization of resources, reducing water consumption, and encouraging the development of designs for recycling.

- Reduction goals were set for the volume of waste not processed within Toyota.
- In response to automobile recycling laws in Japan and overseas, Toyota steadily implemented measures to properly collect, recycle / recover, and treat airbags, ASR*, and CFCs / HFCs**.
- To further enhance ASR recycling / recovery technologies, Toyota began verification testing of technologies to separate resins from ASR.

* ASR: Automobile Shredder Residue

** CFCs / HFCs: fluorocarbon

Substances of Concern

Toyota is managing substances of concern in its companywide system, under a basic policy of implementing thorough measures to totally eliminate substances of concern from all vehicles, and is taking actions globally, in the areas of both products and production.

- Toyota launched the LS460 and Corolla, which contain absolutely no substances of concern.
- The goal to reduce the discharge volume of substances subject to PRTR* was achieved.

* PRTR: Pollutant Release and Transfer Register

Atmospheric Quality

Toyota has specified the reduction of exhaust and VOC* emissions as action items and, in the area of products, is developing low emissions technologies and introducing low emission vehicles according to the local conditions in various countries. In the area of production, Toyota is promoting the introduction of water-borne paints.

- The number of vehicles that meet or surpass the Ultra Low-Emission Vehicle level (50% or 75% lower than the 2005 Exhaust Emissions Standards) reached 97.7% of total production.
- Toyota introduced water-borne paints in body painting lines of all plants. Average VOC emissions on all vehicle body painting lines were reduced to 27g / m^2.

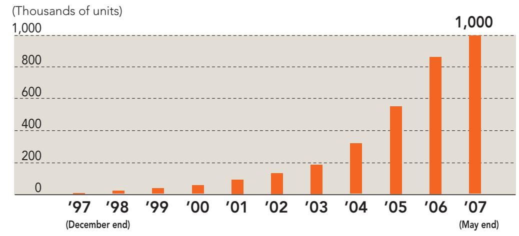
* VOC: Volatile Organic Compound

Environmental Management

In the first year of implementation of the Fourth Toyota Environmental Action Plan, Toyota began steady action in line with the plan.

- The China Environment Committee was established in March 2007 to create a five-committee structure worldwide.
- Eco-Factory activities were conducted on an ongoing basis.
- The first Global Environment Awards were presented.

Cumulative Hybrid Vehicle Sales (Worldwide)



Recycling / Recovery of the Three Specified Items

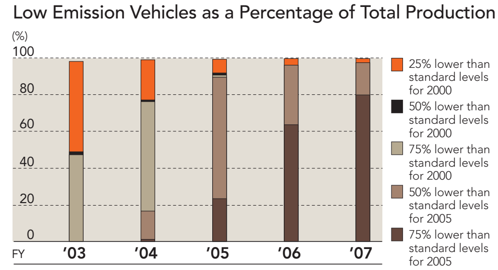
(FY 2007 results)

		Results		Results
Number of vehicles collected for ASR		957,000	Funds paid from JARC*	¥8,092 million
Number of vehicles collected for airbag recovery		186,000		
Number of vehicles collected for CFC / HFC recovery		713,000	Expense for recycling / recovery and treatment	¥8,434 million
Recycling / recovery rate	ASR	66%		
	Airbags	94%	Balance	–¥342 million

* Japan Automobile Recycling Promotion Center

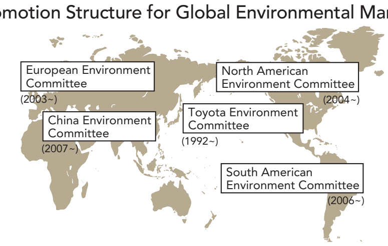
Corolla AXIO

Low Emission Vehicles as a Percentage of Total Production



Note: Fiscal years ended March 31

Promotion Structure for Global Environmental Management



[Social]

Relations with Customers

Based on the "Kaizen (continuous improvements)" philosophy at the heart of its manufacturing activities, Toyota is working hard to continuously improve customer satisfaction through initiatives in all areas of its business activities, including development, purchasing, production, sales, and after-sales services, throughout the entire Toyota Group.

- The core of Toyota's "Customer First" (CF) policy is to establish superiority with regard to quality. To achieve this, Toyota has been promoting CF activities throughout the entire Toyota Group.
- Toyota launched the Porte Welcab Friendmatic Seat Weldrive model as one form of Toyota universal design.

Relations with Employees

Based on mutual trust and respect between labor and management, long-term employment stability, and communication, each Toyota employee is taking measures to enhance work-related skills and work ethic.

- Toyota conducted companywide "80,000-person Workplace Communications Inspection Activities" to determine if workplace communications are being conducted effectively and efficiently.
- R&D Learning Center opens.
- Toyota established the BR Career and Life Design Department to support the development of autonomous careers by women and to create workplace environments that enable women to work to their full potential.

Cooperation with Business Partners

Showing respect for all business partners, Toyota works to contribute to the sustainable development of society and the world through cooperation with business partners.

- The Toyota Global Suppliers Convention was held with corporate social responsibility as a subject of discussion.
- CSR briefings conducted by attorneys were held for managers of all dealer facilities nationwide.

Global Society / Local Communities (Initiatives toward Improving Traffic Safety)

In addition to making safer vehicles with a focus on reducing injury to people, Toyota is taking a comprehensive approach based on the "Safety: Basic Concept," which seeks to achieve a working harmony with society.

- New passive safety technologies and Pre-crash Safety System have been adopted in the LS460 and Corolla AXIO.
- The Estima received the Level 5 rating (the highest) in the Pedestrian Head Protection Performance Test conducted by the Ministry of Land Infrastructure and Transport in Japan.

Global Society / Local Communities (Social Contribution)

Seeking to contribute toward a prosperous society and its sustainable development, Toyota has been engaged in various social contribution activities in Japan and overseas with the goal of becoming "a good corporate citizen of the world."

- Over a period of six years, Toyota, together with an NPO, planted trees on approximately 2,500 hectares of land, contributing to the prevention of desertification in the Greater Beijing area.
- Science and engineering workshops for elementary students were held at science and other museums throughout Japan. Employees who are members of the Toyota Engineering Society serve as volunteer instructors.

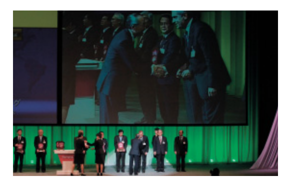
Global Society / Local Communities (Communication)

Toyota presents information concerning its vision and corporate activities at numerous cultural facilities. The Toyota Motor Corporation Global Website underwent major redesign to enhance the dissemination of information.

- The sixth Toyota Stakeholder Dialogue was held, based on the theme of Toyota's CSR and environmental activities.

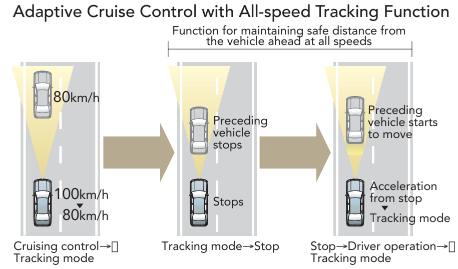
In-line measurement sensor gate on a Prius line

The "Skills of the Designer" course serves to reconfirm the roles and responsibilities of the designer



Awards being presented at the Toyota Global Suppliers Convention

Adaptive Cruise Control with All-speed Tracking Function



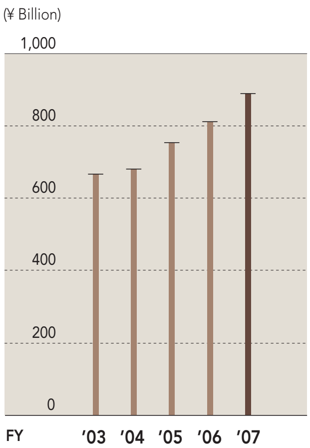
Children learn about air resistance during a lecture on aerodynamic bodies

The sixth Toyota Stakeholder Dialogue

R&D and Intellectual Property

Toyota pursues R&D to provide customers worldwide with high-quality, low-cost, appealing products. Further, viewing intellectual property created by R&D as an important management resource, we utilize and protect it to help maximize corporate value.

R&D Expenses



Note: Fiscal years ended March 31

R&D Policy

In R&D, Toyota follows guiding principles that call on the Company to first dedicate itself to providing clean and safe products and to enhancing the quality of life everywhere through all its activities and second create and develop advanced technologies and provide outstanding products and services that fulfill the needs of customers worldwide. Aiming to put those principles into practice and create high-quality, appealing products by improving its technological capabilities, Toyota conducts continuous R&D activities.

In fiscal 2007, Toyota's R&D expenses increased 9.6% year on year, to ¥890.7 billion, which represented 3.7% of consolidated net revenues. Toyota's recent high R&D expenses have resulted from stepped-up advance and leading-edge development of technology for new-model vehicles, environmental technology, and safety technology. Against the backdrop of technology competition that is intensifying on a global scale, Toyota intends to continue high levels of R&D investment in order to maintain the competitive superiority of its products and technologies.

Meanwhile, as a policy to ensure efficient R&D, we promote integration and coordination among respective R&D phases, which include basic research, leading-edge research, advance development, and product development. Toyota controls research expenses appropriately by undertaking regular evaluations and reviews, in light of consultations with external parties, particularly with regard to such long-term basic research themes as energy, the environment, information technology and telecommunications, and materials. The Company also pursues efficient investment for development by setting out clear investment benchmarks for each project tasked with product development, advance development, or leading-edge technology development.

Basic Research Phase:	**Development theme discovery** Research on basic vehicle-related technology
Forward-Looking Technology Development Phase:	**Technological breakthroughs related to components and systems** Development of leading-edge components and systems ahead of competitors
Product Development Phase:	**Primary responsibility for development of new-model vehicles** Development of new-model vehicles and upgrading of existing vehicles

R&D Facilities

Head Office Technical Center
(Toyota City, Aichi Prefecture, Japan)

Toyota Motor Engineering & Manufacturing North America, Inc.
(Ann Arbor, Michigan, U.S.A.)

Toyota Motor Europe R&D/ Manufacturing (Brussels, Belgium)

R&D Organization

In Japan, Toyota Central Research & Development Laboratories, Inc., mainly conducts Toyota's R&D activities. Also, Toyota Group companies, including Daihatsu Motor Co., Ltd., Hino Motors, Ltd., Toyota Auto Body Co., Ltd., and Kanto Auto Works, Ltd., develop products in close collaboration with Toyota's R&D. Further, Toyota is constructing a global development organization. We have established technical centers in North America, Europe, Asia, and Oceania in order to build cars that cater accurately to customer needs in respective regions. In addition to those centers, we have also created design and motorsports R&D bases in respective regions.

Further, Toyota concluded an agreement on an operational tie-up with Isuzu Motors Limited in November 2006. Focusing on diesel engines as an important environmental technology, Toyota and Isuzu Motors will take full advantage of complementary management and technological resources to jointly undertake advance development of next-generation small diesel engines.

Note: Please see the R&D Organization section on page 61 for further details.

R&D Activities

The overriding goal of Toyota's technology and product development is to minimize the negative aspects of cars, such as environmental burden and traffic accidents, while maximizing the positive aspects, such as driving pleasure, comfort, and convenience. At all times, we aim to open the way to a new automotive society through advanced solutions that simultaneously meet the requirements of "incompatible" goals.

In the development of safety technology, Toyota continues to take initiatives to develop technologies in the areas of active safety and passive safety as well as pre-crash technologies linking these two areas. In recent years, the Company has concentrated technology development efforts on an integrated safety management concept. Those efforts seek to ensure safety in all driving phases by integrating safety systems that previously controlled different driving phases separately. For example, we have further evolved our Vehicle Dynamics Integrated Management (VDIM) system by adding functions that control steering and vehicle stability. At the same time, we have achieved even better collision avoidance by integrating the management of VDIM with Pre-crash Safety Systems, which use cameras and radars to achieve recognition and assessment functions. Through such initiatives, we want to continue radically evolving cars' safety functions.

In the development of environmental technology, Toyota is stepping up measures that realize sustainable mobility* by heightening the convenience of automobiles while contributing to the preservation of the environment. One area of focus is the development of power-train technologies, which lie at the heart of efforts to improve vehicles' environmental performance. In developing those measures, we emphasize three broad themes: improving fuel efficiency to reduce CO_2, preventing atmospheric pollution through cleaner exhaust emissions, and adapting to energy diversification. In putting into practice our strategy of providing *the right vehicle for the right place at the right time*, we keep abreast of energy diversification trends and provide countries and regions with the type of vehicles they need when they need them. One of Toyota's major initiatives, hybrid technology is a core environmental technology that we can adapt to a wide variety of power trains, and we are currently moving forward with the development of next-generation systems.

* Sustainable mobility is defined by the World Business Council for Sustainable Development as "the ability to meet the needs of society to move freely, gain access, communicate, trade, and establish relationships without sacrificing other essential human or ecological values today or in the future."

Approach to Intellectual Property

By continuing to take on R&D challenges ahead of the competition, Toyota has heightened both the appeal of its products and its technological capabilities and made such the source of its competitiveness. Because expertise and inventions always underpin products created through such R&D initiatives, intellectual property is one of Toyota's key management resources. Toyota's basic philosophy with respect to such intellectual property is to appropriately protect and effectively use it to secure degrees of freedom in operational activities and maximize corporate value.

Systems for Intellectual Property Activities

Toyota organizationally links R&D and intellectual property activities. Through that system, we select promising development themes, upon which we encourage the building of a strong patent portfolio. Encompassing the three areas of management, R&D, and intellectual property, our Intellectual Property Committee deliberates the acquisition and use of intellectual property that is important to our business as well as strategies for dealing with management risk involving intellectual property.

Intellectual Property Strategies

Toyota analyzes patents in respective research fields and uses its findings for formulating R&D strategies. Further, we are building a global patent portfolio by filing and obtaining patents after identifying the areas of each technology development theme in which Toyota should acquire patents.

Regarding the use of intellectual property as a management resource, Toyota always bears in mind the need to contribute to sustainable mobility by promoting the spread of beneficial technologies related to the environment and safety. Reflecting that approach, Toyota basically has an open licensing policy and grants patent license under appropriate conditions. A good example of this policy is our licensing to other companies of patents related to hybrid systems, a core technology enabling adaptation to environmental energy.

R&D Organization

As of March 31, 2007

Japan		
❶ Head Office Technical Center	Establishment	1954
	Location	Toyota City, Aichi Prefecture
	Activities	Planning and design of products, prototypes manufacture, and vehicle evalution
❷ Toyota Central Research & Development Laboratories, Inc.	Establishment	1960
	Location	Aichi County, Aichi Prefecture
	Activities	Fundamental technical research for the Toyota Group
❸ Higashi-Fuji Technical Center	Establishment	1966
	Location	Mishuku, Susono City, Shizuoka Prefecture
	Activities	Research and development of new vehicle technology and new engine technology
❹ Shibetsu Proving Ground	Establishment	1984
	Location	Onnebetsu, Shibetsu City, Hokkaido
	Activities	Testing and evaluation of automobiles under high speed and cold conditions

U.S.A.		
❺ Toyota Motor Engineering & Manufacturing North America, Inc.*	Establishment	1977
	Location	Ann Arbor, Plymouth (Michigan), Torrance, Gardena (California), Wittmann (Arizona), Washington, D.C.
	Activities	Vehicle development & evaluation, certification, collection of technical information
❻ Calty Design Research, Inc.	Establishment	1973
	Location	Newport Beach (California)
	Activities	Exterior / Interior / Color design

Europe		
❼ Toyota Motor Europe R&D/ Manufacturing	Establishment	1987
	Location	Brussels (Belgium), Derby (U.K.)
	Activities	Vehicle development & evaluation, certification, collection of technical information
❽ Toyota Europe Design Development	Establishment	2000
	Location	Nice (France)
	Activities	Exterior / Interior / Color design
❾ Toyota Motorsport GmbH	Establishment	1993
	Location	Cologne (Germany)
	Activities	Development of Formula One race cars, participation in F1 races

Asia Pacific		
❿ Toyota Motor Asia Pacific Engineering and Manufacturing Co., Ltd.	Establishment	2003**
	Location	Samutprakan Province (Thailand)
	Activities	Development and evaluation of locally produced vehicles in Asia, operational support to Toyota production affiliates in Asia
⓫ Toyota Technical Center Asia Pacific Australia Pty., Ltd.	Establishment	2003
	Location	Melbourne (Australia)
	Activities	Vehicle development, software development, evaluation, collection of technical information

* Toyota Motor Engineering & Manufacturing North America, Inc., is a consolidated R&D and manufacturing company in North America.

** The year shown is as at the establishment of Toyota Technical Center Asia Pacific Thailand Co., Ltd., which integrated with Toyota Motor Asia Pacific Co., Ltd., to establish Toyota Motor Asia Pacific Engineering and Manufacturing Co., Ltd., in April 2007.

Risk Factors

Operational and other risks faced by Toyota that could significantly influence the decisions of investors are set out below. However, the following does not encompass all risks related to the operations of Toyota. There are risk factors other than those given below. Any such risk factors could influence the decisions of investors.

Industry and Business Risks

The worldwide automobile market is highly competitive.

The worldwide automotive market is highly competitive. Toyota faces strong competition from automobile manufacturers in the respective markets in which it operates. Competition is likely to further intensify in light of continuing globalization and consolidation in the worldwide automotive industry. Factors affecting competition include product quality and features, innovation and development time, pricing, reliability, safety, fuel economy, customer service and financing terms. Increased competition may lead to lower vehicle unit sales and increased inventory, which may result in a further downward price pressure and adversely affect Toyota's financial conditions and results of operations. Toyota's ability to maintain its competitiveness will be fundamental to its future success in existing and new markets and its market share. There can be no assurances that Toyota will be able to compete successfully in the future.

The worldwide automobile industry is highly volatile.

The markets in which Toyota competes have been subject to considerable volatility in demand in each market. Demand for automobile sales depends to a large extent on general, social, political and economic conditions in a given market and the introduction of new vehicles and technologies. As Toyota's revenues are derived from sales in markets worldwide such as Japan, North America and Europe, economic conditions in these countries and regions are particularly important to Toyota. Demand may also be affected by factors directly impacting automobile price or the cost of purchasing and operating automobiles such as sales and financing incentives, prices of raw materials and parts and components, cost of fuel and governmental regulations (including tariffs, import regulation and other taxes). Volatility in demand may lead to lower vehicle unit sales and increased inventory, which may result in a further downward price pressure and adversely affect Toyota's financial conditions and results of operations.

Toyota's future success depends on its ability to offer innovative new, price competitive products that meet and satisfy customer demand on a timely basis.

Meeting and satisfying customer demand with attractive new vehicles and reducing product development times are critical elements to the success of automobile manufacturers. The timely introduction of new vehicle models, at competitive prices, meeting rapidly changing customer preferences and demands is fundamental to Toyota's success. There is no assurance that Toyota may adequately perceive and identify changing customer preferences and demands with respect to quality, styling, reliability, safety and other features in a timely manner. Even if Toyota succeeds in perceiving and identifying customer preferences and demands, there is no assurance that Toyota will be capable of developing and manufacturing new, price competitive products in a timely manner with its available technology, intellectual property, sources of raw materials and parts and components (including the procurement thereof), production capacity and other factors affecting its productivity. Further, there is no assurance that Toyota will be able to implement capital expenditures at the level and times planned by management. Toyota's inability to develop and offer products that meet customer demand in a timely manner can result in a lower market share and reduced sales volumes and margins, and may adversely affect Toyota's financial conditions and results of operations.

Toyota's ability to market and distribute effectively, and Toyota's maintenance of brand image, are integral parts of Toyota's successful sales.

Toyota's success in the sale of automobiles depends on its ability to market and distribute effectively based on distribution networks and sales techniques catered to its customers as well as its ability to maintain and further cultivate its brand image across the markets in which it operates. There is no assurance that Toyota will be able to develop sales techniques and distribution networks that effectively adapt to customer preferences or changes in the regulatory environment in the major markets in which it operates. Nor is there assurance that Toyota will be able to cultivate and protect its brand image. Toyota's inability to maintain well developed sales techniques and distribution networks or brand image may result in decreased sales and market share and may adversely affect its financial conditions and results of operations.

The worldwide financial services industry is highly competitive.

The worldwide financial services industry is highly competitive. The market for automobile financing has grown as more consumers are financing their purchases, primarily in North America and Europe. Increased competition in automobile financing may lead to decreased margins. A decline in Toyota's vehicle unit sales, an increase in residual value risk due to lower used vehicle price and increased funding costs are factors which may impact Toyota's financial services operations. A negative impact on Toyota's financial services operations may adversely affect its financial conditions and results of operations.

Political, Regulatory and Economic Risks

Toyota's operations are subject to currency and interest rate fluctuations.

Toyota is sensitive to fluctuations in foreign currency exchange rates and is principally exposed to fluctuations in the value of the Japanese yen, the U.S. dollar and the euro and, to a lesser extent, the Australian dollar and the British pound. Toyota's consolidated financial statements, which are presented in Japanese yen, are affected by foreign currency exchange fluctuations through both translation risk and transaction risk. Changes in foreign currency exchange rates may affect Toyota's pricing of products sold and materials purchased in foreign currencies. In particular, a strengthening of the Japanese yen against the U.S. dollar can have a material adverse effect on Toyota's operating results.

Toyota believes that its use of certain derivative financial instruments and increased localized production of its products have reduced, but not eliminated, the effects of interest rate and foreign currency exchange rate fluctuations, which in some years can be significant. Nonetheless, a negative impact resulting from fluctuations in foreign currency exchange rates and changes in interest rates may adversely affect Toyota's financial conditions and results of operations. For a further discussion of currency and interest rate fluctuations and the use of derivative financial instruments, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Overview—Currency Fluctuations (page 77)" and "Market Risk Disclosures (page 92)," and notes 20 and 21 (page 121) to Toyota's consolidated financial statements.

The automotive industry is subject to various governmental regulations and legal proceedings.

The worldwide automotive industry is subject to various governmental laws and regulations including those related to vehicle safety and environmental matters such as emission levels, fuel economy, noise and pollution. Many governments also regulate local content, impose tariffs and other trade barriers, taxes and levies, and enact price or exchange controls. Toyota has incurred, and expects to incur in the future, significant costs in complying with these regulations. New legislation or changes in existing legislation may also subject Toyota to additional expense in the future. Toyota is also subject to a number of pending legal proceedings. A negative outcome in one or more of these pending legal proceedings could adversely affect Toyota's future financial conditions and results of operations.

Toyota may be adversely affected by political instabilities, fuel shortages or interruptions in transportation systems, natural calamities, wars, terrorism and labor strikes.

Toyota is subject to various risks associated with conducting business worldwide. These risks include political and economic instability, natural calamities, fuel shortages, interruption in transportation systems, wars, terrorisms, labor strikes and work stoppages. The occurrence of any of these events in the major markets in which Toyota purchases materials, components and supplies for the manufacture of its products, or in which its products are produced, distributed or sold, may result in disruptions and delays in the operations of Toyota's business. Significant or prolonged disruptions and delays in Toyota's business operations may result to adversely affect Toyota's financial conditions and results of operations.

Toyota Milestones

Kiichiro Toyoda, the founder of Toyota Motor Corporation, was born in 1894. Inheriting the spirit of his father, Sakichi Toyoda, an inventor of looms, Kiichiro devoted his life to automobile manufacturing, at the time an unknown field in Japan. After a lot of painstaking work, he completed the A1 prototype passenger car in 1935, and the history of Toyota Motor Corporation began.

1930s	
1933	Automobile research begins at Toyota Automatic Loom Works, Ltd.
1935	Completion of A1 prototype passenger car
	Launch of G1 truck
1936	Launch of AA passenger car
1937	Establishment of Toyota Motor Co., Ltd.
1938	Koromo plant (now Honsha plant) begins production

1940s	
1947	Domestic production reaches 100,000 vehicles

1950s	
1950	Establishment of and transfer of sales operations to Toyota Motor Sales Co., Ltd.
1955	Launch of the Toyopet Crown
1957	Export of the first made-in-Japan passenger car to the United States (the Crown)
	Establishment of Toyota Motor Sales, U.S.A., Inc.

1960s	
1961	Launch of the Publica
1966	Launch of the Corolla

1970s	
1972	Cumulative total domestic production reaches 10 million vehicles
1973	Establishment of Calty Design Research, Inc.
1977	Establishment of Toyota Technical Center, U.S.A., Inc. (now TEMA*)

* TEMA has overall control of R&D and production in North America.

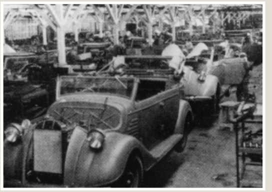
1980s	
1982	Toyota Motor Co., Ltd., and Toyota Motor Sales Co., Ltd., merge to become Toyota Motor Corporation
1984	Joint venture company (NUMMI) established with General Motors begins production in the United States
1987	Establishment of Toyota Technical Center of Europe (now TME*)
1988	Kentucky plant (now TMMK) begins production in the United States
1989	Launch of Lexus in North America

* TME has overall control of operations in Europe.

1990s	
1992	Establishment of Toyota Supplier Support Center in the United States
	U.K. plant (TMUK) begins production
1997	Launch of the Prius hybrid vehicle
1999	Toyota Motor Corporation lists on the New York and London stock exchanges
	Cumulative total domestic production reaches 100 million vehicles

21st Century	
2000	Sichuan FAW Toyota Motor Co., Ltd., begins production
2002	Establishment of the Toyota Institute, a personnel training facility
	Toyota Motor Corporation participates in F1, the pinnacle of motorsports
2005	Joint venture company established with PSA Peugeot Citroën begins production in the Czech Republic
	Launch of Lexus in Japan


A1 prototype passenger car


Koromo plant's production line


First Crown for U.S. export


First-generation Corolla


Hybrid vehicle, first-generation Prius

Cumulative domestic production reaches 100 million vehicles

Domestic Production Sites

As of March 31, 2007

Domestic Plants

Name	Main products	Start of operations
Honsha Plant	Chassis for Land Cruiser, forging parts, chassis mechanical parts	1938
Motomachi Plant	Crown, Brevis, Progrès, Mark II Blit, Mark X, Estima	1959
Kamigo Plant	Engines	1965
Takaoka Plant	Corolla, Vitz, ist, Ractis, Auris	1966
Miyoshi Plant	Transmission-related parts, cold-forged and sintered parts	1968
Tsutsumi Plant	Prius, Camry, Premio, Allion, Caldina, WISH	1970
Myochi Plant	Suspension cast parts, cold-forged and sintered parts	1973
Shimoyama Plant	Engines, turbochargers, VVT, catalytic converters	1975
Kinu-ura Plant	Transmission-related parts	1978
Tahara Plant	LS, GS, GS Hybrid, IS, RAV4, 4 Runner, Land Cruiser Prado, engines	1979
Teiho Plant	Mechanical equipment, moldings for forging and casting and resin-molding dies	1986
Hirose Plant	R&D and production of electronic control devices, IC	1989

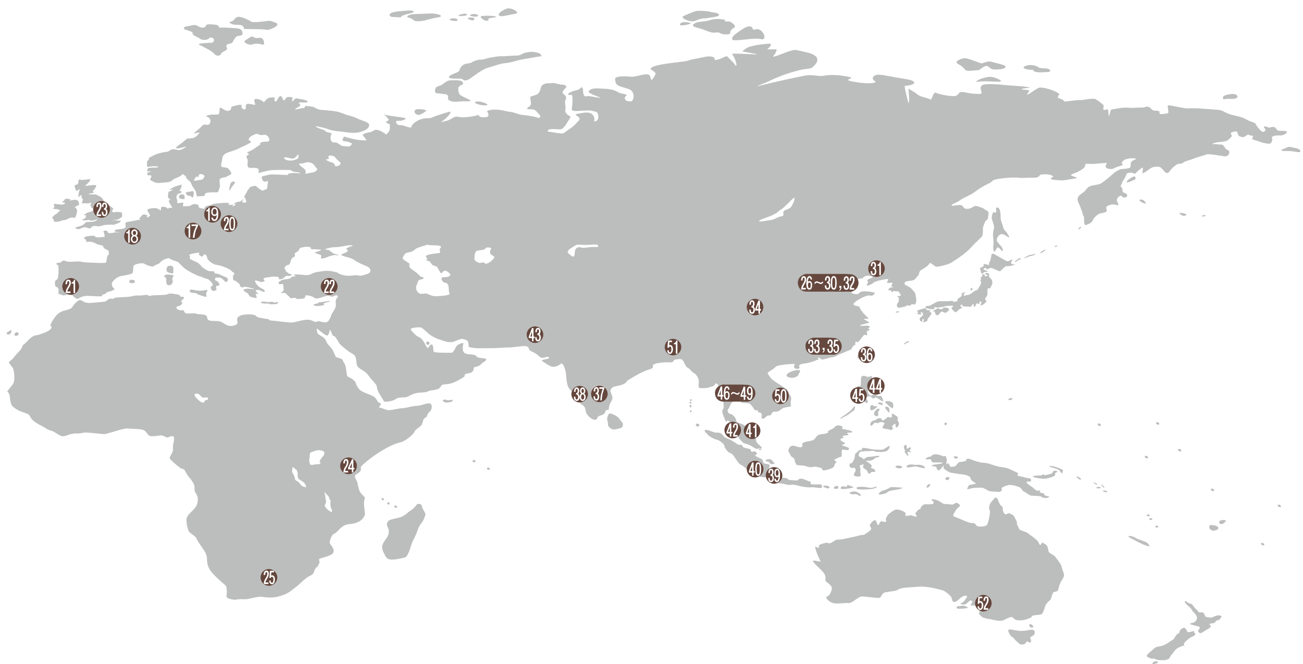
Manufacturing Subsidiaries and Vehicle Assembly Affiliates

Company name	Main products	Start of operations	Voting rights ratio* (%)	Capital (¥ Million)
Toyota Motor Kyushu, Inc.	Harrier, Harrier Hybrid, Kluger, Kluger Hybrid, IS, ES	1992	100.00	45,000
Toyota Motor Hokkaido, Inc.	Automatic transmissions, transfers, aluminum wheels, etc.	1992	100.00	27,500
Toyota Motor Tohoku Co., Ltd.	Mechanical and electronic parts	1998	100.00	3,300
Toyota Auto Body Co., Ltd.	Land Cruiser, Coaster, Hiace, Liteace, Townace, Estima, Estima Hybrid, Ipsum, Regiusace, Prius, Voxy, Noah, Alphard	1945	57.02	10,371
Kanto Auto Works, Ltd.	Crown, Corolla, Century, Celica, Comfort, Isis, Mark X, Belta, SC, BLADE, Auris	1946	50.64	6,850
Central Motor Co., Ltd.	Corolla, Raum, MR-S	1950	76.61	1,300
Gifu Auto Body Industry Co., Ltd.	Hiace, Himedic	1940	47.71	1,175
Daihatsu Motor Co., Ltd.	bB, Probox, Succeed, Passo, Rush, Porte, SIENTA	1907	51.61	28,404
Hino Motors, Ltd.	Dyna, Dyna Diesel Hybrid, Toyoace, Toyoace Diesel Hybrid, Hilux, Liteace, Townace	1942	50.45	72,717
Toyota Industries Corporation	Vitz, RAV4	1926	24.81	80,462

* Including voting rights by the subsidiaries determined in accordance with U.S. GAAP

Overseas Manufacturing Companies

(Plants that manufacture or assemble Toyota- or Lexus-brand vehicles and component manufacturers established by Toyota)
As of March 31, 2007



North America

	Company name	Start of operations	Voting rights ratio* (%)	Main products
Canada	1 Canadian Autoparts Toyota Inc. (CAPTIN)	Feb. 1985	100.00	Aluminum wheels
	2 Toyota Motor Manufacturing Canada Inc. (TMMC)	Nov. 1988	100.00	Corolla, Matrix, RX, engines
U.S.A.	3 TABC, Inc.	Nov. 1971	100.00	Catalytic converters, stamping parts, steering columns, truck beds
	4 New United Motor Manufacturing, Inc. (NUMMI)**	Dec. 1984	50.00	Corolla, Tacoma
	5 Toyota Motor Manufacturing, Kentucky, Inc. (TMMK)	May 1988	100.00	Avalon, Camry, Camry Hybrid, Solara, engines
	6 Bodine Aluminum, Inc.	Jan. 1993	100.00	Aluminum castings
	7 Toyota Motor Manufacturing, West Virginia, Inc. (TMMWV)	Nov. 1998	100.00	Engines, transmissions
	8 Toyota Motor Manufacturing, Indiana, Inc. (TMMI)	Feb. 1999	100.00	Tundra, Sequoia, Sienna
	9 Toyota Motor Manufacturing, Alabama, Inc. (TMMAL)	Apr. 2003	100.00	Engines
	10 Toyota Motor Manufacturing, Texas, Inc. (TMMTX)	Nov. 2006	100.00	Tundra
	11 Subaru of Indiana Automotive, Inc. (SIA)**	Apr. 2007 ***	—	Camry
Mexico	12 Toyota Motor Manufacturing de Baja California S.de R.L.de C.V, (TMMBC)	Sept. 2004	100.00	Truck beds, Tacoma

Central and South America

	Company name	Start of operations	Voting rights ratio* (%)	Main products
Argentina	13 Toyota Argentina S.A. (TASA)	Mar. 1997	100.00	Hilux, Fortuner
Brazil	14 Toyota do Brasil Ltda.	May 1959	100.00	Corolla, Fielder
Colombia	15 Sociedad de Fabricacion de Automotores S.A.	Mar. 1992	28.00	Land Cruiser Prado
Venezuela	16 Toyota de Venezuela Compania Anonima (TDV)**	Nov. 1981	90.00	Corolla, Dyna, Land Cruiser, Fortuner, Hilux

Europe

	Company name	Start of operations	Voting rights ratio* (%)	Main products
Czech Republic	17 Toyota Peugeot Citroën Automobiles Czech, s.r.o. (TPCA)**	Feb. 2005	50.00	Aygo
France	18 Toyota Motor Manufacturing France S.A.S. (TMMF)	Jan. 2001	100.00	Yaris, engines
Poland	19 Toyota Motor Manufacturing Poland SP.zo.o. (TMMP)	Apr. 2002	94.00	Transmissions, engines
	20 Toyota Motor Industries Poland SP.zo.o. (TMIP)	Mar. 2005	60.00	Engines
Portugal	21 Toyota Caetano Portugal, S.A. (TCAP)	Aug. 1968	27.00	Dyna, Hiace, Optimo
Turkey	22 Toyota Motor Manufacturing Turkey Inc. (TMMT)	Sept. 1994	90.00	Auris, Corolla Verso
U.K.	23 Toyota Motor Manufacturing (UK) Ltd. (TMUK)	Sept. 1992	100.00	Avensis, Auris, engines

Africa

	Company name	Start of operations	Voting rights ratio* (%)	Main products
Kenya	24 Associated Vehicle Assemblers Ltd. (AVA)	Aug. 1977	—	Land Cruiser
South Africa	25 Toyota South Africa Motors (Pty) Ltd.	June 1962	75.00	Corolla, Dyna, Hiace, Hilux, Fortuner, engines

Asia

	Company name	Start of operations	Voting rights ratio* (%)	Main products
China	26 Tianjin Jinfeng Auto Parts Co., Ltd. (TJAC)	Oct. 1997	30.00	Steering assy, propeller shafts
	27 Tianjin Fengjin Auto Parts Co., Ltd. (TFAP)	May 1998	90.00	Constant velocity joints, axles
	28 Tianjin FAW Toyota Engine Co., Ltd. (TFTE)	July 1998	50.00	Engines
	29 Tianjin Toyota Forging Co., Ltd. (TTFC)	Dec. 1998	100.00	Forged parts
	30 Tianjin FAW Toyota Motor Co., Ltd. (TFTM)	Oct. 2002	50.00	VIOS, Corolla, Crown, REIZ
	31 FAW Toyota (Changchun) Engine Co., Ltd. (FTCE)	Dec. 2004	50.00	Engines
	32 Toyota FAW (Tianjin) Dies Co., Ltd. (TFTD)	Dec. 2004	90.00	Stamping dies for vehicles
	33 Guangqi Toyota Engine Co., Ltd. (GTE)	Jan. 2005	70.00	Engine parts (cam shafts, crank shafts), engines
	34 Sichuan FAW Toyota Motor Co., Ltd. (SFTM)**	Dec. 2000	45.00	Coaster, Land Cruiser, Prado, Prius
	35 Guangzhou Toyota Motor Co., Ltd. (GTMC)	May 2006	50.00	Camry
Taiwan	36 Kuozui Motors, Ltd.	Jan. 1986	56.66	Camry, Corolla, Dyna, VIOS, WISH, Zace, engines, stamping parts
India	37 Toyota Kirloskar Motor Private Ltd. (TKM)	Dec. 1999	89.00	Innova, Corolla
	38 Toyota Kirloskar Auto Parts Private Ltd. (TKAP)	July 2002	64.30	Axles, propeller shafts, transmissions
Indonesia	39 PT. Toyota Motor Manufacturing Indonesia	May 1970	95.00	Dyna, Fortuner, Innova, engines
	40 P.T. Astra Daihatsu Motor (ADM)**	2004 ***	—	AVANZA, Rush
Malaysia	41 Assembly Services Sdn. Bhd. (ASSB)	Feb. 1968	—	Corolla, Fortuner, Hiace, Hilux, Innova, VIOS, engines
	42 Perodua Manufacturing Sdn. Bhd. (PMSB)**	2005 ***	—	AVANZA
Pakistan	43 Indus Motor Company Ltd. (IMC)**	Mar. 1993	12.50	Corolla, Hilux
Philippines	44 Toyota Motor Philippines Corp. (TMP)	Feb. 1989	34.00	Corolla, Innova
	45 Toyota Autoparts Philippines Inc. (TAP)	Sept. 1992	95.00	Transmissions, constant velocity joints
Thailand	46 Toyota Motor Thailand Co., Ltd. (TMT)	Dec. 1964	86.43	Camry, Corolla, Hilux VIGO, VIOS, WISH, Yaris
	47 Toyota Auto Body Thailand Co., Ltd. (TABT)	May 1979	48.97	Stamping parts
	48 Thai Auto Work Co., Ltd. (TAW)	May 1988	40.00	Fortuner, Hilux VIGO
	49 Siam Toyota Manufacturing Co., Ltd. (STM)	July 1989	96.00	Engines, propeller shafts, casting (block, head)
Vietnam	50 Toyota Motor Vietnam Co., Ltd. (TMV)	Aug. 1996	70.00	Camry, Corolla, Hiace, Innova, Land Cruiser, VIOS
Bangladesh	51 Aftab Automobiles Ltd.**	June 1982	—	Land Cruiser

Oceania

	Company name	Start of operations	Voting rights ratio* (%)	Main products
Australia	52 Toyota Motor Corporation Australia Ltd. (TMCA)	Apr. 1963	100.00	Camry, engines

Production facilities where operations are planned

		Company name	Start of operations	Voting rights ratio* (%)	Main products
North America	U.S.A.	Toyota Motor Manufacturing, Mississippi, Inc. (TMMMS)	(planned) 2010	—	Highlander
Europe	Russia	Toyota Motor Manufacturing Russia LLC. (TMMR)	(planned) Dec. 2007	—	Camry

* Including voting rights by the subsidiaries determined in accordance with U.S. GAAP ** Companies also produce brands other than Toyota and Lexus *** First year of Toyota's vehicle production

Motorsports

Toyota celebrated 50 years in motorsports in 2007. Over the years, Toyota has taken on many types of motorsports to give more people a sense of the limitless potential and thrill that cars offer. And, we will continue playing an active part in motorsports. In 2007, Toyota is concentrating on the cream of motorsports, racing in such events as the Formula One World Championship (F1), NASCAR* in the United States, and the SUPER GT Series in Japan. At the same time, we will foster the talents of promising drivers.

In F1, we faced a tough season in 2006. Although we achieved a podium placing, we were unable to surpass our performance of the previous year. For 2007, our sixth F1 season, we unveiled a new-model F1 car, the TF107, featuring a newly developed V8 engine and a completely new layout with revamped aerodynamic performance and weight distribution. We are using the same drivers as last season—Ralf Schumacher and Jarno Trulli—because of their solid track records. And, we have reinforced the senior management team responsible for technological development. Further, we supply engines to Williams, a testament to the high evaluation of our engine technology.

In NASCAR, 2006 was our third year of competition, and in the NASCAR Craftsman Truck Series the Toyota Tundra took 12 wins and the manufacturers' title. Also, in 2007 we entered the Toyota Camry in the Nextel Cup Series, the pinnacle of NASCAR racing, and in the Busch Series.

In Japan, we continue to back six teams competing in the elite SUPER GT Series. Also, we hope to win a title using the Lexus SC430 for all GT500-class cars. Further, we will keep supplying engines for 14 cars raced by seven teams in Japan's most prestigious formula car category, Formula Nippon.

Meanwhile, we continue fostering racing drivers capable of competing at the highest levels of motorsports around the world through the Toyota Young Drivers Program. Under this training program, we scout highly motivated, talented individuals and, in line with their ability, help them hone their skills and move up the motorsports ladder by giving them a wide range of chances to take part in races and F1 trials.

* NASCAR is the common name for the stock car races administered over by the National Association for Stock Car Auto Racing (NASCAR), the largest motorsports organization in the United States. Converted four-wheel commercially available vehicles known as stock cars race mainly in North America.

Fuji Speedway to Host the 2007 Japanese F1 Grand Prix

The Japanese F1 Grand Prix will be held at Fuji Speedway in September 2007. Fuji International Speedway Co., Ltd., began operations in 1966. In the four decades since then, Fuji Speedway has staged many international and domestic races as one of only a handful of ultrahigh-speed circuits in the world. Our involvement in management began in 2000. In 2005, we completed a comprehensive renovation that has accentuated the circuit's signature long straight and raised the level of technical difficulty of the second half of the track by transforming its layout. Having been the venue for the initial two F1 Grand Prix in Japan in 1976 and 1977, Fuji Speedway will host an F1 race for the first time in 30 years.

Financial Section

Contents

Selected Financial Summary (U.S. GAAP)

Toyota Motor Corporation
Fiscal years ended March 31

	Yen in millions			
	1998	1999	2000	2001
For the Year:				
Net Revenues:				
Sales of Products	¥11,160,345	¥12,174,404	¥11,892,900	¥12,402,104
Financing Operations	525,799	583,692	528,349	553,133
Total	¥11,686,144	¥12,758,096	¥12,421,249	¥12,955,237
Costs and Expenses:				
Cost of Products Sold	¥ 8,888,646	¥ 9,613,707	¥ 9,839,833	¥10,218,599
Cost of Financing Operations	402,298	456,781	401,998	427,340
Selling, General and Administrative	1,566,175	1,937,200	1,480,857	1,518,569
Total	¥10,857,119	¥12,007,688	¥11,722,688	¥12,164,508
Operating Income	¥829,025	¥750,408	¥698,561	¥790,729
% of Net Revenues	7.1%	5.9%	5.6%	6.1%
Income before Income Taxes, Minority Interest and Equity in Earnings of Affiliated Companies	873,065	875,674	880,680	1,107,289
Provision for Income Taxes	458,906	425,851	422,731	523,876
Net Income	436,935	451,646	481,936	674,898
ROE	—	6.8%	7.1%	9.6%
Net Cash Provided by Operating Activities	¥ 1,047,401	¥ 1,741,966	¥ 1,098,925	¥ 1,428,018
Net Cash Used in Investing Activities	(1,646,507)	(1,936,028)	(1,388,517)	(1,318,738)
Net Cash Provided by (Used in) Financing Activities	268,623	330,621	550,267	(166,713)
R&D Expenses	444,401	487,334	451,177	475,716
Capital Expenditures for Property, Plant and Equipment*	812,719	1,016,482	838,309	762,274
Depreciation	759,217	864,224	822,315	784,784
At Year-End:				
Shareholders' Equity	¥ 6,544,937	¥ 6,655,283	¥ 6,912,140	¥ 7,077,411
Total Assets	14,822,143	15,879,185	16,440,960	17,019,783
Long-Term Debt	2,802,224	2,997,725	2,913,759	3,083,344
Cash and Cash Equivalents	1,226,507	1,334,058	1,529,268	1,510,892
Ratio of Shareholders' Equity	44.2%	41.9%	42.0%	41.6%

	Yen			
	1998	1999	2000	2001
Per Share Data:				
Net Income (Basic)	¥114.86	¥119.47	¥ 128.27	¥ 180.65
Annual Cash Dividends	23	23	24	25
Shareholders' Equity	—	—	1,844.02	1,921.29
Stock Information (March 31)**:**				
Stock Price	¥3,550	¥3,430	¥5,370	¥4,350
Market Capitalization (Yen in millions)	¥13,504,810	¥12,899,030	¥20,134,306	¥16,029,739
Number of Shares Issued (shares)	3,804,172,073	3,760,650,129	3,749,405,129	3,684,997,492

* Excluding vehicles and equipment on operating leases

		Yen in millions				% change
2002	2003	2004	2005	2006	**2007**	2006 vs 2007
¥13,499,644	¥14,793,973	¥16,578,033	¥17,790,862	¥20,059,493	**¥22,670,097**	+13.0
690,664	707,580	716,727	760,664	977,416	**1,277,994**	+30.8
¥14,190,308	¥15,501,553	¥17,294,760	¥18,551,526	¥21,036,909	**¥23,948,091**	+13.8
¥10,874,455	¥11,914,245	¥13,506,337	¥14,500,282	¥16,335,312	**¥18,356,255**	+12.4
459,195	423,885	364,177	369,844	609,632	**872,138**	+43.1
1,763,026	1,891,777	1,757,356	2,009,213	2,213,623	**2,481,015**	+12.1
¥13,096,676	¥14,229,907	¥15,627,870	¥16,879,339	¥19,158,567	**¥21,709,408**	+13.3
¥1,093,632	¥1,271,646	¥1,666,890	¥1,672,187	¥1,878,342	**¥2,238,683**	+19.2
7.7%	8.2%	9.6%	9.0%	8.9%	**9.3%**	—
972,101	1,226,652	1,765,793	1,754,637	2,087,360	**2,382,516**	+14.1
422,789	517,014	681,304	657,910	795,153	**898,312**	+13.0
556,567	750,942	1,162,098	1,171,260	1,372,180	**1,644,032**	+19.8
7.8%	10.4%	15.2%	13.6%	14.0%	**14.7%**	—
¥ 1,532,079	¥ 1,940,088	¥ 2,186,734	¥ 2,370,940	¥ 2,515,480	**¥ 3,238,173**	+28.7
(1,810,230)	(2,001,448)	(2,216,495)	(3,061,196)	(3,375,500)	**(3,814,378)**	–13.0
392,148	37,675	242,223	419,384	876,911	**881,768**	+0.6
589,306	668,404	682,279	755,147	812,648	**890,782**	+9.6
940,547	1,005,931	945,803	1,068,287	1,523,459	**1,425,814**	–6.4
809,841	870,636	969,904	997,713	1,211,178	**1,382,594**	+14.2
¥ 7,264,112	¥ 7,121,000	¥ 8,178,567	¥ 9,044,950	¥10,560,449	**¥11,836,092**	+12.1
19,305,730	20,152,974	22,040,228	24,335,011	28,731,595	**32,574,779**	+13.4
3,722,706	4,137,528	4,247,266	5,014,925	5,640,490	**6,263,585**	+11.0
1,657,160	1,592,028	1,729,776	1,483,753	1,569,387	**1,900,379**	+21.1
37.6%	35.3%	37.1%	37.2%	36.8%	**36.3%**	—

		Yen				% change
2002	2003	2004	2005	2006	**2007**	2006 vs 2007
¥ 152.26	¥ 211.32	¥ 342.90	¥ 355.35	¥ 421.76	**¥ 512.09**	+21.4
28	36	45	65	90	**120**	+33.3
2,015.82	2,063.43	2,456.08	2,767.67	3,257.63	**3,701.17**	+13.6
¥3,650	¥2,635	¥3,880	¥3,990	¥6,430	**¥7,550**	+17.4
¥13,332,491	¥9,512,343	¥14,006,790	¥14,403,890	¥23,212,284	**¥27,255,481**	+17.4
3,649,997,492	3,609,997,492	3,609,997,492	3,609,997,492	3,609,997,492	**3,609,997,492**	—

Consolidated Segment Information

Toyota Motor Corporation
Fiscal years ended March 31

	Yen in millions						% change
	2002	2003	2004	2005	2006	**2007**	2006 vs 2007
Business Segment:							
Net Revenues:							
Automotive	¥13,067,428	¥14,311,451	¥15,973,826	¥17,113,535	¥19,338,144	**¥21,928,006**	+13.4%
Financial Services	698,022	724,898	736,852	781,261	996,909	**1,300,548**	+30.5%
All Other	728,848	795,217	896,244	1,030,320	1,190,291	**1,323,731**	+11.2%
Intersegment Elimination	(303,990)	(330,013)	(312,162)	(373,590)	(488,435)	**(604,194)**	—
Consolidated	¥14,190,308	¥15,501,553	¥17,294,760	¥18,551,526	¥21,036,909	**¥23,948,091**	+13.8%
Operating Income:							
Automotive	¥1,057,948	¥1,246,925	¥1,518,954	¥1,452,535	¥1,694,045	**¥2,038,828**	+20.4%
Financial Services	45,115	30,328	145,998	200,853	155,817	**158,495**	+1.7%
All Other	(2,954)	4,529	15,247	33,743	39,748	**39,679**	–0.2%
Intersegment Elimination	(6,477)	(10,136)	(13,309)	(14,944)	(11,268)	**1,681**	—
Consolidated	¥1,093,632	¥1,271,646	¥1,666,890	¥1,672,187	¥1,878,342	**¥2,238,683**	+19.2%
Geographic Segment:							
Net Revenues:							
Japan	¥10,217,719	¥10,845,627	¥11,589,987	¥12,004,155	¥13,111,457	**¥14,815,282**	+13.0%
North America	5,719,958	6,218,839	6,127,639	6,373,453	7,687,942	**9,029,773**	+17.5%
Europe	1,322,337	1,599,821	2,164,341	2,479,427	2,727,409	**3,542,193**	+29.9%
Asia	—	—	1,243,521	1,625,422	2,042,806	**2,225,528**	+8.9%
Other	1,161,506	1,546,744	1,118,362	1,183,702	1,601,736	**1,922,742**	+20.0%
Intersegment Elimination	(4,231,212)	(4,709,478)	(4,949,090)	(5,114,633)	(6,134,441)	**(7,587,427)**	—
Consolidated	¥14,190,308	¥15,501,553	¥17,294,760	¥18,551,526	¥21,036,909	**¥23,948,091**	+13.8%
Operating Income:							
Japan	¥ 844,049	¥ 944,290	¥1,108,127	¥ 987,242	¥1,075,890	**¥1,457,246**	+35.4%
North America	264,759	279,988	390,977	447,559	495,638	**449,633**	–9.3%
Europe	(24,147)	8,305	72,475	108,541	93,947	**137,383**	+46.2%
Asia	—	—	60,277	93,772	145,546	**117,595**	–19.2%
Other	13,049	45,626	36,636	47,454	67,190	**83,497**	+24.3%
Intersegment Elimination	(4,078)	(6,563)	(1,602)	(12,381)	131	**(6,671)**	—
Consolidated	¥1,093,632	¥1,271,646	¥1,666,890	¥1,672,187	¥1,878,342	**¥2,238,683**	+19.2%

Consolidated Quarterly Financial Summary

Toyota Motor Corporation
Fiscal years ended March 31

	Yen in billions							
	2006				**2007**			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net Revenues	¥4,981.7	¥4,971.4	¥5,333.3	¥5,750.5	**¥5,638.1**	**¥5,833.7**	**¥6,146.5**	**¥6,329.7**
% Change	10.5%	10.1%	14.8%	17.8%	**13.2%**	**17.3%**	**15.2%**	**10.1%**
Operating Income	405.1	404.3	482.2	586.7	**512.4**	**581.0**	**574.7**	**570.5**
% Change	–9.7%	–3.2%	14.0%	53.2%	**26.5%**	**43.7%**	**19.2%**	**–2.8%**
Operating Income Margin	8.1%	8.1%	9.0%	10.2%	**9.1%**	**10.0%**	**9.4%**	**9.0%**
Income before Income Taxes, Minority Interest and Equity in Earnings of Affiliated Companies	421.8	434.1	639.9	591.5	**554.6**	**611.5**	**615.9**	**600.5**
% Change	–10.3%	–2.0%	43.1%	50.0%	**31.5%**	**40.9%**	**–3.8%**	**1.5%**
Net Income	266.8	303.7	397.5	404.1	**371.5**	**405.7**	**426.7**	**440.1**
% Change	–6.9%	2.1%	34.1%	39.0%	**39.2%**	**33.6%**	**7.3%**	**8.9%**
Business Segment:								
Net Revenues:								
Automotive	¥4,620.6	¥4,523.9	¥4,900.0	¥5,293.6	**¥5,187.6**	**¥5,296.6**	**¥5,665.7**	**¥5,778.1**
Financial Services	217.4	244.6	262.0	272.9	**284.6**	**314.8**	**334.3**	**366.8**
All Other	234.4	301.5	289.9	364.5	**295.0**	**347.2**	**310.5**	**371.0**
Intersegment Elimination	(90.7)	(98.6)	(118.6)	(180.5)	**(129.1)**	**(124.9)**	**(164.0)**	**(186.2)**
Consolidated	¥4,981.7	¥4,971.4	¥5,333.3	¥5,750.5	**¥5,638.1**	**¥5,833.7**	**¥6,146.5**	**¥6,329.7**
Operating Income:								
Automotive	¥366.8	¥354.5	¥427.3	¥545.4	**¥459.4**	**¥532.7**	**¥524.1**	**¥522.6**
Financial Services	39.7	43.8	46.8	25.5	**47.7**	**32.2**	**41.3**	**37.3**
All Other	1.5	8.3	11.5	18.4	**5.2**	**15.8**	**8.1**	**10.5**
Intersegment Elimination	(2.9)	(2.3)	(3.4)	(2.6)	**0.1**	**0.3**	**1.2**	**0.1**
Consolidated	¥405.1	¥404.3	¥482.2	¥586.7	**¥512.4**	**¥581.0**	**¥574.7**	**¥570.5**
Geographic Segment:								
Net Revenues:								
Japan	¥ 2,992.0	¥ 3,040.9	¥ 3,375.8	¥ 3,702.8	**¥ 3,422.3**	**¥ 3,588.0**	**¥ 3,806.2**	**¥ 3,998.8**
North America	1,835.7	1,791.6	2,027.0	2,033.6	**2,181.6**	**2,163.0**	**2,378.1**	**2,307.0**
Europe	673.1	627.7	666.6	760.0	**832.3**	**850.3**	**883.7**	**975.8**
Asia	507.1	489.9	501.0	544.8	**484.6**	**540.1**	**561.9**	**639.0**
Other	363.4	396.7	416.4	425.2	**453.1**	**515.4**	**511.1**	**443.1**
Intersegment Elimination	(1,389.6)	(1,375.4)	(1,653.5)	(1,715.9)	**(1,735.8)**	**(1,823.1)**	**(1,994.5)**	**(2,034.0)**
Consolidated	¥ 4,981.7	¥ 4,971.4	¥ 5,333.3	¥ 5,750.5	**¥ 5,638.1**	**¥ 5,833.7**	**¥ 6,146.5**	**¥ 6,329.7**
Operating Income:								
Japan	¥188.4	¥197.5	¥281.1	¥408.9	**¥293.0**	**¥391.4**	**¥383.5**	**¥389.3**
North America	137.8	130.7	127.8	99.3	**140.1**	**110.4**	**99.1**	**100.0**
Europe	16.7	23.4	26.6	27.2	**36.5**	**29.5**	**34.8**	**36.5**
Asia	39.8	35.6	38.6	31.5	**30.0**	**31.3**	**28.1**	**28.2**
Other	17.0	19.2	14.7	16.3	**15.9**	**20.2**	**31.0**	**16.4**
Intersegment Elimination	5.4	(2.1)	(6.6)	3.5	**(3.1)**	**(1.8)**	**(1.8)**	**0.1**
Consolidated	¥405.1	¥404.3	¥482.2	¥586.7	**¥512.4**	**¥581.0**	**¥574.7**	**¥570.5**

Management's Discussion and Analysis of Financial Condition and Results of Operations

All financial information discussed in this section is derived from Toyota's consolidated financial statements that appear elsewhere in this annual report on Form 20-F. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America.

Overview

The business segments of Toyota include automotive operations, financial services operations and all other operations. Automotive operations is Toyota's most significant business segment, accounting for 89% of Toyota's total revenues before the elimination of intersegment revenues and 91% of Toyota's total operating income before the elimination of intersegment revenues and costs for the year ended March 31, 2007. The operating income from automotive operations as a percentage of total operating income increased by 1% compared with fiscal 2006 due to an increase in operating income from automotive operations. Toyota's primary markets based on vehicle unit sales for the year ended March 31, 2007 were: Japan (27%), North America (35%), Europe (14%), and Asia (9%).

■ Automotive Market Environment

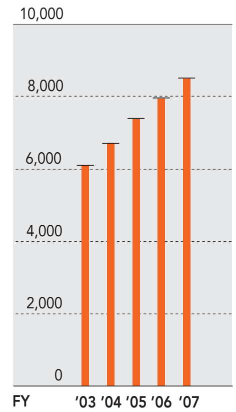
The worldwide automotive market is highly competitive and volatile. The demand for automobiles is affected by a number of factors including social, political and general economic conditions; introduction of new vehicles and technologies; and costs incurred by customers to purchase and operate vehicles. These factors can cause consumer demand to vary substantially from year to year in different geographic markets and for different types of automobiles.

The following table sets forth Toyota's consolidated vehicle unit sales by geographic market based on location of customers for the past three fiscal years.

	Thousands of units Year ended March 31,		
	2005	2006	**2007**
Japan	2,381	2,364	**2,273**
North America	2,271	2,556	**2,942**
Europe	979	1,023	**1,224**
Asia	833	880	**789**
Other	944	1,151	**1,296**
Overseas total	5,027	5,610	**6,251**
Total	7,408	7,974	**8,524**

Consolidated Vehicle Sales

(Thousands of units)



Toyota's consolidated unit sales in Japan decreased during fiscal 2006 and 2007 as compared to each of the respective prior years. During fiscal 2007, however, Toyota and Lexus' market share excluding mini-vehicles and Toyota's market share (including Daihatsu and Hino) including mini-vehicles, respectively, represented a record high reflecting the sales efforts of domestic dealers, despite a decline in the overall domestic market. In addition, overseas vehicle unit sales increased during fiscal 2006 and 2007. During fiscal 2007, vehicle unit sales increased in North America and Europe due to extensive product offerings that catered to regional needs but decreased in Asia due to a decline in certain countries' markets, such as Indonesia and Taiwan, while vehicle unit sales increased in North America, Europe, Asia, and Other during fiscal 2006.

Toyota's share of total vehicle unit sales in each market is influenced by the quality, price, design, performance, safety, reliability, economy and utility of Toyota's vehicles compared with those offered by other manufacturers. The timely introduction of new or redesigned vehicles is also an important factor in satisfying customer demand. Toyota's ability to satisfy changing customer preferences can affect its revenues and earnings significantly.

The profitability of Toyota's automotive operations is affected by many factors. These factors include:

- vehicle unit sales volumes,
- the mix of vehicle models and options sold,
- the level of parts and service sales,
- the levels of price discounts and other sales incentives and marketing costs,
- the cost of customer warranty claims and other customer satisfaction actions,
- the cost of research and development and other fixed costs,
- the ability to control costs,
- the efficient use of production capacity, and
- changes in the value of the Japanese yen and other currencies in which Toyota does business.

Changes in laws, regulations, policies and other governmental actions can also materially impact the profitability of Toyota's automotive operations. These laws, regulations and policies include those attributed to environmental matters and vehicle safety, fuel economy and emissions that can add significantly to the cost of vehicles. The European Union has enforced a directive that requires manufacturers to be financially responsible for taking back end-of-life vehicles and to take measures to ensure that adequate used vehicle disposal facilities are established and those hazardous materials and recyclable parts are removed from vehicles prior to scrapping. Please see "–Legislation Regarding End-of-Life Vehicles" and "Information on the Company–Business Overview–Governmental Regulation, Environmental and Safety Standards" and note 23 to the consolidated financial statements for a more detailed discussion of these laws, regulations and policies.

Many governments also regulate local content, impose tariffs and other trade barriers, and enact price or exchange controls that can limit an automaker's operations and can make the repatriation of profits unpredictable. Changes in these laws, regulations, policies and other governmental actions may affect the production, licensing, distribution or sale of Toyota's products, cost of products or applicable tax rates. Toyota is currently one of the defendants in purported national class actions alleging violations of the U.S. Sherman Antitrust Act. Toyota believes that its actions have been lawful. In the interest of quickly resolving these legal actions, however, Toyota entered into a settlement agreement with the plaintiffs at the end of February 2006. The settlement agreement is pending the approval of the federal district court, and immediately upon approval the plaintiffs will, in accordance with the terms of the settlement agreement, withdraw all pending actions against Toyota in the federal district court as well as all state courts and all related actions will be closed. For a more detailed description of these proceedings, see note 23 to the consolidated financial statements.

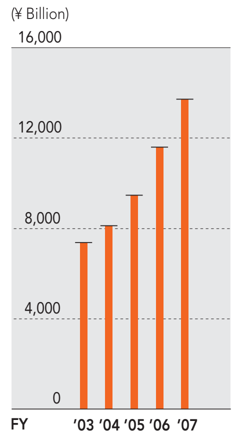
The worldwide automotive industry is in a period of globalization, which may continue for the foreseeable future, and in general the competitive environment in which Toyota operates is likely to intensify. Toyota believes it has the resources, strategies and technologies in place to compete effectively in the industry as an independent company for the foreseeable future.

In October 2004, Araco Corporation ("Araco") spun off its automotive manufacturing business that was merged into Toyota Auto Body Co., Ltd. while the remaining operations of Araco were merged with Takanichi Co., Ltd. ("Takanichi") and Toyoda Boshoku Corporation to become Toyota Boshoku Corporation ("Toyota Boshoku"). As a result, Toyota's ownership interests in Toyota Boshoku increased to 49.63% and Toyota Boshoku has been accounted for using the equity method since the latter half of fiscal 2005. Prior to the merger, Araco and Takanichi were consolidated subsidiaries of Toyota and included their financial results in Toyota's consolidated financial statements. Toyota Boshoku is primarily engaged in the development, manufacturing and sales of automotive interior and filter parts.

■ Financial Services Operations

The worldwide automobile financial services industry is highly competitive. The market for automobile financing has grown as more consumers are financing their purchases, primarily in North America and Europe. As competition increases, margins on financing transactions may decrease and market share may also decline as customers obtain financing for Toyota vehicles from alternative sources.

Total Assets by Financial Services Operations



Toyota's financial services operations mainly include loans and leasing programs for customers and dealers. Toyota believes that its ability to provide financing to its customers is an important value added service. Therefore, Toyota intends to continue to expand its network of finance subsidiaries in order to offer financial services in more countries.

Toyota's competitors for retail financing and retail leasing include commercial banks, credit unions, and other finance companies. Meanwhile, commercial banks and other captive automobile finance companies also provide competition for Toyota's wholesale financing activities.

Toyota's financial assets increased during fiscal 2007 resulting primarily from the continued expansion of its financial services operations in North America.

The following table provides information regarding Toyota's finance receivables and operating leases as of March 31, 2006 and 2007.

	Yen in millions	
	March 31,	
	2006	**2007**
Finance Receivables		
Retail	¥ 5,930,822	**¥ 7,005,631**
Finance leases	741,280	**756,421**
Wholesale and other dealer loans	1,998,814	**2,342,926**
	8,670,916	**10,104,978**
Deferred origination costs	92,798	**106,063**
Unearned income	(334,796)	**(367,829)**
Allowance for credit losses	(101,383)	**(112,116)**
Total finance receivables, net	8,327,535	**9,731,096**
Less—Current portion	(3,497,319)	**(4,036,363)**
Noncurrent finance receivables, net	¥ 4,830,216	**¥ 5,694,733**
Operating Leases		
Vehicles	¥ 2,503,064	**¥ 3,202,674**
Equipment	102,362	**106,663**
	2,605,426	**3,309,337**
Less—Accumulated depreciation	(579,896)	**(763,485)**
Vehicles and equipment on operating leases, net	¥ 2,025,530	**¥ 2,545,852**

Toyota continues to originate leases to finance new Toyota vehicles. These leasing activities are subject to residual value risk. Residual value risk could arise when the lessee of a vehicle does not exercise the option to purchase the vehicle at the end of the lease term. The number of vehicles returned at the end of leases term has decreased in recent years. For example, approximately 20% of vehicles leased by Toyota Motor Credit Corporation, Toyota's financing subsidiary located in the United States, were returned at the end of the applicable lease periods during fiscal 2007, which represents a continuing decrease in the return rates of approximately 40% and 30% in fiscal 2005 and 2006, respectively, due to a narrowing spread between contractual residual values and end of lease market values. To avoid a loss on a vehicle returned to Toyota at the end of the lease term, Toyota must resell or re-lease the vehicle at or above the residual value of the vehicle. If Toyota is unable to recover the residual value of the vehicle, it will incur a loss at the end of the lease, which may offset a portion of the earnings on the lease. To the extent that sales incentives remain an integral part of sales promotions (reducing new vehicle prices and cost of ownership), resale prices of used vehicles and, correspondingly, the fair value of Toyota's leased vehicles could be subject to downward pressure. During fiscal 2006 and 2007, losses have decreased mainly due to a decrease in the number of vehicles returned. See discussion in the Critical Accounting Estimates section regarding "Investment in Operating Leases" and note 2 to the consolidated financial statements regarding the allowance for residual values losses.

Toyota maintains an overall risk management strategy to mitigate its exposure to fluctuations in interest rates and currency exchange rates. Toyota enters into interest rate swap agreements and cross currency interest rate swap agreements to convert its fixed-rate debt to variable-rate functional currency debt. Toyota formally documents relationships between the derivative instrument and the hedged item, as well as its risk-management strategy for undertaking hedge transactions. If Toyota elects fair value hedge accounting, derivative instruments are designated with specific liabilities on Toyota's consolidated balance sheet, and the fair value quarterly change component of each derivative instrument and hedged item is included in the assessment of hedge effectiveness. Most interest rate swap agreements are executed as an integral part of specific debt transactions, achieving designated hedges. Toyota uses cross currency interest rate swap agreements to entirely hedge exposure to currency exchange rate fluctuations on principal and/or interest payments and to manage its exposure to interest rate fluctuations. Certain derivative instruments are entered into to hedge interest rate risk from an economic perspective and are not designated to specific assets or liabilities on Toyota's consolidated balance sheet. Accordingly, unrealized gains or losses related to derivatives that are not designated to specific assets and liabilities on Toyota's consolidated balance sheet are recognized currently in operations. As a result, earnings are impacted by these non-designated derivatives. The impact of recognizing these unrealized gains and losses attributed to non-designated derivatives resulted in an increase, decrease, and decrease in net income in fiscal 2005, 2006 and 2007, respectively. Toyota does not use any derivative instruments for trading purposes. See discussion in the Critical Accounting Estimates section regarding "Derivatives and Other Contracts at Fair Value", and further discussion in the Market Risk Disclosures section.

In addition, aggregated funding costs can affect the profitability of Toyota's financial services operations. Funding costs are affected by a number of factors, some of which are not in Toyota's control. These factors include general economic conditions, prevailing interest rates and Toyota's financial strength. Funding costs increased during fiscal 2006 and 2007 as a result of higher interest rates and an increase in borrowings, primarily in the United States.

Toyota launched its credit card business in Japan at the beginning of fiscal 2002. As of March 31, 2006, Toyota had 5.4 million cardholders, an increase of 0.7 million cardholders compared with March 31, 2005, and as of March 31, 2007, Toyota had 6.1 million cardholders, an increase of 0.7 million cardholders compared with March 31, 2006. Corresponding to the increase in cardholders, the credit card receivables at March 31, 2006 increased by ¥27.0 billion from March 31, 2005 to ¥171.2 billion. The credit card receivables at March 31, 2007 increased by ¥30.0 billion from March 31, 2006 to ¥201.2 billion.

■ Other Business Operations

Toyota's other business operations consist of housing, including the manufacture and sale of prefabricated homes; information technology related businesses, including information technology and telecommunications, intelligent transport systems, GAZOO; marine, biotechnology and afforestation.

Toyota does not expect its other business operations to materially contribute to Toyota's consolidated results of operations.

■ Currency Fluctuations

Toyota is sensitive to fluctuations in foreign currency exchange rates. In addition to the Japanese yen, Toyota is principally exposed to fluctuations in the value of the U.S. dollar and the euro and, to a lesser extent, the British pound and the Australian dollar. Toyota's consolidated financial statements, which are presented in Japanese yen, are affected by foreign currency exchange fluctuations through both translation risk and transaction risk. Changes in foreign currency exchange rates may positively or negatively affect Toyota's revenues, operating costs and expenses, gross margins, operating income, net income and retained earnings.

Translation risk is the risk that Toyota's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates of the currencies in those countries in which Toyota does business compared with the Japanese yen. Even though the fluctuations of currency exchange rates to the Japanese yen can be substantial, and, therefore, significantly impact comparisons with prior periods and among the various geographic markets, the translation effect is a reporting consideration and does not reflect Toyota's underlying results of operations. Toyota does not hedge against translation risk.

Transaction risk is the risk that the currency structure of Toyota's costs and liabilities will deviate from the currency structure of sales proceeds and assets. Transaction risk relates primarily to sales proceeds from Toyota's non-domestic operations from vehicles produced in Japan.

Toyota believes that the location of its production facilities in different parts of the world has significantly reduced the level of transaction risk. As part of its globalization strategy, Toyota has continued to localize production by constructing production facilities in the major markets in which it sells its vehicles. In calendar 2005 and 2006, Toyota produced 62.0% and 61.1% of Toyota's non-domestic sales outside Japan, respectively. In North America, 61.1% and 54.7% of vehicles sold in calendar 2005 and 2006 were produced locally, respectively. In Europe, 59.6% and 70.7% of vehicles sold in calendar 2005 and 2006 were produced locally, respectively. Localizing production enables Toyota to purchase many of the supplies and resources used in the production process, which allows for a better match of local currency revenues with local currency expenses.

Toyota also enters into foreign currency transactions and other hedging instruments to address a portion of its transaction risk. This has reduced, but not eliminated, the effects of foreign currency exchange rate fluctuations, which in some years can be significant. See notes 20 and 21 to the consolidated financial statements for additional information regarding the extent of Toyota's use of derivative financial instruments to hedge foreign currency exchange rate risks.

Generally, a weakening of the Japanese yen against other currencies has a positive effect on Toyota's revenues, operating income and net income. A strengthening of the Japanese yen against other currencies has the opposite effect. The Japanese yen has on average been weaker against the U.S. dollar and the euro during fiscal 2006 and 2007. At the end of fiscal 2006 and 2007, the Japanese yen was weaker against the U.S. dollar and the euro in comparison to the end of the respective prior fiscal year. See further discussion in the Market Risk Disclosures section regarding "Foreign Currency Exchange Rate Risk".

During fiscal 2006 and 2007, the average value of the yen fluctuated against the major currencies including the U.S. dollar and euro compared with the average value of the previous fiscal year, respectively. The operating results excluding the impact of currency fluctuations described in the "Results of Operations—Fiscal 2007 Compared with Fiscal 2006" and the "Results of Operations—Fiscal 2006 Compared with Fiscal 2005" show results of net revenues obtained by applying the yen's average exchange rate in the previous fiscal year to the local currency-denominated net revenues for fiscal 2006 and 2007, respectively, as if the value of the yen had remained constant for the comparable periods. Results excluding the impact of currency fluctuations year-on-year are not on the same basis as Toyota's consolidated financial statements and do not conform with U.S. GAAP. Furthermore, Toyota does not believe that these measures are a substitute for U.S. GAAP measures. However, Toyota believes that such results excluding the impact of currency fluctuations year-on-year provide additional useful information to investors regarding the operating performance on a local currency basis.

■ Segmentation

Toyota's most significant business segment is its automotive operations. Toyota carries out its automotive operations as a global competitor in the worldwide automotive market. Management allocates resources to, and assesses the performance of, its automotive operations as a single business segment on a worldwide basis. Toyota does not manage any subset of its automotive operations, such as domestic or overseas operations or parts, as separate management units.

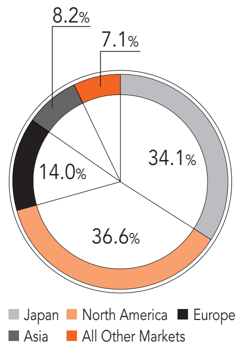
The management of the automotive operations is aligned on a functional basis with managers having oversight responsibility for the major operating functions within the segment. Management assesses financial and non-financial data such as units of sale, units of production, market share information, vehicle model plans and plant location costs to allocate resources within the automotive operations.

Geographic Breakdown

The following table sets forth Toyota's net revenues in each geographic market based on the country location of the parent company or the subsidiary that transacted the sale with the external customer for the past three fiscal years.

Revenues by Market

FY 2007



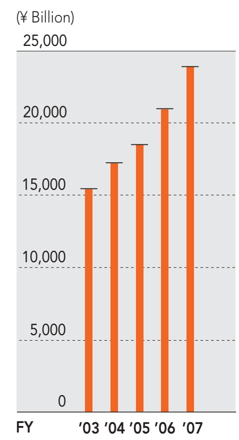
	Yen in millions		
	For the years ended March 31,		
	2005	2006	**2007**
Japan	¥7,408,136	¥7,735,109	**¥8,152,884**
North America	6,187,624	7,455,818	**8,771,495**
Europe	2,305,450	2,574,014	**3,346,013**
Asia	1,572,113	1,836,855	**1,969,957**
Other	1,078,203	1,435,113	**1,707,742**

Results of Operations—Fiscal 2007 Compared with Fiscal 2006

■ Net Revenues

Toyota had net revenues for fiscal 2007 of ¥23,948.0 billion, an increase of ¥2,911.1 billion, or 13.8%, compared with the prior year. This increase principally reflects the impact of increased vehicle unit sales, increased financings operations, increased parts sales and the favorable impact of fluctuations in foreign currency translation rates during fiscal 2007. Eliminating the difference in the yen value used for translation purposes, net revenues would have been approximately ¥23,195.8 billion during fiscal 2007, a 10.3% increase compared with the prior year. Toyota's net revenues include net revenues from sales of products that increased during fiscal 2007 by 13.0% from the prior year to ¥22,670.1 billion and net revenues from financing operations that increased 30.8% in fiscal 2007 compared with the prior year to ¥1,277.9 billion. Eliminating the difference in the yen value used for translation purposes, net revenues from sales of products would have been approximately ¥21,963.4 billion, a 9.5% increase, while net revenues from financing operations would have increased approximately 26.1% during fiscal 2007 compared to the prior year to ¥1,232.4 billion. Geographically, net revenues for fiscal 2007 increased by 5.4% in Japan, 17.6% in North America, 30.0% in Europe, 7.2% in Asia and 19.0% in Other compared with the prior year. Eliminating the difference in the yen value used for translation purposes, net revenues in fiscal 2007 would have increased by 5.4% in Japan, 13.9% in North America, 19.7% in Europe, and 17.0% in Other, and decreased by 2.4% in Asia compared with the prior year.

Net Revenues



The following is a discussion of net revenues for each of Toyota's business segments. The net revenue amounts discussed are amounts before the elimination of intersegment revenues.

• Automotive Operations Segment

Net revenues from Toyota's automotive operations segment, which constitute the largest percentage of Toyota's net revenues, increased during fiscal 2007 by ¥2,589.9 billion, or 13.4% compared with the prior year to ¥21,928.0 billion. The increase resulted primarily from the approximate ¥1,200 billion impact attributed to the vehicle unit sales growth partially offset by changes in sales mix, the ¥704.6 billion impact of fluctuations in foreign currency translation rates during fiscal 2007, and the impact of increased parts sales. Eliminating the difference in the yen value used for translation purposes, automotive operations segment net revenues would have been approximately ¥21,223.4 billion during fiscal 2007, a 9.7% increase compared to the prior year. In fiscal 2007, net revenues in Japan were favorably impacted primarily by vehicle unit sales growth in the export markets, which was partially offset by changes in sales mix compared to fiscal 2006. Net revenues in North America were favorably impacted by vehicle unit sales growth and fluctuations in foreign currency translation rates during fiscal 2007. Net revenues in Europe were favorably impacted primarily by vehicle unit sales growth and fluctuations in foreign currency translation rates during fiscal 2007. Net revenues in Asia were favorably impacted primarily by fluctuations in foreign currency translation rates during fiscal 2007, which was partially offset by the impact of a decrease in vehicle unit sales.

Net revenues in Other were favorably impacted primarily by vehicle unit sales growth due to the IMV series.

• Financial Services Operations Segment

Net revenues in fiscal 2007 for Toyota's financial services operations increased by ¥303.6 billion or 30.5% compared to the prior year to ¥1,300.5 billion. This increase resulted primarily from the impact of a higher volume of financings mainly in North America and the favorable impact of fluctuations in foreign currency translation rates during fiscal 2007. Eliminating the difference in the yen value used for translation purposes, financial services operations net revenues would have been approximately ¥1,254.2 billion during fiscal 2007, a 25.8% increase compared with the prior year.

• All Other Operations Segment

Net revenues for Toyota's other businesses increased by ¥133.4 billion, or 11.2%, to ¥1,323.7 billion during fiscal 2007 compared with the prior year. This increase primarily relates to increased sales attributed to the housing business and the expansion of intelligent transport systems operations.

■ Operating Costs and Expenses

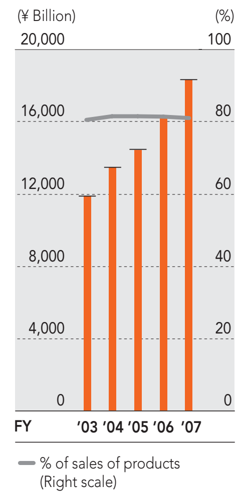
Operating costs and expenses increased by ¥2,550.8 billion, or 13.3%, to ¥21,709.4 billion during fiscal 2007 compared with the prior year. The increase resulted primarily from the approximate ¥900 billion impact on costs of products attributed to vehicle unit sales growth partially offset by changes in sales mix, a ¥708.5 billion impact of fluctuations in foreign currency translation rates, a ¥78.1 billion increase in research and development expenses, increased expenses in expanding business operations and increased costs related to the corresponding increase in parts sales. These increases were partially offset by the approximate ¥100 billion impact attributed to the net impact of cost reduction efforts including the rise in prices of production materials and parts in fiscal 2007.

Continued cost reduction efforts reduced operating costs and expenses in fiscal 2007 by approximately ¥100 billion, partially offset by increases in the prices of steel, precious metals, non-ferrous alloys including aluminum, plastic parts and other production materials and parts, over what would have otherwise been incurred. These cost reduction efforts relate to ongoing value engineering and value analysis activities, the use of common parts that result in a reduction of part types and other manufacturing initiatives designed to reduce the costs of vehicle production.

Cost of products sold increased by ¥2,021.0 billion, or 12.4%, to ¥18,356.3 billion during fiscal 2007 compared with the prior year. This increase (before the elimination of intersegment amounts) reflects an increase of ¥2,005.5 billion, or 12.8%, for the automotive operations and an increase of ¥118.9 billion, or 11.7%, for all other operations segment. The increase in cost of products sold for automotive operations is primarily attributed to the increased vehicle unit sales partially offset by changes in sales mix, the impact of the increase in parts sales, the impact of the increase in research and development expenses and the impact of fluctuations in foreign currency translation rates during fiscal 2007, which were partially offset by the impact of continued cost reduction efforts. The increase in cost of products sold for all other operations primarily related to the increase in net revenues.

Cost of financing operations increased by ¥262.4 billion, or 43.1%, to ¥872.1 billion during fiscal 2007 compared with the prior year. The increase resulted primarily from the impact of increased interest expenses caused primarily by higher interest rates and an increase in borrowings attributed to business expansion in the United States. The increase is also attributed to the impact of losses due to changes in the fair value of derivative financial instruments that are not designated as hedges and are marked-to-market at the end of each period.

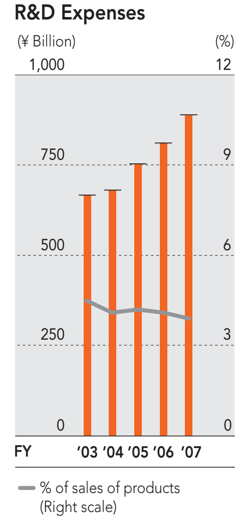
Cost of Products Sold



Selling, general and administrative expenses increased by ¥267.4 billion, or 12.1%, to ¥2,481.0 billion during fiscal 2007 compared with the prior year. This increase (before the elimination of intersegment amounts) reflects an increase of ¥239.6 billion, or 11.9%, for the automotive operations, an increase of ¥35.3 billion, or 15.5%, for the financial services operations and an increase of ¥14.6 billion, or 10.9%, for all other operations segment. The increase for the automotive operations consisted primarily of the impact of increased expenses in expanding business operations and the impact of fluctuations in foreign currency translation rates. The increase for the financial services operations is primarily attributed to impact of increased expenses and the impact of fluctuations in foreign currency translation rates.

Research and development expenses (included in cost of products sales and selling, general and administrative expenses) increased by ¥78.1 billion, or 9.6%, to ¥890.7 billion during fiscal 2007 compared with the prior year. This increase primarily relates to expenditures attributed to the development of environmentally conscious technologies including hybrid and fuel-cell technology, aggressive developments in advanced technologies relating to collision safety and vehicle stability controls and the impact of expanding new models to promote Toyota's strength in a global market to further build up competitive strength in the future.

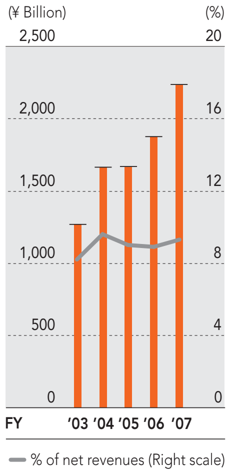
R&D Expenses



■ Operating Income

Toyota's operating income increased by ¥360.3 billion, or 19.2%, to ¥2,238.6 billion during fiscal 2007 compared with the prior year. Operating income was favorably affected by the vehicle unit sales growth partially offset by changes in sales mix, the impact of increased parts sales, continued cost reduction efforts and the favorable impact of fluctuations in foreign currency translation rates. These increases were partially offset by increases in research and development expenses and the impact of business expansion. As a result, operating income increased to 9.3% as a percentage of net revenues for fiscal 2007 compared to 8.9% in the prior year.

Operating Income



During fiscal 2007, operating income (before the elimination of intersegment profits) by significant geographies resulted in an increase of ¥381.3 billion, or 35.4%, in Japan, a decrease of ¥46.0 billion, or 9.3%, in North America, an increase of ¥43.4 billion, or 46.2% in Europe, a decrease of ¥27.9 billion, or 19.2%, in Asia, and an increase of ¥16.3 billion, or 24.3% in Other compared with the prior year. The increase in Japan relates primarily to the vehicle unit sales growth in the export markets partially offset by changes in sales mix, continued cost reduction efforts and the favorable impact of fluctuations in foreign currency translation rates. The increase was partially offset by increases in research and development expenses. The decrease in North America is attributed primarily to the impact of start-up costs relating to the Texas plant, and the impact of losses due to changes in the fair value of derivative financial instruments such as interest rate swaps, partially offset by the increase in vehicle unit sales, the impact of cost reduction efforts in the manufacturing operations and the favorable impact of fluctuations in foreign currency translation rates. The increase in Europe relates mainly to the impact of an increase in production volume and vehicle unit sales, cost reduction efforts in the manufacturing operations and the favorable impact of fluctuations in foreign currency translation rates. The decrease in Asia relates primarily to the decrease in production volume and vehicle unit sales. The increase in Other relates primarily to the impact of the increase in production volume and vehicle unit sales mainly attributed to the IMV series.

The following is a discussion of operating income for each of Toyota's business segments. The operating income amounts discussed are before the elimination of intersegment profits.

• Automotive Operations Segment

Operating income from Toyota's automotive operations increased by ¥344.8 billion, or 20.4%, to ¥2,038.8 billion during fiscal 2007 compared with the prior year. This increase is primarily attributed to the increase in vehicle unit sales, the increase in parts sales, the impact of continued cost reduction efforts and the favorable impact of fluctuations in foreign currency translation rates. This increase was partially offset by, the increase in research and development expenses and the increase in expenses corresponding to business expansion.

• Financial Services Operations Segment

Operating income from Toyota's financial services operations increased by ¥2.7 billion, or 1.7%, to ¥158.5 billion during fiscal 2007 compared with the prior year. This increase is primarily attributed to the impact of a higher volume of financing activities mainly in North America and the favorable impact of fluctuations in foreign currency translation rates, which was partially offset by the impact of losses due to changes in the fair value of derivative financial instruments such as interest rate swaps.

• All Other Operations Segment

Operating income from Toyota's other businesses remained consistent to ¥39.6 billion during fiscal 2007 compared with the prior year.

■ Other Income and Expenses

Interest and dividend income increased by ¥38.0 billion, or 40.4%, to ¥132.0 billion during fiscal 2007 compared with the prior year mainly due to an increase in investment securities held by the United States subsidiaries.

Interest expense increased by ¥27.7 billion, or 2.3 times to ¥49.3 billion during fiscal 2007 compared with the prior year due to an increase in interest expense in the automotive operations segment.

Foreign exchange gains, net increased by ¥22.2 billion, or 3.1 times, to ¥33.0 billion during fiscal 2007 compared with the prior year. Foreign exchange gains and losses include the differences between the value of foreign currency denominated sales translated at prevailing exchange rates and the value of the sales amounts settled during the year, including those settled using forward foreign currency exchange contracts.

Other income, net decreased by ¥97.6 billion, or 77.6%, to ¥28.2 billion during fiscal 2007 compared with the prior year. This decrease primarily relates to the gain of ¥143.3 billion for a nonmonetary exchange of marketable equity securities recorded during fiscal 2006. The gain was calculated in accordance with Emerging Issues Task Force ("EITF") No. 91-5 "Nonmonetary Exchange of Cost-Method Investments", which was determined as the difference between acquisition costs of pre-merger UFJ Holdings, Inc. shares that Toyota had held and the fair market value of post-merger Mitsubishi UFJ Financial Group, Inc. shares that Toyota received in exchange for shares of UFJ Holdings, Inc. following the merger between Mitsubishi Tokyo Financial Group, Inc. and UFJ Holdings, Inc.

■ Income Taxes

The provision for income taxes increased by ¥103.2 billion, or 13.0%, to ¥898.3 billion during fiscal 2007 compared with the prior year primarily due to the increase in income before income taxes. The effective tax rate for fiscal 2007 remained relatively unchanged compared to the rate for fiscal 2006.

■ Minority Interest in Consolidated Subsidiaries and Equity in Earnings of Affiliated Companies

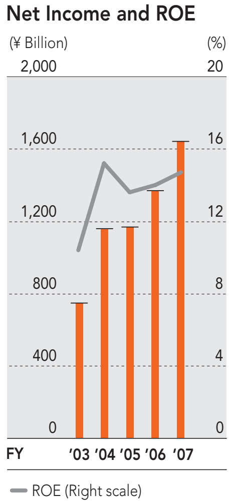
Minority interest in consolidated subsidiaries decreased by ¥34.7 billion, or 41.1%, to ¥49.7 billion during fiscal 2007 compared with the prior year. This decrease was mainly due to the decrease of a gain calculated in accordance with EITF 91-5 from the nonmonetary exchange of marketable equity investments related shares of UFJ Holdings, Inc. held by a domestic consolidated subsidiary prior to the merger with Mitsubishi Tokyo Financial Group, Inc. resulting in the receipt of new shares in the post-merger entity.

Equity in earnings of affiliated companies during fiscal 2007 increased by ¥45.2 billion, or 27.5%, to ¥209.5 billion compared with the prior year due to an increase in net income attributable to favorable operations at the affiliated companies.

■ Net Income

Toyota's net income increased by ¥271.9 billion, or 19.8%, to ¥1,644.0 billion during fiscal 2007 compared with the prior year.

Net Income and ROE



■ Other Comprehensive Income and Loss

Other comprehensive income decreased by ¥344.9 billion, or 66.6%, to ¥173.0 billion for fiscal 2007 compared with the prior year. This decrease resulted primarily from a decrease in unrealized holding gains on securities during fiscal 2007 of ¥38.8 billion compared with unrealized holding gains of ¥244.6 billion in the prior year reflecting an incremental improvement in the Japanese stock market during fiscal 2006 and a decrease in foreign currency translation adjustment gains of ¥130.7 billion in fiscal 2007 compared with gains of ¥268.4 billion in the prior year.

Results of Operations—Fiscal 2006 Compared with Fiscal 2005

■ Net Revenues

Toyota had net revenues for fiscal 2006 of ¥21,036.9 billion, an increase of ¥2,485.4 billion, or 13.4%, compared with the prior year. This increase principally reflects the impact of increased vehicle unit sales, increased parts sales, increased financings operations and the favorable impact of fluctuations in foreign currency translation rates during fiscal 2006. Eliminating the difference in the yen value used for translation purposes, net revenues would have been approximately ¥20,405.1 billion during fiscal 2006, a 10.0% increase compared with the prior year. Toyota's net revenues include net revenues from sales of products that increased during fiscal 2006 by 12.8% from the prior year to ¥20,059.5 billion and net revenues from financing operations that increased 28.5% in fiscal 2006 compared with the prior year to ¥977.4 billion. Eliminating the difference in the yen value used for translation purposes, net revenues from sales of products would have been approximately ¥19,472.4 billion, a 9.5% increase, while net revenues from financing operations would have increased approximately 22.6% during fiscal 2006 compared to the prior year to ¥932.7 billion. Geographically, net revenues for fiscal 2006 increased by 4.4% in Japan, 20.5% in North America, 11.6% in Europe, 16.8% in Asia and 33.1% in Other compared with the prior year. Eliminating the difference in the yen value used for translation purposes, net revenues in fiscal 2006 would have increased by 4.4% in Japan, 14.2% in North America, 9.2% in Europe, 11.1% in Asia and 24.4% in Other compared with the prior year.

The following is a discussion of net revenues for each of Toyota's business segments. The net revenue amounts discussed are amounts before the elimination of intersegment revenues.

• Automotive Operations Segment

Net revenues from Toyota's automotive operations segment, which constitute the largest percentage of Toyota's net revenues, increased in fiscal 2006 by ¥2,224.6 billion, or 13.0% compared with the prior year to ¥19,338.1 billion. The increase resulted primarily from the approximate ¥1,200 billion impact attributed to the vehicle unit sales growth partially offset by changes in sales mix, the ¥585.9 billion impact of fluctuations in foreign currency translation rates during fiscal 2006, and the impact of increased parts sales. Eliminating the difference in the yen value used for translation purposes, automotive operations segment net revenues would have been approximately ¥18,752.2 billion during fiscal 2006, a 9.6% increase compared to the prior year. In fiscal 2006, net revenues in Japan were favorably impacted primarily by vehicle unit sales growth in the export markets, which was partially offset by changes in sales mix compared to fiscal 2005. Net revenues in North America were favorably impacted by vehicle unit sales growth and fluctuations in foreign currency translation rates during fiscal 2006. Net revenues in Europe were favorably impacted primarily by vehicle unit sales growth and fluctuations in foreign currency translation rates during fiscal 2006. Net revenues in Asia were favorably impacted primarily by vehicle unit sales growth that includes sales both to Asia and outside of Asia due to the IMV series and the favorable impact of fluctuations in foreign currency translation rates during fiscal 2006. Net revenues in Other were favorably impacted primarily by vehicle unit sales growth due to the IMV series.

• Financial Services Operations Segment

Net revenues in fiscal 2006 for Toyota's financial services operations increased by ¥215.7 billion or 27.6% compared to the prior year to ¥996.9 billion. This increase resulted primarily from the impact of a higher volume of financings mainly in North America and the favorable impact of fluctuations in foreign currency translation rates during fiscal 2006. Eliminating the difference in the yen value used for translation purposes, financial services operations net revenues would have been approximately ¥952.0 billion during fiscal 2006, a 21.9% increase compared with the prior year.

• All Other Operations Segment

Net revenues for Toyota's other businesses increased by ¥160.0 billion, or 15.5%, to ¥1,190.3 billion during fiscal 2006 compared with the prior year. This increase primarily relates to increased sales attributed to the housing business and the expansion of intelligent transport systems operations.

■ Operating Costs and Expenses

Operating costs and expenses increased by ¥2,279.3 billion, or 13.5%, to ¥19,158.6 billion during fiscal 2006 compared with the prior year. The increase resulted primarily from the approximate ¥1,000 billion impact on costs of products attributed to vehicle unit sales growth partially offset by changes in sales mix, a ¥587.2 billion impact of fluctuations in foreign currency translation rates, a ¥57.5 billion increase in research and development expenses, a ¥47.2 billion decrease in net gain on the transfer to the government of the substitutional portion of certain employee pension funds in Japan, increased expenses in expanding business operations and increased costs related to the corresponding increase in parts sales. These increases were partially offset by the approximate ¥130 billion impact attributed to the net impact of cost reduction efforts including rise in prices of production materials and parts in fiscal 2006.

In 2001, the Corporate Defined Benefit Pension Plan Law was enacted and allowed a company to transfer the substitutional portion of the obligation to the government. The parent company and certain subsidiaries in Japan applied for an exemption from the payment of benefits related to future employee services with respect to the substitutional portion of their employee pension funds and obtained approval from the Minister of Health, Labor, and Welfare. These companies also applied for approval for the separation of the benefit obligations of the substitutional portion which relates to past employee services. After approval was obtained, several subsidiaries in Japan completed the transfers of the government-specified portion of plan assets relating to the substitutional portion in fiscal 2005. The gains and losses relating to these transfers were treated in accordance with the Emerging Issues Task Force ("EITF") No. 03-02, *Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities.*

In connection with these transfers, for fiscal 2005, settlement losses relating to the transfer of the substitutional portion was ¥74.3 billion and was reflected in cost of products sold (¥65.9 billion) and selling, general and administrative expenses (¥8.4 billion). In addition, the government subsidy representing the difference between the benefit obligations of the substitutional portion and the government-specified portion of plan assets of ¥121.5 billion for fiscal 2005 which was transferred to the government, reduced selling, general and administrative expenses. The net impact of this item was a reduction of operating expenses by ¥47.2 billion during fiscal 2005. See note 19 to the consolidated financial statements.

Continued cost reduction efforts reduced operating costs and expenses in fiscal 2006 by approximately ¥130 billion, partially offset by increases in the prices of steel, precious metals, nonferrous alloys including aluminum, plastic parts and other production materials and parts, over what would have otherwise been incurred. These cost reduction efforts relate to ongoing value engineering and value analysis activities, the use of common parts that result in a reduction of part types and other manufacturing initiatives designed to reduce the costs of vehicle production.

Cost of products sold increased by ¥1,835.1 billion, or 12.7%, to ¥16,335.3 billion during fiscal 2006 compared with the prior year. This increase (before the elimination of intersegment amounts) reflects an increase of ¥1,790.5 billion, or 12.9%, for the automotive operations and an increase of ¥142.2 billion, or 16.3%, for the all other operations segment. The increase in cost of products sold for automotive operations is primarily attributed to the increased vehicle unit sales partially offset by changes in sales mix, the impact of increased parts sales, the impact of the increase in research and development expenses and the impact of fluctuations in foreign currency translation rates during fiscal 2006, which were partially offset by the impact of continued cost reduction efforts and the impact of decrease in the settlement losses relating to the transfer to the government of the substitutional portion. The increase in cost of products sold for all other operations primarily related to the increase in net revenues.

Cost of financing operations increased by ¥239.9 billion, or 64.8%, to ¥609.7 billion during fiscal 2006 compared with the prior year. The increase resulted primarily from the impact of increased interest expenses caused primarily by higher interest rates and an increase in borrowings attributed to business expansion in the United States and the impact of losses due to changes in the fair value of derivative financial instruments that are not designated as hedges and are marked-to-market at the end of each period.

Selling, general and administrative expenses increased by ¥204.4 billion, or 10.2%, to ¥2,213.6 billion during fiscal 2006 compared with the prior year. This increase (before the elimination of intersegment amounts) reflects an increase of ¥192.6 billion, or 10.6%, for the automotive operations, a increase of ¥23.2 billion, or 11.4%, for the financial services operations and an increase of ¥11.8 billion, or 9.6%, for all other operations segment. The increase for the automotive operations consisted primarily of the impact from the reduction of gains attributed to the transfer of the substitutional portion of certain employee pension funds to the government, the impact of increased expenses in expanding business operations and the impact of fluctuations in foreign currency translation rates. The increase for the financial services operations is primarily attributed to impact of increased expenses and the impact of fluctuations in foreign currency translation rates.

Research and development expenses (included in cost of products sales and selling, general and administrative expenses) increased by ¥57.5 billion, or 7.6%, to ¥812.6 billion during fiscal 2006 compared with the prior year. This increase primarily relates to expenditures attributed to the development of environmentally conscious technologies including hybrid and fuel-cell technology, aggressive developments in advanced technologies relating to collision safety and vehicle stability controls and the impact of expanding new models to promote Toyota's strength in a global market to further build up competitive strength in the future.

■ Operating Income

Toyota's operating income increased by ¥206.2 billion, or 12.3%, to ¥1,878.3 billion during fiscal 2006 compared with the prior year. Operating income was favorably affected by the vehicle unit sales growth partially offset by changes in sales mix, the impact of increased parts sales, continued cost reduction efforts, improvements in all other operations and the favorable impact of fluctuations in foreign currency translation rates. These increases were partially offset by a reduction in the net gains on the transfer to the government of the substitutional portion of certain employee pension funds, increases in research and development expenses, the impact of business expansion and the decreased income in financial services operations. As a result, operating income decreased to 8.9% as a percentage of net revenues for fiscal 2006 compared to 9.0% in the prior year.

During fiscal 2006, operating income (before the elimination of intersegment profits) by significant geographies resulted in increases of ¥88.7 billion, or 9.0%, in Japan and ¥48.1 billion, or 10.7%, in North America, a decrease of ¥14.6 billion, or 13.4% in Europe, an increase of ¥51.7 billion, or 55.2%, in Asia and ¥19.8 billion, or 41.6% in Other compared with the prior year. The increase in Japan relates primarily to the vehicle unit sales growth in the export markets partially offset by changes in sales mix, continued cost reduction efforts and the favorable impact of fluctuations in foreign currency translation rates. The increase was partially offset by the impact of a decrease in the net gains on the transfer to the government of the substitutional portion of certain employee pension funds and increases in research and development expenses. The increase in North America relates primarily to the increase in production volume and vehicle unit sales, the impact of cost reduction efforts in the manufacturing operations and the favorable impact of fluctuations in foreign currency translation rates. The decrease in the Europe relates mainly to increases in expenses attributed to expansion of operations, despite of the impact of cost reduction efforts in the manufacturing operations, an increase in production volume and vehicle unit sales and the favorable impact of fluctuations in foreign currency translation rates. The increase in Asia relates primarily to the increase in production volume and vehicle unit sales due to the IMV series. The increase in Other relates primarily to the impact of the increase in production volume and vehicle unit sales mainly attributed to the IMV series.

The following is a discussion of operating income for each of Toyota's business segments. The operating income amounts discussed are before the elimination of intersegment profits.

• Automotive Operations Segment

Operating income from Toyota's automotive operations increased by ¥241.5 billion, or 16.6%, to ¥1,694.0 billion during fiscal 2006 compared with the prior year. This increase is primarily attributed to the increase in vehicle unit sales, the increase in parts sales, the impact of continued cost reduction efforts and the favorable impact of fluctuations in foreign currency translation rates. This increase was partially offset by a reduction in the net gains on the transfer to the government of the substitutional portion of certain employee pension funds, the increase in research and development expenses and the increase in expenses corresponding to business expansion.

• Financial Services Operations Segment

Operating income from Toyota's financial services operations decreased by ¥45.0 billion, or 22.4%, to ¥155.8 billion during fiscal 2006 compared with the prior year. This decrease was primarily due to the impact of losses from changes in the fair value of derivative financial instruments such as interest rate swaps and the impact of adjustments made by a sales financing subsidiary in fiscal 2005 for the correction of errors relating to prior periods (see note 24 to the consolidated financial statements), despite of the increase in the finance receivables asset base and the favorable impact of fluctuations in foreign currency translation rates.

• All Other Operations Segment

Operating income from Toyota's other businesses increased by ¥6.0 billion, or 17.8%, to ¥39.7 billion during fiscal 2006 compared with the prior year. This increase primarily relates to increased production volume and sales attributed to the housing business and the expansion of intelligent transport systems operations.

■ Other Income and Expenses

Interest and dividend income increased by ¥26.5 billion, or 39.2%, to ¥94.0 billion during fiscal 2006 compared with the prior year mainly due to an increase in investment securities held by the United States subsidiaries.

Interest expense increased by ¥2.7 billion, or 14.0%, to ¥21.6 billion during fiscal 2006 compared with the prior year due to an increase in borrowings in the automotive operations segment.

Foreign exchange gains, net decreased by ¥10.6 billion, or 49.6%, to ¥10.8 billion during fiscal 2006 compared with the prior year. Foreign exchange gains and losses include the differences between the value of foreign currency denominated sales translated at prevailing exchange rates and the value of the sales amounts settled during the year, including those settled using forward foreign currency exchange contracts.

Other income, net increased by ¥113.4 billion, or 10.1 times, to ¥125.8 billion during fiscal 2006. This increase primarily relates to the gain of ¥143.3 billion for a nonmonetary exchange of marketable equity securities.

■ Income Taxes

The provision for income taxes increased by ¥137.2 billion, or 20.9%, to ¥795.1 billion during fiscal 2006 compared with the prior year primarily due to the increase in income before income taxes. The effective tax rate for fiscal 2006 was relatively unchanged compared to the rate for fiscal 2005.

■ Minority Interest in Consolidated Subsidiaries and Equity in Earnings of Affiliated Companies

Minority interest in consolidated subsidiaries increased by ¥19.5 billion, or 30.0%, to ¥84.4 billion during fiscal 2006 compared with the prior year. This increase was mainly due to favorable operating results at consolidated subsidiaries and a gain calculated in accordance with EITF 91-5 from the nonmonetary exchange of marketable equity investments related shares of UFJ Holdings, Inc. held by a domestic consolidated subsidiary prior to the merger with Mitsubishi Tokyo Financial Group, Inc. resulting in the receipt of new shares in the post-merger entity.

Equity in earnings of affiliated companies during fiscal 2006 increased by ¥24.9 billion, or 17.8%, to ¥164.3 billion compared with the prior year due to an increase in net income attributable to favorable operations at the affiliated companies.

■ Net Income

Toyota's net income increased by ¥200.9 billion, or 17.2%, to ¥1,372.1 billion during fiscal 2006 compared with the prior year.

■ Other Comprehensive Income and Loss

Other comprehensive income increased by ¥394.0 billion, or 4.2 times, to ¥517.9 billion for fiscal 2006 compared with the prior year. This increase resulted primarily from an increase in unrealized holding gains on securities during fiscal 2006 of ¥244.6 billion compared with unrealized holding gains of ¥38.4 billion in the prior year reflecting the improvement in the Japanese stock market and foreign currency translation adjustment gains of ¥268.4 billion in fiscal 2006 compared with gains of ¥75.7 billion in the prior year. These increases in other comprehensive income were partially offset by the lower gain adjustment in the minimum pension liability component during fiscal 2006 of ¥4.9 billion compared to a ¥9.8 billion gain adjustment in the prior year.

Outlook

Toyota expects that the global economy will grow moderately in fiscal 2008, despite factors such as concerns about the U.S. economic trend, changes in the pace of growth of the Chinese economy, and oil price trend. Toyota expects that the global automotive markets will remain at the same level as fiscal 2007. Toyota, for the purposes of this discussion, is assuming an average exchange rate of ¥115 to the U.S. dollar and ¥150 to the euro. With these external factors in mind, Toyota expects that net revenues for fiscal 2008 will increase compared with fiscal 2007 as a result of expected increase in vehicle unit sales primarily in Other and Asia. Sales efforts are expected to increase vehicle unit sales and, together with cost reduction efforts, increase operating income. On the other hand, the assumed exchange rate of a slightly stronger yen against the U.S. dollar, the anticipated increases in depreciation expenses resulting from active capital expenditures, and expenditures relating to the research and development of environmental technology such as hybrid vehicles and fuel cell, safety technology and other next-generation technologies are expected to be offsetting factors. In addition, the effects of cost reduction efforts may be influenced by fluctuations in the prices of raw materials. As a result, Toyota expects that operating income will remain relatively unchanged in fiscal 2008 compared with fiscal 2007. Also, Toyota expects that income before income taxes, minority interest and equity in earnings of affiliated companies and net income will remain generally unchanged in fiscal 2008. Exchange rate fluctuations can also materially affect Toyota's operating results. In particular, a strengthening of the Japanese yen against the U.S. dollar can have a material adverse effect on Toyota's operating results. Please see "Operating and Financial Review and Prospects—Operating Results—Overview—Currency Fluctuations".

The foregoing statements are forward-looking statements based upon Toyota's management's assumptions and beliefs regarding exchange rates, market demand for Toyota's products, economic conditions and others. Please see "Cautionary Statement with Respect to Forward-Looking Statements". Toyota's actual results of operations could vary significantly from those described above as a result of unanticipated changes in the factors described above or other factors, including those described "Risk Factors".

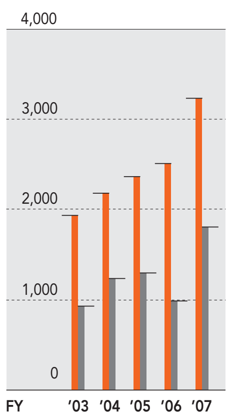
Liquidity and Capital Resources

Historically, Toyota has funded its capital expenditures and research and development activities primarily through cash generated by operations.

Toyota expects to sufficiently fund its capital expenditures and research and development activities in fiscal 2008 primarily through cash and cash equivalents on hand and increases in cash and cash equivalents from operating activities. See "Information on the Company—Business Overview—Capital Expenditures and Divestitures" for information regarding Toyota's material capital expenditures and divestitures for fiscal 2005, 2006 and 2007 and information concerning Toyota's principal capital expenditures and divestitures currently in progress.

Toyota funds its financing programs for customers and dealers, including loans and leasing programs, from both operating cash flows and borrowings by its finance subsidiaries. Toyota seeks to expand its ability to raise funds locally in markets throughout the world by expanding its network of finance subsidiaries.

Net Cash Provided by Operating Activities and Free Cash Flow*



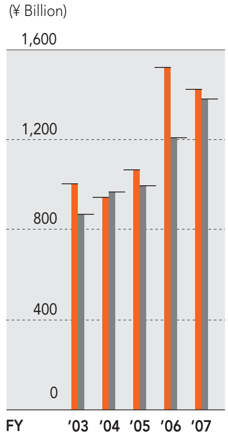
Net cash provided by operating activities
Free cash flow
* (Net cash provided by operating activities)
– (Capital expenditures for property, plant and equipment, excluding vehicles and equipment on operating leases)

Net cash provided by operating activities was ¥3,238.1 billion for fiscal 2007, compared with ¥2,515.4 billion for the prior year. The increase in net cash provided by operating activities resulted primarily from increased operating cash flows attributed to the increase of net income.

Net cash used in investing activities was ¥3,814.3 billion for fiscal 2007, compared with ¥3,375.5 billion for the prior year. The increase in net cash used in investing activities resulted primarily from the increase in additions to finance receivables, the increase in additions to equipment leased to others and in the increase in purchases of marketable securities and security investments, which was partially offset by an increase in the collection of finance receivables.

Net cash provided by financing activities was ¥881.7 billion for fiscal 2007, compared with ¥876.9 billion for the prior year. The increase in net cash provided by financing activities resulted primarily from an increase in proceeds from issuance of long-term debt, which was partially offset by an increase in repayments of long-term debt.

Capital Expenditures for Property, Plant and Equipment* and Depreciation*



Capital expenditures
Depreciation
* Excluding vehicles and equipment on operating leases

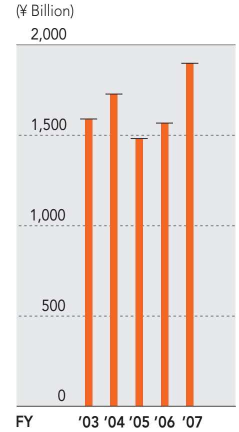
Total capital expenditures for property, plant and equipment, excluding vehicles and equipment on operating leases, were ¥1,425.8 billion during fiscal 2007, a decrease of 6.4% over the ¥1,523.4 billion in total capital expenditures for the prior year. The decrease in capital expenditures resulted primarily from the impact of decreased capital expenditures in domestic subsidiaries.

Total expenditures for vehicles and equipment on operating leases were ¥1,410.0 billion during fiscal 2007, an increase of 13.0% over the ¥1,247.7 billion in expenditures in the prior year. The increase in expenditures for vehicles and equipment on operating leases resulted primarily from increased operating lease assets in finance subsidiaries in North America and Japan.

Toyota expects investments in property, plant and equipment, excluding vehicles and equipment on operating leases, to be approximately ¥1,500.0 billion during fiscal 2008. Toyota's expected capital expenditures include approximately ¥800.0 billion in Japan, ¥400.0 billion in North America, ¥110.0 billion in Europe, ¥110.0 billion in Asia and ¥80.0 billion in Other, respectively.

Based on current available information, Toyota does not expect environmental matters to have a material impact on its financial position, results of operations, liquidity or cash flows during fiscal 2008. However, there exists a substantial amount of uncertainty with respect to Toyota's obligations under current and future environment regulations as described in "Information on the Company—Business Overview—Governmental Regulations, Environmental and Safety Standards".

Cash and Cash Equivalents at End of Year

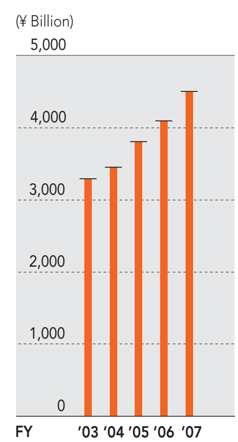


Cash and cash equivalents were ¥1,900.3 billion at March 31, 2007. Most of Toyota's cash and cash equivalents are held in Japanese yen and in U.S. dollars. In addition, time deposits were ¥26.7 billion and marketable securities were ¥435.4 billion at March 31, 2007.

Liquid assets, which Toyota defines as cash and cash equivalents, time deposits, marketable debt securities and its investment in monetary trust funds, increased during fiscal 2007 by ¥408.4 billion, or 10.0%, to ¥4,505.2 billion.

Trade accounts and notes receivable, net increased during fiscal 2007 by ¥43.2 billion, or 2.2%, to ¥2,023.8 billion, reflecting the impact of increased revenues and the impact of fluctuations in foreign currency translation rates.

Liquid Assets*



* Cash and cash equivalents, time deposits, marketable debt securities and investment in monetary trust funds

Inventories increased during fiscal 2007 by ¥183.0 billion, or 11.3%, to ¥1,803.9 billion, reflecting the impact of increased volumes and the impact of fluctuations in foreign currency translation rates.

Total finance receivables, net increased during fiscal 2007 by ¥1,403.5 billion, or 16.9%, to ¥9,731.0 billion. The increase in finance receivables resulted from the increase in retail financings due to the increase in vehicle unit sales, the increase in wholesale, the increase in other dealer loans including real estate loans and working capital financing provided to dealers, and the increase in finance leases. As of March 31, 2007, finance receivables were geographically distributed as follows: in North America 64.5%, in Japan 13.1%, in Europe 10.2%, in Asia 3.6% and in Other 8.6%. Toyota maintains programs to sell finance receivables through special purpose entities and obtained proceeds from securitization transactions, net of purchased and retained interests totaling ¥69.0 billion during fiscal 2007.

Marketable securities and other securities investments, including those included in current assets, increased during fiscal 2007 by ¥227.9 billion, or 5.6%, to ¥4,265.3 billion, primarily reflecting the increase of U.S. treasury notes held by a subsidiary in North America, and Japanese government bonds held by the parent company.

Property, plant and equipment increased during fiscal 2007 by ¥993.9 billion, or 14.1%, primarily reflecting an increase in capital expenditures which was partially offset by the depreciation charges during the year.

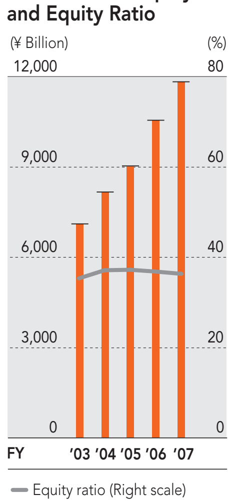
Accounts payable increased during fiscal 2007 by ¥125.0 billion, or 6.0%, reflecting the impact of increased trading volumes and the impact of fluctuations in foreign currency translation rates.

Accrued expenses increased during fiscal 2007 by ¥204.1 billion, or 13.9%, reflecting the increase in expenses due to the expansion of the business.

Income taxes payable increased during fiscal 2007 by ¥73.7 billion, or 21.2%, principally as a result of the increase in taxable income.

Toyota's total borrowings increased during fiscal 2007 by ¥1,731.7 billion, or 16.7%. Toyota's short-term borrowings consist of loans with a weighted-average interest rate of 3.17% and commercial paper with a weighted-average interest rate of 4.95%. Short-term borrowings increased during fiscal 2007 by ¥464.3 billion, or 15.3%, to ¥3,497.3 billion. Toyota's long-term debt consists of unsecured and secured loans, medium-term notes, unsecured notes and long-term capital lease obligations with interest rates ranging from 0.01% to 18.00%, and maturity dates ranging from 2007 to 2047. The current portion of long-term debt increased during fiscal 2007 by ¥644.3 billion, or 37.4%, to ¥2,368.1 billion and the non-current portion increased by ¥623.1 billion, or 11.0%, to ¥6,263.5 billion. The increase in total borrowings reflects the expansion of the financial services operations. At March 31, 2007, approximately 39% of long-term debt was denominated in U.S. dollars, 24% in Japanese yen, 11% in euros and 26% in other currencies. Toyota hedges fixed rate exposure by entering into interest rate swaps. There are no material seasonal variations in Toyota's borrowings requirements.

Shareholders' Equity and Equity Ratio



As of March 31, 2007, Toyota's total interest bearing debt was 102.5% of total shareholders' equity, compared to 98.5% as of March 31, 2006.

Toyota's long-term debt was rated "AAA" by Standard & Poor's Ratings Group, "Aaa" by Moody's Investors Services and "AAA" by Rating and Investment Information, Inc. as of March 31, 2007. These ratings represent the highest long-term debt ratings published by each of the respective rating agencies. A credit rating is not a recommendation to buy, sell or hold securities. A credit rating may be subject to withdrawal or revision at any time. Each rating should be evaluated separately of any other rating.

Toyota's treasury policy is to maintain controls on all exposures, to adhere to stringent counterparty credit standards, and to actively monitor marketplace exposures. Toyota remains centralized, and is pursuing global efficiency of its financial services operations through Toyota Financial Services Corporation.

The key element of Toyota's financial policy is maintaining a strong financial position that will allow Toyota to fund its research and development initiatives, capital expenditures and financing operations on a cost effective basis even if earnings experience short-term fluctuations. Toyota believes that it maintains sufficient liquidity for its present requirements and that by maintaining its high credit ratings, it will continue to be able to access funds from external sources in large amounts and at relatively low costs. Toyota's ability to maintain its high credit ratings is subject to a number of factors, some of which are not within Toyota's control. These factors include general economic conditions in Japan and the other major markets in which Toyota does business, as well as Toyota's successful implementation of its business strategy.

Toyota's unfunded pension liabilities decreased during fiscal 2007 by ¥24.2 billion, or 7.9% to ¥282.5 billion. The unfunded pension liabilities relate primarily to the parent company and its Japanese subsidiaries. The unfunded amounts will be funded through future cash contributions by Toyota or in some cases will be funded on the retirement date of each covered employee. The unfunded pension liabilities decreased in fiscal 2007 compared to the prior year mainly due to cash contributions to the plans and the increase in the market value of plan assets. See note 19 to the consolidated financial statements.

Off-Balance Sheet Arrangements

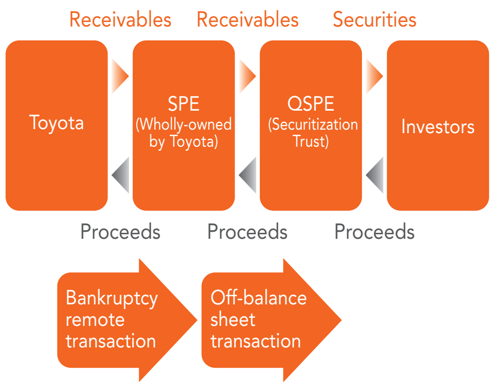
■ Securitization Funding

Toyota uses its securitization program as part of its funding for its financial services operations. Toyota believes that the securitizations are an important element of its financial services operations as it provides a cost-effective funding source.

Securitization of receivables allows Toyota to access a highly liquid and efficient capital market while providing Toyota with an alternative source of funding and investor diversification. See note 7 to the consolidated financial statements with respect to the impact on the balance sheet, income statement, and cash flows of these securitizations.

Toyota's securitization program involves a two-step transaction. Toyota sells discrete pools of retail finance receivables to a wholly-owned bankruptcy remote special purpose entity ("SPE"), which in turn transfers the receivables to a qualified special purpose entity ("QSPE" or "securitization trust") in exchange for the proceeds from securities issued by the securitization trust. Once the receivables are transferred to the QSPE, the receivables are no longer assets of Toyota and, therefore, no longer appear on Toyota's consolidated balance sheet. These securities are secured by collections on the sold receivables and structured into senior and subordinated classes.

The following flow chart diagrams a typical securitization transaction:



Toyota's use of SPEs in securitizations is consistent with conventional practices in the securitization markets. The sale to the SPE isolates the sold receivables from other creditors of Toyota for the benefit of securitization investors and, assuming accounting requirements are satisfied, the sold receivables are accounted for as a sale. Investors in securitizations have no recourse to Toyota beyond the contractual cash flows of the securitized receivables, retained subordinated interests, any cash reserve funds, and any amounts available or funded under the revolving liquidity notes in the related trust as discussed below. Toyota does not guarantee any securities issued by the securitization trust. Each SPE has a limited purpose and may only be used to purchase and sell the receivables. The individual securitization trusts have a limited duration and generally terminate when investors holding the asset-backed securities have been paid all amounts owed to them.

The SPE retains an interest in the securitization trust. The retained interest includes subordinated securities issued by the securitization trust and interest-only strips representing the right to receive any excess interest. The retained interests are subordinated and serve as credit enhancements for the more senior securities issued by the securitization trust. The retained interests are held by the SPE as restricted assets and are not available to satisfy any obligations of Toyota. If forecasted future cash flows result in an other-than-temporary decline in the fair value of the retained interests, then an impairment loss is recognized to the extent that the fair value is less than the carrying amount. Such losses would be included in the consolidated statement of income. These retained interests as well as senior securities purchased by Toyota are reflected in the consolidated balance sheet for accounting purposes.

Various other forms of credit enhancements are provided to reduce the risk of loss for senior classes of securities. These credit enhancements may include the following:

• Cash reserve funds or restricted cash

A portion of the proceeds from the sale of asset-backed securities may be held by the securitization trust in segregated reserve funds and may be used to pay principal and interest to investors if collections on the sold receivables are insufficient. In the event a trust experiences charge-offs or delinquencies above specified levels, additional excess amounts from collections on receivables held by the securitization trusts will be added to such reserve funds.

• Revolving liquidity notes

In certain securitization structures, revolving liquidity notes ("RLN") are used in lieu of deposits to a cash reserve fund. The securitization trust may draw upon the RLN to cover any shortfall in interest and principal payments to investors. Toyota funds any draws, and the terms of the RLN obligate the securitization trust to repay amounts drawn plus accrued interest. Repayments of principal and interest due under the RLN are subordinated to principal and interest payments on the asset-backed securities and, in some circumstances, to deposits into a reserve account. If collections are insufficient to repay amounts outstanding under a RLN, Toyota will recognize a loss for the outstanding amounts. Toyota must fund the entire amount available under the RLN if Toyota's short-term unsecured debt rating is downgraded below P-1 or A-1 by Moody's or S&P, respectively. Management believes the likelihood of Toyota incurring such losses or Toyota's short-term credit rating being downgraded is remote. There were no outstanding amounts drawn on the RLN's at March 31, 2006 and 2007. The RLN had no material fair value as of March 31, 2006 and 2007. Toyota has not recognized a liability for the RLN because it does not expect to be required to fund any amounts under the RLN.

Toyota may enter into a swap agreement with the securitization trust under which the securitization trust is obligated to pay Toyota a fixed rate of interest on payment dates in exchange for receiving amounts equal to the floating rate of interest payable on the asset backed securities. This arrangement enables the securitization trust to issue securities bearing interest on a basis different from that of the receivables held.

Toyota continues to service the sold receivables for a servicing fee. Toyota's servicing duties include collecting payments on receivables and submitting them to the trustee for distribution to the certificate holders. While servicing the sold receivables for the securitization trusts, Toyota applies the same servicing policies and procedures that are applied to the owned receivables and maintains a normal relationship with the financing customers.

Other significant provisions relating to securitizations are described below.

• Receivable repurchase obligations

Toyota makes certain representations and warranties to the SPE, and the SPE makes corresponding representations and warranties to the securitization trust, relating to receivables sold in a securitization. Toyota and the SPE may be required to repurchase any receivables in the event of a breach of a representation and warranty relating to the receivable that materially and adversely affects the interest of the SPE, or securitization trust, as applicable. In addition, Toyota, as servicer of the receivables, may be required to repurchase any receivable in the event of a breach of a covenant by the servicer with respect to the receivable that materially and adversely affects the interest of the securitization trust or of an extension or modification of a receivable as to which Toyota, as servicer, does not commit to make advances to fund reductions in interest payments. The repurchase price is generally the outstanding principal balance of the receivable and accrued interest. These provisions are customary for securitization transactions.

• Advancing requirements

As the servicer, Toyota is required to advance certain shortfalls in obligor payments to the securitization trust to the extent it believes the advance will be recovered from future collections of that receivable. Generally, the securitization trust is required to reimburse Toyota for these advances from collections on all receivables before making other required payments. These provisions are customary for securitization transactions.

Lending Commitments

■ Credit Facilities with Credit Card Holders

Toyota's financial services operation issues credit cards to customers. As customary for credit card businesses, Toyota maintains credit facilities with holders of credit cards issued by Toyota. These facilities are used upon each holders' requests up to the limits established on an individual holder's basis. Although loans made to customers through this facility are not secured, for the purposes of minimizing credit risks and of appropriately establishing credit limits for each individual credit card holder, Toyota employs its own risk management policy which includes an analysis of information provided by financial institutions in alliance with Toyota. Toyota periodically reviews and revises, as appropriate, these credit limits. Outstanding credit facilities with credit card holders were ¥2,519.5 billion as of March 31, 2007.

■ Credit Facilities with Dealers

Toyota's financial services operation maintains credit facilities with dealers. These credit facilities may be used for business acquisitions, facilities refurbishment, real estate purchases, and working capital requirements. These loans are typically collateralized with liens on real estate, vehicle inventory, and/or other dealership assets, as appropriate. Toyota obtains a personal guarantee from the dealer or corporate guarantee from the dealership when deemed prudent. Although the loans are typically collateralized or guaranteed, the value of the underlying collateral or guarantees may not be sufficient to cover Toyota's exposure under such agreements. Toyota prices the credit facilities according to the risks assumed in entering into the credit facility. Toyota's financial services operation also provides financing to various multi-franchise dealer organizations, referred to as dealer groups, often as part of a lending consortium, for wholesale inventory financing, business acquisitions, facilities refurbishment, real estate purchases, and working capital requirements. Toyota's outstanding credit facilities with dealers totaled ¥1,637.9 billion as of March 31, 2007.

Guarantees

Toyota enters into certain guarantee contracts with its dealers to guarantee customers' payments of their installment payables that arise from installment contracts between customers and Toyota dealers, as and when requested by Toyota dealers. Guarantee periods are set to match the maturity of installment payments, and at March 31, 2007 range from one month to 35 years. However, they are generally shorter than the useful lives of products sold. Toyota is required to execute its guarantee primarily when customers are unable to make required payments. The maximum potential amount of future payments as of March 31, 2007 is ¥1,333.9 billion. Liabilities for these guarantees of ¥3.6 billion have been provided as of March 31, 2007. Under these guarantee contracts, Toyota is entitled to recover any amounts paid by it from the customers whose obligations it guaranteed.

Contractual Obligations and Commitments

For information regarding debt obligations, capital lease obligations, operating leases, and other obligations, including amounts maturing in each of the next five years, see notes 13, 22 and 23 to the consolidated financial statements. In addition, as part of Toyota's normal business practices, Toyota enters into long-term arrangements with suppliers for purchases of certain raw materials, components and services. These arrangements may contain fixed/minimum quantity purchase requirements. Toyota enters into such arrangements to facilitate an adequate supply of these materials and services.

The following tables summarize Toyota's contractual obligations and commercial commitments as of March 31, 2007:

	Yen in millions				
		Payments Due by Period			
	Total	Less than 1 year	1 to 3 years	3 to 5 years	5 years and after
Contractual Obligations:					
Short-term borrowings (note 13)					
Loans	¥ 1,055,918	¥1,055,918			
Commercial paper	2,441,473	2,441,473			
Long-term debt* (note 13)	8,580,815	2,355,863	¥3,359,711	¥1,634,152	¥1,231,089
Capital lease obligations (note 13)	50,886	12,253	13,235	24,303	1,095
Non-cancelable operating lease obligations (note 22)	56,141	11,364	15,345	9,862	19,570
Commitments for the purchase of property, plant and other assets (note 23)	132,443	87,310	21,951	21,061	2,121
Total	¥12,317,676	¥5,964,181	¥3,410,242	¥1,689,378	¥1,253,875

* "Long-term debt" represents future principal payments.

Toyota expects to contribute ¥132,447 million to its pension plans in during fiscal 2008.

	Yen in millions				
	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1 to 3 years	3 to 5 years	5 years and after
Commercial Commitments:					
Maximum potential exposure to guarantees given in the ordinary course of business (note 23)	¥1,333,961	¥417,260	¥610,228	¥246,190	¥60,283
Total Commercial Commitments	¥1,333,961	¥417,260	¥610,228	¥246,190	¥60,283

Related Party Transactions

Toyota does not have any significant related party transactions other than transactions with affiliated companies in the ordinary course of business as described in note 12 to the consolidated financial statements.

Legislation Regarding End-of-Life Vehicles

In October 2000, the European Union enforced a directive that requires member states to promulgate regulations implementing the following:

- manufacturers shall bear all or a significant part of the costs for taking back end-of-life vehicles put on the market after July 1, 2002 and dismantling and recycling those vehicles. Beginning January 1, 2007, this requirement will also be applicable to vehicles put on the market before July 1, 2002;
- manufacturers may not use certain hazardous materials in vehicles sold after July 2003;
- vehicles type-approved and put on the market after December 15, 2008, shall be re-usable and/or recyclable to a minimum of 85% by weight per vehicle and shall be re-usable and/or recoverable to a minimum of 95% by weight per vehicle; and
- end-of-life vehicles must meet actual re-use of 80% and re-use as material or energy of 85%, respectively, of vehicle weight by 2006, rising to 85% and 95%, respectively, by 2015.

See note 23 to the consolidated financial statements for further discussion.

Recent Accounting Pronouncements in the United States

In February 2006, FASB issued FAS No. 155, *Accounting for Certain Hybrid Instruments* ("FAS 155"), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133"). The Statement also subjects beneficial interests issued by securitization vehicles to the requirements of FAS133. FAS 155 is effective as of the beginning of first fiscal year that begins after September 15, 2006. Management does not expect this Statement to have a material impact on Toyota's consolidated financial statements.

In March 2006, FASB issued FAS No. 156, *Accounting for Servicing of Financial Assets* ("FAS 156"), which amends FAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("FAS 140"), with respect to the accounting for separately recognized servicing assets and servicing liabilities. FAS 156 is effective for fiscal year beginning after September 15, 2006. Management does not expect this Statement to have a material impact on Toyota's consolidated financial statements.

In September 2006, FASB issued FAS No. 157, *Fair Value Measurements* ("FAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal year beginning after November 15, 2007 and interim period within the fiscal year. Management is evaluating the impact of adopting FAS 157 on Toyota's consolidated financial statements.

In September 2006, FASB issued FAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("FAS 158"). FAS 158 requires employers to recognize the overfunded or underfunded status of their defined benefit postretirement plans as an asset or a liability on their balance sheets, and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Toyota adopted the provisions regarding recognition of funded status and disclosure under FAS 158 as of the end of the fiscal year ending after December 15, 2006. See note 19 to the consolidated financial statements for the impact of the adoption of the provisions on Toyota's consolidated financial statements. FAS 158 also requires employers to measure the funded status of their defined benefit postretirement plans as of the date of their year-end statement of financial position. This provision in FAS 158 regarding a measurement date is effective for fiscal year ending after December 15, 2008. Management is evaluating the impact of adopting this provision on Toyota's consolidated financial statements.

In February 2007, FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("FAS 159"). FAS 159 permits entities to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis and subsequent change in fair value must be recorded in earnings at each reporting date. FAS 159 is effective for fiscal year beginning after November 15, 2007. Management is evaluating the impact of adopting FAS 159 on Toyota's consolidated financial statements.

In June 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in tax positions and requires a company to recognize in its financial statements, the impact of a tax position, if that position is more likely than not to be sustained on audit, based on the technical merits of the position. FIN 48 is effective for fiscal year beginning after December 15, 2006. Management is evaluating the impact of adopting FIN 48 on Toyota's consolidated financial statements.

Critical Accounting Estimates

The consolidated financial statements of Toyota are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Toyota believes that of its significant accounting policies, the following may involve a higher degree of judgments, estimates and complexity:

■ Product Warranty

Toyota generally warrants its products against certain manufacturing and other defects. Product warranties are provided for specific periods of time and/or usage of the product and vary depending upon the nature of the product, the geographic location of the sale and other factors. All product warranties are consistent with commercial practices. Toyota provides a provision for estimated product warranty costs as a component of cost of sales at the time the related sale is recognized. The accrued warranty costs represent management's best estimate at the time of sale of the total costs that Toyota will incur to repair or replace product parts that fail while still under warranty. The amount of accrued estimated warranty costs is primarily based on historical experience as to product failures as well as current information on repair costs. The amount of warranty costs accrued also contains an estimate of warranty claim recoveries to be received from suppliers. The foregoing evaluations are inherently uncertain, as they require material estimates and some products' warranties extend for several years. Consequently, actual warranty costs will differ from the estimated amounts and could require additional warranty provisions. If these factors require a significant increase in Toyota's accrued estimated warranty costs, it would negatively affect future operating results of the automotive operations.

■ Allowance for Doubtful Accounts and Credit Losses

• Natures of estimates and assumptions

Sales financing and finance lease receivables consist of retail installment sales contracts secured by passenger cars and commercial vehicles. Collectibility risks include consumer and dealer insolvencies and insufficient collateral values (less costs to sell) to realize the full carrying values of these receivables. As a matter of policy, Toyota maintains an allowance for doubtful accounts and credit losses representing management's estimate of the amount of asset impairment in the portfolios of finance, trade and other receivables. Toyota determines the allowance for doubtful accounts and credit losses based on a systematic, ongoing review and evaluation performed as part of the credit-risk evaluation process, historical loss experience, the size and composition of the portfolios, current economic events and conditions, the estimated fair value and adequacy of collateral and other pertinent factors. This evaluation is inherently judgmental and requires material estimates, including the amounts and timing of future cash flows expected to be received, which may be susceptible to significant change. Although management considers the allowance for doubtful accounts and credit losses to be adequate based on information currently available, additional provisions may be necessary due to (i) changes in management estimates and assumptions about asset impairments, (ii) information that indicates changes in expected future cash flows, or (iii) changes in economic and other events and conditions. To the extent that sales incentives remain an integral part of sales promotion with the effect of reducing new vehicle prices, resale prices of used vehicles and, correspondingly, the collateral value of Toyota's sales financing and finance lease receivables could experience further downward pressure. If these factors require a significant increase in Toyota's allowance for doubtful accounts and credit losses, it could negatively affect future operating results of the financial services operations. The level of credit losses, which has a greater impact on Toyota's results of operations, is influenced primarily by two factors: frequency of occurrence and severity of loss. For evaluation purposes, exposures to credit loss are segmented into the two primary categories of "consumer" and "dealer". Toyota's consumer portfolio consists of smaller balances that are homogenous retail finance receivables and lease earning assets. The dealer portfolio consists of wholesale and other dealer financing receivables. The overall allowance for credit losses is evaluated at least quarterly, considering a variety of assumptions and factors to determine whether reserves are considered adequate to cover probable losses.

• Sensitivity analysis

The level of credit losses, which could significantly impact Toyota's results of operations, is influenced primarily by two factors: frequency of occurrence and severity of loss. The overall allowance for credit losses is evaluated at least quarterly, considering a variety of assumptions and factors to determine whether reserves are considered adequate to cover probable losses. The following table illustrates the effect of an assumed change in expected severity of loss, which we believe is one of the key critical estimates for determining the allowance for credit losses, assuming all other assumptions are held consistent. The table below represents the impact on the allowance for credit losses in Toyota's financial services operations as any change impacts most significantly on the financial services operations.

	Yen in millions
	Effect on the allowance for credit losses as of March 31, 2007
10 percent increase in expected severity of loss...	¥ 6,139

■ Investment in Operating Leases

• Natures of estimates and assumptions

Vehicles on operating leases, where Toyota is the lessor, are valued at cost and depreciated over their estimated useful lives using the straight-line method to their estimated residual values. Toyota utilizes industry published information and its own historical experience to determine estimated residual values for these vehicles. Toyota evaluates the recoverability of the carrying values of its leased vehicles for impairment when there are indications of declines in residual values, and if impaired, Toyota recognizes an allowance for its residual values. In addition, to the extent that sales incentives remain an integral part of sales promotion with the effect of reducing new vehicle prices, resale prices of used vehicles and, correspondingly, the fair value of Toyota's leased vehicles could be subject to downward pressure. If resale prices of used vehicles decline, future operating results of the financial services operations are likely to be adversely affected by incremental charges to reduce estimated residual values. Throughout the life of the lease, management performs periodic evaluations of estimated end-of-term market values to determine whether estimates used in the determination of the contractual residual value are still considered reasonable. Factors affecting the estimated residual value at lease maturity include, but are not limited to, new vehicle incentive programs, new vehicle pricing, used vehicle supply, projected vehicle return rates, and projected loss severity. The vehicle return rate represents the number of leased vehicles returned at contract maturity and sold by Toyota during the period as a percentage of the number of lease contracts that, as of their origination dates, were scheduled to mature in the same period. A higher rate of vehicle returns exposes Toyota to higher potential losses incurred at lease termination. Severity of loss is the extent to which the end-of-term market value of a lease is less than its carrying value at lease end.

• Sensitivity analysis

The following table illustrates the effect of an assumed change in the vehicle return rate, which we believe is one of the critical estimates, in determining the residual value losses, holding all other assumptions constant. The following table represents the impact on the residual value losses in Toyota's financial services operations as those changes have a significant impact on financing operations.

	Yen in millions
	Effect on the residual value losses over the remaining terms of the operating leases on and after April 1, 2007
1 percent increase in vehicle return rate...............	¥ 1,062

■ Impairment of Long-Lived Assets

Toyota periodically reviews the carrying value of its long-lived assets held and used and assets to be disposed of, including goodwill and other intangible assets, when events and circumstances warrant such a review. This review is performed using estimates of future cash flows. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Management believes that the estimates of future cash flows and fair values are reasonable. However, changes in estimates of such cash flows and fair values would affect the evaluations and negatively affect future operating results of the automotive operations.

■ Pension Costs and Obligations

• Natures of estimates and assumptions

Pension costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest costs, expected rate of return on plan assets, mortality rates and other factors. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Toyota's pension costs and obligations.

The two most critical assumptions impacting the calculation of pension costs and obligations are the discount rates and the expected rates of returns on plan assets. Toyota determines the discount rates mainly based on the rates of high quality fixed income bonds or fixed income governmental bonds currently available and expected to be available during the period to maturity of the defined benefit pension plans. Toyota determines the expected rates of return for pension assets after considering several applicable factors including, the composition of plan assets held, assumed risks of asset management, historical results of the returns on plan assets, Toyota's principal policy for plan asset management, and forecasted market conditions. A weighted-average discount rate of 2.6% and a weighted-average expected rate of return on plan assets of 3.0% are the results of assumption used for the various pension plans in calculating Toyota's consolidated pension costs for fiscal 2007. Also, a weighted-average discount rate of 2.7% is the result of assumption used for the various pension plans in calculating Toyota's consolidated pension obligations for fiscal 2007.

• Sensitivity analysis

The following table illustrates the effects of assumed changes in weighted-average discount rate and the weighted-average expected rate of return on plan assets, which we believe are critical estimates in determining pension costs and obligations, assuming all other assumptions are consistent.

	Yen in millions	
	Effect on pre-tax income for the year ending March 31, 2008	Effect on PBO as of March 31, 2007
Discount rates		
0.5% decrease	¥(10,603)	¥ 127,860
0.5% increase	10,243	(110,149)
Expected rate of return on plan assets		
0.5% decrease	¥ (7,127)	
0.5% increase	7,127	

■ Derivatives and Other Contracts at Fair Value

Toyota uses derivatives in the normal course of business to manage its exposure to foreign currency exchange rates and interest rates. The accounting is complex and continues to evolve. In addition, there are significant judgments and estimates involved in the estimating of fair value in the absence of quoted market values. These estimates are based upon valuation methodologies deemed appropriate in the circumstances. However, the use of different assumptions may have a material effect on the estimated fair value amounts.

■ Marketable Securities

Toyota's accounting policy is to record a write-down of such investments to net realizable value when a decline in fair value below the carrying value is other-than-temporary. In determining if a decline in value is other-than-temporary, Toyota considers the length of time and the extent to which the fair value has been less than the carrying value, the financial condition and prospects of the company and Toyota's ability and intent to retain its investment in the company for a period of time sufficient to allow for any anticipated recovery in market value.

Market Risk Disclosures

Toyota is exposed to market risk from changes in foreign currency exchange rates, interest rates and certain commodity and equity security prices. In order to manage the risk arising from changes in foreign currency exchange rates and interest rates, Toyota enters into a variety of derivative financial instruments.

A description of Toyota's accounting policies for derivative instruments is included in note 2 to the consolidated financial statements and further disclosure is provided in notes 20 and 21 to the consolidated financial statements.

Toyota monitors and manages these financial exposures as an integral part of its overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effects on Toyota's operating results.

The financial instruments included in the market risk analysis consist of all of Toyota's cash and cash equivalents, marketable securities, finance receivables, securities investments, long-term and short-term debt and all derivative financial instruments. Toyota's portfolio of derivative financial instruments consists of forward foreign currency exchange contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements and interest rate options. Anticipated transactions denominated in foreign currencies that are covered by Toyota's derivative hedging are not included in the market risk analysis. Although operating leases are not required to be included, Toyota has included these instruments in determining interest rate risk.

■ Foreign Currency Exchange Rate Risk

Toyota has foreign currency exposures related to buying, selling and financing in currencies other than the local currencies in which it operates. Toyota is exposed to foreign currency risk related to future earnings or assets and liabilities that are exposed due to operating cash flows and various financial instruments that are denominated in foreign currencies. Toyota's most significant foreign currency exposures relate to the U.S. dollar and euro.

Toyota uses a value-at-risk analysis ("VAR") to evaluate its exposure to changes in foreign currency exchange rates. The value-at-risk of the combined foreign exchange position represents a potential loss in pre-tax earnings that was estimated to be ¥51.9 billion as of March 31, 2006 and ¥33.1 billion as of March 31, 2007. Based on Toyota's overall currency exposure (including derivative positions), the risk during the year ended March 31, 2007 to pre-tax cash flow from currency movements was on average ¥30.9 billion, with a high of ¥33.1 billion and a low of ¥27.6 billion.

The VAR was estimated by using a Monte Carlo Simulation method and assumed 95% confidence level on the realization date and a 10-day holding period.

■ Interest Rate Risk

Toyota is subject to market risk from exposures to changes in interest rates based on its financing, investing and cash management activities. Toyota enters into various financial instrument transactions to maintain the desired level of exposure to the risk of interest rate fluctuations and to minimize interest expense. The potential decrease in fair value resulting from a hypothetical 100 basis point upward shift in interest rates would be approximately ¥75.6 billion as of March 31, 2006 and ¥99.5 billion as of March 31, 2007.

There are certain shortcomings inherent to the sensitivity analyses presented. The model assumes interest rate changes are instantaneous parallel shifts in the yield curve. However, in reality, changes are rarely instantaneous. Although certain assets and liabilities may have similar maturities or periods to repricing, they may not react correspondingly to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may lag behind changes in market rates. Finance receivables are less susceptible to prepayments when interest rates change and, as a result, Toyota's model does not address prepayment risk for automotive related finance receivables. However, in the event of a change in interest rates, actual loan prepayments may deviate significantly from the assumptions used in the model.

■ Commodity Price Risk

Commodity price risk is the possibility of higher or lower costs due to changes in the prices of commodities, such as non-ferrous alloys (e.g., aluminum), precious metals (e.g., palladium, platinum and rhodium) and ferrous alloys, which Toyota uses in the production of motor vehicles. Toyota does not use derivative instruments to hedge the price risk associated with the purchase of those commodities and controls its commodity price risk by holding minimum stock levels.

■ Equity Price Risk

Toyota holds investments in various available-for-sale equity securities that are subject to price risk. The fair value of available-for-sale equity securities was ¥1,469.1 billion as of March 31, 2006 and ¥1,679.8 billion as of March 31, 2007. The potential change in the fair value of these investments, assuming a 10% change in prices, would be approximately ¥146.9 billion as of March 31, 2006 and ¥168.0 billion as of March 31, 2007.

Consolidated Balance Sheets

Toyota Motor Corporation
March 31, 2006 and 2007

ASSETS	Yen in millions 2006	Yen in millions 2007	U.S. dollars in millions 2007
Current assets			
Cash and cash equivalents	¥ 1,569,387	**¥ 1,900,379**	**$ 16,098**
Time deposits	50,349	**26,709**	**226**
Marketable securities	634,879	**435,463**	**3,689**
Trade accounts and notes receivable, less allowance for doubtful accounts of ¥19,491 million in 2006 and ¥24,782 million ($210 million) in 2007	1,980,680	**2,023,818**	**17,144**
Finance receivables, net	3,497,319	**4,036,363**	**34,192**
Other receivables	416,336	**486,170**	**4,118**
Inventories	1,620,975	**1,803,956**	**15,281**
Deferred income taxes	520,494	**551,503**	**4,672**
Prepaid expenses and other current assets	444,803	**519,762**	**4,403**
Total current assets	10,735,222	**11,784,123**	**99,823**
Noncurrent finance receivables, net	4,830,216	**5,694,733**	**48,240**
Investments and other assets			
Marketable securities and other securities investments	3,402,523	**3,829,852**	**32,443**
Affiliated companies	1,828,369	**2,058,177**	**17,435**
Employees receivables	75,094	**96,742**	**819**
Other	793,543	**1,050,633**	**8,900**
Total investments and other assets	6,099,529	**7,035,404**	**59,597**
Property, plant and equipment			
Land	1,215,897	**1,233,137**	**10,446**
Buildings	3,156,613	**3,444,764**	**29,181**
Machinery and equipment	8,482,832	**9,184,751**	**77,804**
Vehicles and equipment on operating leases	2,605,426	**3,309,337**	**28,033**
Construction in progress	397,076	**349,465**	**2,960**
	15,857,844	**17,521,454**	**148,424**
Less—Accumulated depreciation	(8,791,216)	**(9,460,935)**	**(80,143)**
Property, plant and equipment, net	7,066,628	**8,060,519**	**68,281**
Total assets	¥28,731,595	**¥32,574,779**	**$275,941**

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

LIABILITIES AND SHAREHOLDERS' EQUITY	Yen in millions 2006	2007	U.S. dollars in millions 2007
Current liabilities			
Short-term borrowings	¥ 3,033,019	**¥ 3,497,391**	**$ 29,626**
Current portion of long-term debt	1,723,888	**2,368,116**	**20,060**
Accounts payable	2,086,587	**2,211,586**	**18,735**
Other payables	730,184	**807,481**	**6,840**
Accrued expenses	1,464,263	**1,668,337**	**14,133**
Income taxes payable	347,488	**421,196**	**3,568**
Other current liabilities	643,306	**793,063**	**6,718**
Total current liabilities	10,028,735	**11,767,170**	**99,680**
Long-term liabilities			
Long-term debt	5,640,490	**6,263,585**	**53,059**
Accrued pension and severance costs	679,918	**640,586**	**5,427**
Deferred income taxes	1,092,995	**1,312,400**	**11,117**
Other long-term liabilities	139,428	**126,702**	**1,073**
Total long-term liabilities	7,552,831	**8,343,273**	**70,676**
Minority interest in consolidated subsidiaries	589,580	**628,244**	**5,322**
Shareholders' equity			
Common stock, no par value, authorized: 9,740,185,400 shares in 2006 and 10,000,000,000 shares in 2007; issued: 3,609,997,492 shares in 2006 and 2007	397,050	**397,050**	**3,363**
Additional paid-in capital	495,250	**497,593**	**4,215**
Retained earnings	10,459,788	**11,764,713**	**99,659**
Accumulated other comprehensive income	437,316	**701,390**	**5,941**
Treasury stock, at cost, 368,240,025 shares in 2006 and 412,060,800 shares in 2007	(1,228,955)	**(1,524,654)**	**(12,915)**
Total shareholders' equity	10,560,449	**11,836,092**	**100,263**
Commitments and contingencies			
Total liabilities and shareholders' equity	¥28,731,595	**¥32,574,779**	**$275,941**

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

Consolidated Statements of Income

Toyota Motor Corporation
For the years ended March 31, 2005, 2006 and 2007

	Yen in millions			U.S. dollars in millions
	2005	2006	**2007**	**2007**
Net revenues				
Sales of products	¥17,790,862	¥20,059,493	**¥22,670,097**	**$192,038**
Financing operations	760,664	977,416	**1,277,994**	**10,826**
	18,551,526	21,036,909	**23,948,091**	**202,864**
Costs and expenses				
Cost of products sold	14,500,282	16,335,312	**18,356,255**	**155,495**
Cost of financing operations	369,844	609,632	**872,138**	**7,388**
Selling, general and administrative	2,009,213	2,213,623	**2,481,015**	**21,017**
	16,879,339	19,158,567	**21,709,408**	**183,900**
Operating income	1,672,187	1,878,342	**2,238,683**	**18,964**
Other income (expense)				
Interest and dividend income	67,519	93,970	**131,939**	**1,118**
Interest expense	(18,956)	(21,601)	**(49,326)**	**(418)**
Foreign exchange gain, net	21,419	10,789	**33,005**	**279**
Other income, net	12,468	125,860	**28,215**	**239**
	82,450	209,018	**143,833**	**1,218**
Income before income taxes, minority interest and equity in earnings of affiliated companies	1,754,637	2,087,360	**2,382,516**	**20,182**
Provision for income taxes	657,910	795,153	**898,312**	**7,609**
Income before minority interest and equity in earnings of affiliated companies	1,096,727	1,292,207	**1,484,204**	**12,573**
Minority interest in consolidated subsidiaries	(64,938)	(84,393)	**(49,687)**	**(421)**
Equity in earnings of affiliated companies	139,471	164,366	**209,515**	**1,775**
Net income	¥ 1,171,260	¥ 1,372,180	**¥ 1,644,032**	**$ 13,927**

	Yen			U.S. dollars
Net income per share				
—Basic	¥355.35	¥421.76	**¥512.09**	**$4.34**
—Diluted	¥355.28	¥421.62	**¥511.80**	**$4.34**
Cash dividends per share	¥ 65.00	¥ 90.00	**¥120.00**	**$1.02**

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

Consolidated Statements of Shareholders' Equity

Toyota Motor Corporation
For the years ended March 31, 2005, 2006 and 2007

	Yen in millions					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Total shareholders' equity
Balances at March 31, 2004	¥397,050	¥495,179	¥ 8,326,215	¥(204,592)	¥ (835,285)	¥ 8,178,567
Issuance during the year		528				528
Comprehensive income						
Net income			1,171,260			1,171,260
Other comprehensive income						
Foreign currency translation adjustments				75,697		75,697
Unrealized gains on securities, net of reclassification adjustments				38,455		38,455
Minimum pension liability adjustments				9,780		9,780
Total comprehensive income						1,295,192
Dividends paid			(165,299)			(165,299)
Purchase and reissuance of common stock					(264,038)	(264,038)
Balances at March 31, 2005	397,050	495,707	9,332,176	(80,660)	(1,099,323)	9,044,950
Issuance during the year		(457)				(457)
Comprehensive income						
Net income			1,372,180			1,372,180
Other comprehensive income						
Foreign currency translation adjustments				268,410		268,410
Unrealized gains on securities, net of reclassification adjustments				244,629		244,629
Minimum pension liability adjustments				4,937		4,937
Total comprehensive income						1,890,156
Dividends paid			(244,568)			(244,568)
Purchase and reissuance of common stock					(129,632)	(129,632)
Balances at March 31, 2006	397,050	495,250	10,459,788	437,316	(1,228,955)	10,560,449
Issuance during the year		2,343				2,343
Comprehensive income						
Net income			1,644,032			1,644,032
Other comprehensive income						
Foreign currency translation adjustments				130,746		130,746
Unrealized gains on securities, net of reclassification adjustments				38,800		38,800
Minimum pension liability adjustments				3,499		3,499
Total comprehensive income						1,817,077
Adjustment to initially apply FAS No. 158				91,029		91,029
Dividends paid			(339,107)			(339,107)
Purchase and reissuance of common stock					(295,699)	(295,699)
Balances at March 31, 2007	**¥397,050**	**¥497,593**	**¥11,764,713**	**¥ 701,390**	**¥(1,524,654)**	**¥11,836,092**

	U.S. dollars in millions					
	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock, at cost	Total shareholders' equity
Balances at March 31, 2006	$3,363	$4,195	$88,605	$3,705	$(10,411)	$ 89,457
Issuance during the year		20				20
Comprehensive income						
Net income			13,927			13,927
Other comprehensive income						
Foreign currency translation adjustments				1,107		1,107
Unrealized gains on securities, net of reclassification adjustments				329		329
Minimum pension liability adjustments				29		29
Total comprehensive income						15,392
Adjustment to initially apply FAS No. 158				771		771
Dividends paid			(2,873)			(2,873)
Purchase and reissuance of common stock					(2,504)	(2,504)
Balances at March 31, 2007	**$3,363**	**$4,215**	**$99,659**	**$5,941**	**$(12,915)**	**$100,263**

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

Consolidated Statements of Cash Flows

Toyota Motor Corporation
For the years ended March 31, 2005, 2006 and 2007

	Yen in millions			U.S. dollars in millions
	2005	2006	**2007**	**2007**
Cash flows from operating activities				
Net income	¥ 1,171,260	¥ 1,372,180	**¥ 1,644,032**	**$ 13,927**
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation	997,713	1,211,178	**1,382,594**	**11,712**
Provision for doubtful accounts and credit losses	63,154	62,646	**71,862**	**609**
Pension and severance costs, less payments	(52,933)	23,860	**(32,054)**	**(272)**
Losses on disposal of fixed assets	49,159	54,981	**50,472**	**428**
Unrealized losses on available-for-sale securities, net	2,324	4,163	**4,614**	**39**
Deferred income taxes	84,711	33,262	**132,308**	**1,121**
Minority interest in consolidated subsidiaries	64,938	84,393	**49,687**	**421**
Equity in earnings of affiliated companies	(139,471)	(164,366)	**(209,515)**	**(1,775)**
Changes in operating assets and liabilities, and other				
Increase in accounts and notes receivable	(178,363)	(297,598)	**(212,856)**	**(1,803)**
Increase in inventories	(191,545)	(248,823)	**(133,698)**	**(1,133)**
(Increase) decrease in other current assets	34,674	(89,723)	**(108,767)**	**(921)**
Increase in accounts payable	153,747	188,702	**104,188**	**883**
Increase (decrease) in accrued income taxes	41,228	54,052	**74,255**	**629**
Increase in other current liabilities	190,450	203,075	**264,490**	**2,240**
Other	79,894	23,498	**156,561**	**1,326**
Net cash provided by operating activities	2,370,940	2,515,480	**3,238,173**	**27,431**
Cash flows from investing activities				
Additions to finance receivables	(5,594,375)	(6,476,979)	**(7,343,474)**	**(62,206)**
Collection of finance receivables	4,609,383	5,615,276	**6,152,499**	**52,118**
Proceeds from sale of finance receivables	65,536	102,854	**84,083**	**712**
Additions to fixed assets excluding equipment leased to others	(1,068,287)	(1,523,459)	**(1,425,814)**	**(12,078)**
Additions to equipment leased to others	(854,953)	(1,247,781)	**(1,410,003)**	**(11,944)**
Proceeds from sales of fixed assets excluding equipment leased to others	69,396	89,578	**64,421**	**546**
Proceeds from sales of equipment leased to others	316,456	410,683	**359,923**	**3,049**
Purchases of marketable securities and security investments	(1,165,791)	(957,296)	**(1,068,205)**	**(9,049)**
Proceeds from sales of marketable securities and security investments	121,369	157,707	**148,442**	**1,257**
Proceeds upon maturity of marketable securities and security investments	452,574	533,325	**676,729**	**5,732**
Payment for additional investments in affiliated companies, net of cash acquired	(901)	(1,802)	**(1,651)**	**(14)**
Changes in investments and other assets, and other	(11,603)	(77,606)	**(51,328)**	**(435)**
Net cash used in investing activities	(3,061,196)	(3,375,500)	**(3,814,378)**	**(32,312)**
Cash flows from financing activities				
Purchase of common stock	(264,106)	(129,629)	**(295,699)**	**(2,505)**
Proceeds from issuance of long-term debt	1,863,710	1,928,788	**2,890,000**	**24,481**
Payments of long-term debt	(1,155,223)	(1,187,506)	**(1,726,823)**	**(14,628)**
Increase in short-term borrowings	140,302	509,826	**353,397**	**2,994**
Dividends paid	(165,299)	(244,568)	**(339,107)**	**(2,873)**
Net cash provided by financing activities	419,384	876,911	**881,768**	**7,469**
Effect of exchange rate changes on cash and cash equivalents	24,849	68,743	**25,429**	**216**
Net increase (decrease) in cash and cash equivalents	(246,023)	85,634	**330,992**	**2,804**
Cash and cash equivalents at beginning of year	1,729,776	1,483,753	**1,569,387**	**13,294**
Cash and cash equivalents at end of year	¥ 1,483,753	¥ 1,569,387	**¥ 1,900,379**	**$ 16,098**

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

Notes to Consolidated Financial Statements

Toyota Motor Corporation

1. Nature of operations:

Toyota is primarily engaged in the design, manufacture, and sale of sedans, minivans, compact cars, sport-utility vehicles, trucks and related parts and accessories throughout the world. In addition, Toyota provides financing, vehicle and equipment leasing and certain other financial services primarily to its dealers and their customers to support the sales of vehicles and other products manufactured by Toyota.

2. Summary of significant accounting policies:

The parent company and its subsidiaries in Japan maintain their records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries in conformity with those of their countries of domicile. Certain adjustments and reclassifications have been incorporated in the accompanying consolidated financial statements to conform to accounting principles generally accepted in the United States of America.

Significant accounting policies after reflecting adjustments for the above are as follows:

Basis of consolidation and accounting for investments in affiliated companies—

The consolidated financial statements include the accounts of the parent company and those of its majority-owned subsidiary companies. All significant intercompany transactions and accounts have been eliminated. Investments in affiliated companies in which Toyota exercises significant influence, but which it does not control, are stated at cost plus equity in undistributed earnings. Consolidated net income includes Toyota's equity in current earnings of such companies, after elimination of unrealized intercompany profits. Investments in non-public companies in which Toyota does not exercise significant influence (generally less than a 20% ownership interest) are stated at cost. The accounts of variable interest entities as defined by the Financial Accounting Standard Board Interpretation No. 46(R) *Consolidation of Variable Interest Entities (revised December 2003) – an interpretation of ARB No. 51* ("FIN 46(R)") are included in the consolidated financial statements, if applicable.

Estimates—

The preparation of Toyota's consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. The more significant estimates include: product warranties, allowance for doubtful accounts and credit losses, residual values for leased assets, impairment of long-lived assets, pension costs and obligations, fair value of derivative financial instruments and other-than-temporary losses on marketable securities.

Translation of foreign currencies—

All asset and liability accounts of foreign subsidiaries and affiliates are translated into Japanese yen at appropriate year-end current exchange rates and all income and expense accounts of those subsidiaries are translated at the average exchange rates for each period. The foreign currency translation adjustments are included as a component of accumulated other comprehensive income.

Foreign currency receivables and payables are translated at appropriate year-end current exchange rates and the resulting transaction gains or losses are recorded in operations currently.

Revenue recognition—

Revenues from sales of vehicles and parts are generally recognized upon delivery which is considered to have occurred when the dealer has taken title to the product and the risk and reward of ownership have been substantively transferred, except as described below.

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

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

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

Toyota on occasion sells finance receivables in transactions subject to limited recourse provisions. These sales are to trusts and Toyota retains the servicing rights and is paid a servicing fee. Gains or losses from the sales of the finance receivables are recognized in the fiscal year in which such sales occur.

Other costs—

Advertising and sales promotion costs are expensed as incurred. Advertising costs were ¥379,702 million, ¥397,599 million and ¥451,182 million ($3,822 million) for the years ended March 31, 2005, 2006 and 2007, respectively.

Toyota generally warrants its products against certain manufacturing and other defects. Provisions for product warranties are provided for specific periods of time and/or usage of the product and vary depending upon the nature of the product, the geographic location of the sale and other factors. Toyota records a provision for estimated product warranty costs at the time the related sale is recognized based on estimates that Toyota will incur to repair or replace product parts that fail while under warranty. The amount of accrued estimated warranty costs is primarily based on historical experience as to product failures as well as current information on repair costs. The amount of warranty costs accrued also contains an estimate of warranty claim recoveries to be received from suppliers.

Research and development costs are expensed as incurred and ¥755,147 million, ¥812,648 million and ¥890,782 million ($7,546 million) for the years ended March 31, 2005, 2006 and 2007, respectively.

Cash and cash equivalents—
Cash and cash equivalents include all highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value because of changes in interest rates.

Marketable securities—
Marketable securities consist of debt and equity securities. Debt and equity securities designated as available-for-sale are carried at fair value with unrealized gains or losses included as a component of accumulated other comprehensive income in shareholders' equity, net of applicable taxes. Individual securities classified as available-for-sale are reduced to net realizable value for other-than-temporary declines in market value. In determining if a decline in value is other-than-temporary, Toyota considers the length of time and the extent to which the fair value has been less than the carrying value, the financial condition and prospects of the company and Toyota's ability and intent to retain its investment in the company for a period of time sufficient to allow for any anticipated recovery in market value. Realized gains and losses, which are determined on the average-cost method, are reflected in the statement of income when realized.

Security investments in non-public companies—
Security investments in non-public companies are carried at cost as fair value is not readily determinable. If the value of a non-public security investment is estimated to have declined and such decline is judged to be other-than-temporary, Toyota recognizes the impairment of the investment and the carrying value is reduced to its fair value. Determination of impairment is based on the consideration of such factors as operating results, business plans and estimated future cash flows. Fair value is determined principally through the use of the latest financial information.

Finance receivables—
Finance receivables are recorded at the present value of the related future cash flows including residual values for finance leases.

Allowance for credit losses—
Allowance for credit losses are established to cover probable losses on receivables resulting from the inability of customers to make required payments. The allowance for credit losses is based primarily on the frequency of occurrence and loss severity. Other factors affecting collectibility are also evaluated in determining the amount to be provided.

Losses are charged to the allowance when it has been determined that payments will not be received and collateral cannot be recovered or the related collateral is repossessed and sold. Any shortfall between proceeds received and the carrying cost of repossessed collateral is charged to the allowance. Recoveries are reversed from the allowance for credit losses.

Allowance for residual value losses—
Toyota is exposed to risk of loss on the disposition of off-lease vehicles to the extent that sales proceeds are not sufficient to cover the carrying value of the leased asset at lease termination. Toyota maintains an allowance to cover probable estimated losses related to unguaranteed residual values on its owned portfolio. The allowance is evaluated considering projected vehicle return rates and projected loss severity. Factors considered in the determination of projected return rates and loss severity include historical and market information on used vehicle sales, trends in lease returns and new car markets, and general economic conditions. Management evaluates the foregoing factors, develops several potential loss scenarios, and reviews allowance levels to determine whether reserves are considered adequate to cover the probable range of losses.

The allowance for residual value losses is maintained in amounts considered by Toyota to be appropriate in relation to the estimated losses on its owned portfolio. Upon disposal of the assets, the allowance for residual losses is adjusted for the difference between the net book value and the proceeds from sale.

Inventories—
Inventories are valued at cost, not in excess of market, cost being determined on the "average-cost" basis, except for the cost of finished products carried by certain subsidiary companies which is determined on the "specific identification" basis or "last-in, first-out" ("LIFO") basis. Inventories valued on the LIFO basis totaled ¥329,205 million and ¥357,055 million ($3,025 million) at March 31, 2006 and 2007, respectively. Had the "first-in, first-out" basis been used for those companies using the LIFO basis, inventories would have been ¥17,070 million and ¥13,780 million ($117 million) higher than reported at March 31, 2006 and 2007, respectively.

Property, plant and equipment—
Property, plant and equipment are stated at cost. Major renewals and improvements are capitalized; minor replacements, maintenance and repairs are charged to current operations. Depreciation of property, plant and equipment is mainly

computed on the declining-balance method for the parent company and Japanese subsidiaries and on the straight-line method for foreign subsidiary companies at rates based on estimated useful lives of the respective assets according to general class, type of construction and use. The estimated useful lives range from 2 to 65 years for buildings and from 2 to 20 years for machinery and equipment.

Vehicles and equipment on operating leases to third parties are originated by dealers and acquired by certain consolidated subsidiaries. Such subsidiaries are also the lessors of certain property that they acquire directly. Vehicles and equipment on operating leases are depreciated primarily on a straight-line method over the lease term, generally 5 years, to the estimated residual value.

Long-lived assets—
Toyota reviews its long-lived assets, including investments in affiliated companies, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition. The amount of the impairment loss to be recorded is calculated by the excess of the carrying value of the asset over its fair value. Fair value is determined mainly using a discounted cash flow valuation method.

Goodwill and intangible assets—
Goodwill is not material to Toyota's consolidated balance sheets.

Intangible assets consist mainly of software. Intangible assets with a definite life are amortized on a straight-line basis with estimated useful lives mainly of 5 years. Intangible assets with an indefinite life are tested for impairment whenever events or circumstances indicate that a carrying amount of an asset (asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated undiscounted cash flows used in determining the fair value of the asset. The amount of the impairment loss to be recorded is generally determined by the difference between the fair value of the asset using a discounted cash flow valuation method and the current book value.

Employee benefit obligations—
Toyota has both defined benefit and defined contribution plans for employees' retirement benefits. Retirement benefit obligations are measured by actuarial calculations in accordance with a Statement of Financial Accounting Standard ("FAS") No. 87 *Employers' accounting for pensions* ("FAS 87"). Toyota adopted the provisions regarding recognition of funded status and disclosure under FAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)* ("FAS 158") as of March 31, 2007. Under the provisions of FAS 158, the overfunded or underfunded status of the defined benefit postretirement plans is recognized on the consolidated balance sheets as prepaid pension and severance costs or accrued pension and severance costs, and the funded status change is recognized in the year in which it occurs through comprehensive income. Prior to the adoption of FAS 158, a minimum pension liability had been recorded for plans where the accumulated benefit obligation net of plan assets exceeded the accrued pension and severance costs. After the adoption of FAS 158, a minimum pension liability is not recorded.

Environmental matters—
Environmental expenditures relating to current operations are expensed or capitalized as appropriate. Expenditures relating to existing conditions caused by past operations, which do not contribute to current or future revenues, are expensed. Liabilities for remediation costs are recorded when they are probable and reasonably estimable, generally no later than the completion of feasibility studies or Toyota's commitment to a plan of action. The cost of each environmental liability is estimated by using current technology available and various engineering, financial and legal specialists within Toyota based on current law. Such liabilities do not reflect any offset for possible recoveries from insurance companies and are not discounted. There were no material changes in these liabilities for all periods presented.

Income taxes—
The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Derivative financial instruments—
Toyota employs derivative financial instruments, including forward foreign currency exchange contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements and interest rate options to manage its exposure to fluctuations in interest rates and foreign currency exchange rates. Toyota does not use derivatives for speculation or trading purposes. Changes in the fair value of derivatives are recorded each period in current earnings or through other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and the type of hedge transaction. The ineffective portion of all hedges is recognized currently in operations.

Net income per share—

Basic net income per common share is calculated by dividing net income by the weighted-average number of shares outstanding during the reported period. The calculation of diluted net income per common share is similar to the calculation of basic net income per share, except that the weighted-average number of shares outstanding includes the additional dilution from the assumed exercise of dilutive stock options.

Stock-based compensation—

Toyota measures compensation expense for its stock-based compensation plan based on the grant-date fair value of the award from the fiscal year beginning on April 1, 2006. Toyota accounts for the stock-based compensation plans in accordance with FAS No. 123(R), *Share – Based Payment (revised 2004)* ("FAS 123(R)").

Prior to the adoption of FAS 123(R), Toyota measured compensation expense using the intrinsic value method under the recognition and measurement principles of the Accounting Principles Board ("APB") Opinion No. 25 ("APB 25"), *Accounting for Stock Issued to Employees,* and related Interpretations. No stock-based compensation expense was reflected in net income, as all options granted under Toyota's stock-based compensation plan had an exercise price higher than the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share for the prior years to the adoption of FAS 123(R) that ended March 31, 2005 and 2006, if the company had applied the fair value recognition provisions of FAS No. 123, *Accounting for Stock-Based Compensation* ("FAS 123"), to stock-based employee compensation. See note 18 to the consolidated financial statements for weighted-average assumptions used in option pricing model.

		Yen in millions	
		For the years ended March 31,	
		2005	2006
Net income			
As reported		¥1,171,260	¥1,372,180
Deduct: Total stock-based compensation expenses determined under fair value based method for all awards, net of related tax effects		(1,571)	(1,449)
Pro forma		¥1,169,689	¥1,370,731
Net income per share			
—Basic	As reported	¥355.35	¥421.76
	Pro forma	354.87	421.32
—Diluted	As reported	¥355.28	¥421.62
	Pro forma	354.80	421.18

Other comprehensive income—

Other comprehensive income refers to revenues, expenses, gains and losses that, under accounting principles generally accepted in the United States of America are included in comprehensive income, but are excluded from net income as these amounts are recorded directly as an adjustment to shareholders' equity. Toyota's other comprehensive income is primarily comprised of unrealized gains/losses on marketable securities designated as available-for-sale, foreign currency translation adjustments and adjustments attributed to minimum pension liabilities associated with Toyota's defined benefit pension plans.

Accounting changes—

In November 2004, the Financial Accounting Standard Board ("FASB") issued FAS No. 151, *Inventory Costs – an amendment of ARB No. 43, Chapter 4* ("FAS 151"). FAS 151 amends the guidance in Accounting Research Bulletin ("ARB") No. 43, Chapter 4 ("ARB 43, Chapter 4"), *Inventory Pricing*, to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." FAS 151 requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. Toyota adopted FAS 151 effective for inventory costs incurred during fiscal year begun after June 15, 2005. The adoption of FAS 151 did not have material impact on Toyota's consolidated financial statements.

In December 2004, FASB issued FAS 123(R). FAS 123(R) is a revision of FAS 123 and supersedes APB 25 and its related implementation guidance. FAS 123(R) requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. FAS 123(R) also requires a public entity to initially measure the cost of employee services received in exchange for an award of liability instruments based on its current fair value; the fair value of that award will be remeasured subsequently at each reporting date through the settlement date. Changes in fair value will be recognized as compensation cost over that period. Although Toyota is required to implement the Standard as of the beginning of the first interim or annual period that begins after June 15, 2005 under Statement No.123(R), the Securities and Exchange Commission has amended the compliance date and Toyota adopted the Standard from the fiscal year beginning on April 1, 2006. See note 18 to the consolidated financial statements for the impact of the adoption of this Standard on Toyota's consolidated financial statements.

In May 2005, FASB issued FAS No. 154, *Accounting Changes and Error Corrections – a replacement of APB No. 20 and FAS No. 3* ("FAS 154"). FAS 154 replaces APB Opinion No. 20, *Accounting Changes*, and FAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*, and changes the requirements for the accounting for and reporting of a change in accounting principle. FAS 154 applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement when the pronouncement does not include specific transition provisions. APB Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. FAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle. Toyota adopted FAS 154 effective for accounting changes and corrections of errors made in fiscal year begun after December 15, 2005. The adoption of FAS 154 did not have material impact on Toyota's consolidated financial statements for the year ended March 31, 2007.

In September 2006, FASB issued FAS 158. FAS 158 requires employers to recognize the overfunded or underfunded status of their defined benefit postretirement plans as an asset or a liability on their balance sheets, and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. Toyota adopted the provisions regarding recognition of funded status and disclosure under FAS 158 as of the end of the fiscal year ending after December 15, 2006. See note 19 to the consolidated financial statements for the impact of the adoption of the provisions on Toyota's consolidated financial statements.

Recent pronouncements to be adopted in future periods—

In February 2006, FASB issued FAS No. 155, *Accounting for Certain Hybrid Instruments* ("FAS 155"), which permits, but does not require, fair value accounting for any hybrid financial instrument that contains an embedded derivative that would otherwise require bifurcation in accordance with FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("FAS 133"). The Statement also subjects beneficial interests issued by securitization vehicles to the requirements of FAS 133. FAS 155 is effective as of the beginning of first fiscal year that begins after September 15, 2006. Management does not expect this Statement to have a material impact on Toyota's consolidated financial statements.

In March 2006, FASB issued FAS No. 156, *Accounting for Servicing of Financial Assets* ("FAS 156"), which amends FAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* ("FAS 140"), with respect to the accounting for separately recognized servicing assets and servicing liabilities. FAS 156 is effective for fiscal year beginning after September 15, 2006. Management does not expect this Statement to have a material impact on Toyota's consolidated financial statements.

In September 2006, FASB issued FAS No. 157, *Fair Value Measurements* ("FAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. FAS 157 is effective for financial statements issued for fiscal year beginning after November 15, 2007 and interim period within the fiscal year. Management is evaluating the impact of adopting FAS 157 on Toyota's consolidated financial statements.

In September 2006, FASB issued FAS 158. FAS 158 requires employers to measure the funded status of their defined benefit postretirement plans as of the date of their year-end statement of financial position. This provision in FAS 158 regarding a measurement date is effective for fiscal year ending after December 15, 2008. Management is evaluating the impact of adopting this provision on Toyota's consolidated financial statements.

In February 2007, FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115* ("FAS 159"). FAS 159 permits entities to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis and subsequent change in fair value must be recorded in earnings at each reporting date. FAS 159 is effective for fiscal year beginning after November 15, 2007. Management is evaluating the impact of adopting FAS 159 on Toyota's consolidated financial statements.

In June 2006, FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in tax positions and requires a company to recognize in its financial statements, the impact of a tax position, if that position is more likely than not to be sustained on audit, based on the technical merits of the position. FIN 48 is effective for fiscal year beginning after December 15, 2006. Management is evaluating the impact of adopting FIN 48 on Toyota's consolidated financial statements.

Reclassifications—

Certain prior year amounts have been reclassified to conform to the presentations for the year ended March 31, 2007.

3. U.S. dollar amounts:

U.S. dollar amounts presented in the consolidated financial statements and related notes are included solely for the convenience of the reader and are unaudited. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into, U.S. dollars. For this purpose, the rate of ¥118.05 = U.S. $1, the approximate current exchange rate at March 30, 2007, was used for the translation of the accompanying consolidated financial amounts of Toyota as of and for the year ended March 31, 2007.

4. Supplemental cash flow information:

Cash payments for income taxes were ¥694,985 million, ¥730,469 million and ¥741,798 million ($6,284 million) for the years ended March 31, 2005, 2006 and 2007, respectively. Interest payments during the years ended March 31, 2005, 2006 and 2007 were ¥226,615 million, ¥332,337 million and ¥550,398 million ($4,662 million), respectively.

Capital lease obligations of ¥3,571 million, ¥6,673 million and ¥6,559 million ($56 million) were incurred for the years ended March 31, 2005, 2006 and 2007, respectively.

5. Acquisitions and dispositions:

During the years ended March 31, 2005, 2006 and 2007, Toyota made a number of acquisitions, however the assets acquired and liabilities assumed were not material.

6. Marketable securities and other securities investments:

Marketable securities and other securities investments include debt and equity securities for which the aggregate cost, gross unrealized gains and losses and fair value are as follows:

	Yen in millions			
	March 31, 2006			
	Cost	Gross unrealized gains`	Gross unrealized losses	Fair value
Available-for-sale				
Debt securities	¥2,432,905	¥ 4,597	¥29,356	¥2,408,146
Equity securities	661,412	807,937	198	1,469,151
Total	¥3,094,317	¥812,534	¥29,554	¥3,877,297
Securities not practicable to determine fair value				
Debt securities	¥ 18,863			
Equity securities	141,242			
Total	¥160,105			

	Yen in millions			
	March 31, 2007			
	Cost	Gross unrealized gains`	Gross unrealized losses	Fair value
Available-for-sale				
Debt securities	**¥2,454,283**	**¥ 18,141**	**¥12,172**	**¥2,460,252**
Equity securities	**859,628**	**821,518**	**1,259**	**1,679,887**
Total	**¥3,313,911**	**¥839,659**	**¥13,431**	**¥4,140,139**
Securities not practicable to determine fair value				
Debt securities	**¥ 24,322**			
Equity securities	**100,854**			
Total	**¥125,176**			

	U.S. dollars in millions			
	March 31, 2007			
	Cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale				
Debt securities	**$20,790**	**$ 154**	**$103**	**$20,841**
Equity securities	**7,282**	**6,959**	**11**	**14,230**
Total	**$28,072**	**$ 7,113**	**$114**	**$35,071**
Securities not practicable to determine fair value				
Debt securities	**$ 206**			
Equity securities	**855**			
Total	**$1,061**			

Unrealized losses continuing over a 12 month period or more in the aggregate were not material at March 31, 2006 and 2007.

At March 31, 2006 and 2007, debt securities classified as available-for-sale mainly consist of government bonds and corporate debt securities with maturities from 1 to 10 years.

Proceeds from sales of available-for-sale securities were ¥121,369 million, ¥157,707 million and ¥148,442 million ($1,257 million) for the years ended March 31, 2005, 2006 and 2007, respectively. On those sales, gross realized gains were ¥14,551 million, ¥2,104 million and ¥8,832 million ($75 million) and gross realized losses were ¥231 million, ¥1,207 million and ¥317 million ($3 million), respectively.

During the year ended March 31, 2006, in accordance with EITF Issue No. 91-5, *Nonmonetary Exchange of Cost-Method Investments*, Toyota reclassified ¥143,366 million of gain from Unrealized gains on securities included in the "Accumulated other comprehensive income" on the consolidated balance sheet to Other income included in the "Other income, net" on the consolidated statement of income. The gain was recognized based on the merger between UFJ Holdings, Inc. and Mitsubishi Tokyo Financial Group, Inc. on October 1, 2005, and determined as the amount between the cost of the pre-merger entity, UFJ Holdings, Inc. common shares which Toyota had continuously held and the fair market value of the post-merger entity, Mitsubishi UFJ Financial Group, Inc. common shares which Toyota received in exchange for UFJ Holdings, Inc. common shares. The gain was non-cash gain and included in the cost of the available-for-sale equity securities.

During the years ended March 31, 2005, 2006 and 2007, Toyota recognized impairment losses on available-for-sale securities of ¥2,324 million, ¥4,163 million, and ¥4,614 million ($39 million), respectively, which are included in "Other income, net" in the accompanying consolidated statements of income.

In the ordinary course of business, Toyota maintains long-term investment securities, included in "Marketable securities and other securities investments" and issued by a number of non-public companies which are recorded at cost, as their fair values were not readily determinable. Management employs a systematic methodology to assess the recoverability of such investments by reviewing the financial viability of the underlying companies and the prevailing market conditions in which these companies operate to determine if Toyota's investment in each individual company is impaired and whether the impairment is other-than-temporary. Toyota performs this impairment test semi-annually for significant investments recorded at cost. If the impairment is determined to be other-than-temporary, the carrying value of the investment is written-down by the impaired amount and the losses are recognized currently in operations.

7. Finance receivables:

Finance receivables consist of the following:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Retail	¥ 5,930,822	**¥ 7,005,631**	**$ 59,344**
Finance leases	741,280	**756,421**	**6,408**
Wholesale and other dealer loans	1,998,814	**2,342,926**	**19,847**
	8,670,916	**10,104,978**	**85,599**
Deferred origination costs	92,798	**106,063**	**899**
Unearned income	(334,796)	**(367,829)**	**(3,116)**
Allowance for credit losses	(101,383)	**(112,116)**	**(950)**
Total finance receivables, net	8,327,535	**9,731,096**	**82,432**
Less—Current portion	(3,497,319)	**(4,036,363)**	**(34,192)**
Noncurrent finance receivables, net	¥ 4,830,216	**¥ 5,694,733**	**$ 48,240**

The contractual maturities of retail receivables, the future minimum lease payments on finance leases and wholesale and other dealer loans at March 31, 2007 are summarized as follows:

	Yen in millions			U.S. dollars in millions		
Years ending March 31,	Retail	Finance lease	Wholesale and other dealer loans	Retail	Finance lease	Wholesale and other dealer loans
2008	**¥1,991,266**	**¥198,701**	**¥1,908,054**	**$16,868**	**$1,683**	**$16,163**
2009	**1,761,151**	**130,854**	**144,754**	**14,919**	**1,109**	**1,226**
2010	**1,438,970**	**115,295**	**97,027**	**12,189**	**977**	**822**
2011	**981,354**	**46,186**	**74,150**	**8,313**	**391**	**628**
2012	**511,974**	**19,794**	**69,235**	**4,337**	**168**	**587**
Thereafter	**320,916**	**1,455**	**49,706**	**2,718**	**12**	**421**
	¥7,005,631	**¥512,285**	**¥2,342,926**	**$59,344**	**$4,340**	**$19,847**

Finance leases consist of the following:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Minimum lease payments	¥ 472,725	**¥512,285**	**$4,340**
Estimated unguaranteed residual values	268,555	**244,136**	**2,068**
	741,280	**756,421**	**6,408**
Deferred origination costs	1,462	**1,335**	**11**
Less—Unearned income	(102,241)	**(64,673)**	**(548)**
Less—Allowance for credit losses	(6,140)	**(4,999)**	**(42)**
Finance leases, net	¥ 634,361	**¥688,084**	**$5,829**

Toyota maintains a program to sell retail and lease finance receivables. Under the program, Toyota's securitization transactions are generally structured as qualifying SPEs ("QSPE"s), thus Toyota achieves sale accounting treatment under the provisions of FAS 140. Toyota recognizes a gain or loss on the sale of the finance receivables upon the transfer of the receivables to the securitization trusts structured as a QSPE. Toyota retains servicing rights and earns a contractual servicing fee of 1% per annum on the total monthly outstanding principal balance of the related securitized receivables. In a subordinated capacity, Toyota retains interest-only strips, subordinated securities, and cash reserve funds in these securitizations, and these retained interests are held as restricted assets subject to limited recourse provisions and provide credit enhancement to the senior securities in Toyota's securitization transactions. The retained interests are not available to satisfy any obligations of Toyota. Investors in the securitizations have no recourse to Toyota beyond the contractual cash flows of the securitized receivables, retained subordinated interests, any cash reserve funds and any amounts available or funded under the revolving liquidity notes. Toyota's exposure to these retained interests exists until the associated securities are paid in full. Investors do not have recourse to other assets held by Toyota for failure of obligors on the receivables to pay when due or otherwise.

The following table summarizes certain cash flows received from and paid to the securitization trusts for the years ended March 31, 2005, 2006 and 2007.

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
Proceeds from new securitizations, net of purchased and retained securities	¥ 48,958	¥ 88,698	**¥69,018**	**$585**
Servicing fees received	3,762	2,297	**1,881**	**16**
Excess interest received from interest only strips	9,140	4,219	**2,818**	**24**
Repurchases of receivables	(34,675)	(50,086)	**—**	**—**
Servicing advances	(215)	(453)	**(234)**	**(2)**
Reimbursement of servicing and maturity advances	860	793	**234**	**2**

Toyota sold finance receivables under the program and recognized pretax gains resulting from these sales of ¥323 million, ¥837 million and ¥1,589 million ($13 million) for the years ended March 31, 2005, 2006 and 2007, respectively, after providing an allowance for estimated credit losses. The gain on sale recorded depends on the carrying amount of the assets at the time of the sale. The carrying amount is allocated between the assets sold and the retained interests based on their relative fair values at the date of the sale. The key economic assumptions initially and subsequently measuring the fair value of retained interests include the market interest rate environment, severity and rate of credit losses, and the prepayment speed of the receivables. All key economic assumptions used in the valuation of the retained interests are reviewed periodically and are revised as considered necessary.

At March 31, 2006 and 2007, Toyota's retained interests relating to these securitizations include interest in trusts, interest-only strips, and other receivables, amounting to ¥18,316 million and ¥16,033 million ($136 million), respectively.

Toyota recorded no impairments on retained interests for the years ended March 31, 2005, 2006 and 2007. Impairments are calculated, if any, by discounting cash flows using management's estimates and other key economic assumptions.

Key economic assumptions used in measuring the fair value of retained interests at the sale date of securitization transactions completed during the years ended March 31, 2005, 2006 and 2007 were as follows:

	For the years ended March 31,		
	2005	2006	**2007**
Prepayment speed related to securitizations	0.7%–1.1%	0.7%–1.4%	**0.7%–1.4%**
Weighted-average life (in years)	1.85	1.72–2.06	**1.90–2.57**
Expected annual credit losses	0.30%	0.05%–0.18%	**0.05%–0.12%**
Discount rate used on the retained interests	15.0%	5.0%	**5.0%**

Expected cumulative static pool losses over the life of the securitizations are calculated by taking actual life to date losses plus projected losses and dividing the sum by the original balance of each pool of assets. Expected cumulative static pool credit losses for the retail loans securitized for the years ended March 31, 2005, 2006 and 2007 were 0.40%, 0.19% and 0.16%, respectively.

The key economic assumptions and the sensitivity of the current fair value of the retained interest to an immediate 10 and 20 percent adverse change in those economic assumptions are presented below.

	Yen in millions	U.S. dollars in millions
	March 31,	March 31,
	2007	**2007**
Prepayment speed assumption (annual rate)	**0.7%–1.5%**	
Impact on fair value of 10% adverse change	**¥ (86)**	**$(1)**
Impact on fair value of 20% adverse change	**(173)**	**(1)**
Residual cash flows discount rate (annual rate)	**5.0%–12.0%**	
Impact on fair value of 10% adverse change	**¥(138)**	**$(1)**
Impact on fair value of 20% adverse change	**(274)**	**(2)**
Expected credit losses (annual rate)	**0.05%–0.38%**	
Impact on fair value of 10% adverse change	**¥ (26)**	**$(0)**
Impact on fair value of 20% adverse change	**(63)**	**(1)**

These hypothetical scenarios do not reflect expected market conditions and should not be used as a prediction of future performance. As the figures indicate, changes in the fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption. Actual changes in one factor may result in changes in another, which might magnify or counteract the sensitivities. Actual cash flows may differ from the above analysis.

Outstanding receivable balances and delinquency amounts for managed retail and lease receivables, which include both owned and securitized receivables, as of March 31, 2006 and 2007 are as follows:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Principal amount outstanding	¥6,543,496	**¥7,569,490**	**$64,121**
Delinquent amounts over 60 days or more	32,799	**58,662**	**497**
Comprised of:			
Receivables owned	¥6,337,306	**¥7,394,223**	**$62,636**
Receivables securitized	206,190	**175,267**	**1,485**

Credit losses, net of recoveries attributed to managed retail and lease receivables for the years ended March 31, 2005, 2006 and 2007 totaled ¥34,455 million, ¥46,427 million and ¥63,428 million ($537 million), respectively.

8. Other receivables:

Other receivables relate to arrangements with certain component manufacturers whereby Toyota procures inventory for these component manufacturers and is reimbursed for the related purchases.

9. Inventories:

Inventories consist of the following:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Finished goods	¥1,097,203	**¥1,204,521**	**$10,203**
Raw materials	221,285	**291,006**	**2,465**
Work in process	239,450	**236,749**	**2,006**
Supplies and other	63,037	**71,680**	**607**
	¥1,620,975	**¥1,803,956**	**$15,281**

10. Vehicles and equipment on operating leases:

Vehicles and equipment on operating leases consist of the following:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Vehicles	¥2,503,064	**¥3,202,674**	**$27,130**
Equipment	102,362	**106,663**	**903**
	2,605,426	**3,309,337**	**28,033**
Less—Accumulated depreciation	(579,896)	**(763,485)**	**(6,467)**
Vehicles and equipment on operating leases, net	¥2,025,530	**¥2,545,852**	**$21,566**

Rental income from vehicles and equipment on operating leases was ¥291,205 million, ¥395,870 million and ¥508,095 million ($4,304 million) for the years ended March 31, 2005, 2006 and 2007, respectively. Future minimum rentals from vehicles and equipment on operating leases are due in installments as follows:

Year ending March 31,	Yen in millions	U.S. dollars in millions
2008	¥ 549,940	$ 4,659
2009	401,385	3,400
2010	210,476	1,783
2011	74,709	633
2012	19,454	165
Thereafter	9,859	83
Total minimum future rentals	¥1,265,823	$10,723

The future minimum rentals as shown above should not be considered indicative of future cash collections.

11. Allowance for doubtful accounts and credit losses:

An analysis of activity within the allowance for doubtful accounts relating to trade accounts and notes receivable for the years ended March 31, 2005, 2006 and 2007 is as follows:

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
Allowance for doubtful accounts at beginning of year	¥ 61,121	¥55,751	**¥62,088**	**$526**
Provision for doubtful accounts, net of reversal	15,752	10,361	**(841)**	**(7)**
Write-offs	(12,855)	(1,819)	**(3,154)**	**(27)**
Other	(8,267)	(2,205)	**(27)**	**0**
Allowance for doubtful accounts at end of year	¥ 55,751	¥62,088	**¥58,066**	**$492**

The other amount includes the impact of consolidation and deconsolidation of certain entities due to changes in ownership interest and currency translation adjustments for the years ended March 31, 2005, 2006 and 2007.

A portion of the allowance for doubtful accounts balance at March 31, 2006 and 2007 totaling ¥42,597 million and ¥33,284 million ($282 million), respectively, is attributed to certain non-current receivable balances which are reported as other assets in the consolidated balance sheets.

An analysis of the allowance for credit losses relating to finance receivables and vehicles and equipment on operating leases for the years ended March 31, 2005, 2006 and 2007 is as follows:

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
Allowance for credit losses at beginning of year	¥87,462	¥ 91,829	**¥101,383**	**$859**
Provision for credit losses	47,402	52,285	**72,703**	**616**
Charge-offs, net of recoveries	(44,587)	(50,324)	**(63,879)**	**(541)**
Other	1,552	7,593	**1,909**	**16**
Allowance for credit losses at end of year	¥91,829	¥101,383	**¥112,116**	**$950**

The other amount primarily includes the impact of currency translation adjustments for the years ended March 31, 2005, 2006 and 2007.

12. Affiliated companies and variable interest entities:

Investments in and transactions with affiliated companies—

Summarized financial information for affiliated companies accounted for by the equity method is shown below:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Current assets	¥ 6,259,683	**¥ 7,355,056**	**$ 62,305**
Noncurrent assets	10,148,606	**11,352,883**	**96,170**
Total assets	¥16,408,289	**¥18,707,939**	**$158,475**
Current liabilities	¥ 4,925,104	**¥ 5,753,115**	**$ 48,735**
Long-term liabilities	5,262,042	**5,945,795**	**50,367**
Shareholders' equity	6,221,143	**7,009,029**	**59,373**
Total liabilities and shareholders' equity	¥16,408,289	**¥18,707,939**	**$158,475**
Toyota's share of shareholders' equity	¥ 1,820,717	**¥ 2,027,281**	**$ 17,173**
Number of affiliated companies accounted for by the equity method at end of period	56	**56**	

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
Net revenues	¥15,359,634	¥18,332,304	**¥23,368,250**	**$197,952**
Gross profit	¥ 1,900,344	¥ 2,197,699	**¥ 2,642,377**	**$ 22,384**
Net income	¥ 420,640	¥ 559,686	**¥ 701,816**	**$ 5,945**

Entities comprising a significant portion of Toyota's investment in affiliated companies include Denso Corporation; Aioi Insurance Co., Ltd.; Toyota Industries Corporation; Aisin Seiki Co., Ltd.; and Toyota Tsusho Corporation.

Certain affiliated companies accounted for by the equity method with carrying amounts of ¥1,487,708 million and ¥1,683,093 million ($14,257 million) at March 31, 2006 and 2007, respectively, were quoted on various established markets at an aggregate value of ¥2,818,476 million and ¥2,800,848 million ($23,726 million), respectively.

Account balances and transactions with affiliated companies are presented below:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Trade accounts and notes receivable, and other receivables	¥221,006	**¥256,761**	**$2,175**
Accounts payable and other payables	551,514	**605,598**	**5,130**

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
Net revenues	¥1,150,523	¥1,394,071	**¥1,475,220**	**$12,497**
Purchases	2,923,325	3,356,626	**4,028,260**	**34,123**

Dividends from affiliated companies accounted for by the equity method for the years ended March 31, 2005, 2006 and 2007 were ¥22,164 million, ¥30,011 million and ¥45,234 million ($383 million), respectively.

Variable interest entities—

Toyota enters into securitization transactions with certain special-purpose entities. However, substantially all securitization transactions are with entities that are qualifying special-purpose entities under FAS 140 and thus no material variable interest entities ("VIEs") relating to these securitization transactions.

Certain joint ventures in which Toyota has invested are VIEs for which Toyota is not the primary beneficiary. However, neither the aggregate size of these joint ventures nor Toyota's involvements in these entities are material to Toyota's consolidated financial statements.

13. Short-term borrowings and long-term debt:

Short-term borrowings at March 31, 2006 and 2007 consist of the following:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Loans, principally from banks, with a weighted-average interest at March 31, 2006 and March 31, 2007 of 2.20% and of 3.17% per annum, respectively	¥ 986,128	**¥1,055,918**	**$ 8,944**
Commercial paper with a weighted-average interest at March 31, 2006 and March 31, 2007 of 3.32% and of 4.95% per annum, respectively	2,046,891	**2,441,473**	**20,682**
	¥3,033,019	**¥3,497,391**	**$29,626**

As of March 31, 2007, Toyota has unused short-term lines of credit amounting to ¥2,790,890 million ($23,642 million) of which ¥877,573 million ($7,434 million) related to commercial paper programs. Under these programs, Toyota is authorized to obtain short-term financing at prevailing interest rates for periods not in excess of 360 days.

Long-term debt at March 31, 2006 and 2007 comprises the following:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Unsecured loans, representing obligations principally to banks, due 2006 to 2025 in 2006 and due 2007 to 2027 in 2007 with interest ranging from 0.04% to 20.00% per annum in 2006 and from 0.20% to 18.00% per annum in 2007	¥ 1,009,001	**¥ 1,009,634**	**$ 8,553**
Secured loans, representing obligations principally to banks, due 2006 to 2019 in 2006 and due 2007 to 2019 in 2007 with interest ranging from 0.35% to 5.60% per annum in 2006 and from 0.35% to 5.60% per annum in 2007	15,766	**14,307**	**121**
Medium-term notes of consolidated subsidiaries, due 2006 to 2035 in 2006 and due 2007 to 2047 in 2007 with interest ranging from 0.01% to 9.75% per annum in 2006 and from 0.01% to 15.25% per annum in 2007	4,364,260	**5,269,107**	**44,635**
Unsecured notes of parent company, due 2008 to 2018 in 2006 and due 2008 to 2018 in 2007 with interest ranging from 1.33% to 3.00% per annum in 2006 and from 1.33% to 3.00% per annum in 2007	500,000	**500,000**	**4,235**
Unsecured notes of consolidated subsidiaries, due 2006 to 2031 in 2006 and due 2007 to 2031 in 2007 with interest ranging from 0.34% to 7.11% per annum in 2006 and from 0.34% to 9.07% per annum in 2007	1,417,010	**1,787,767**	**15,144**
Long-term capital lease obligations, due 2006 to 2017 in 2006 and due 2007 to 2017 in 2007, with interest ranging from 0.37% to 9.33% per annum in 2006 and from 0.31% to 9.33% per annum in 2007	58,341	**50,886**	**431**
	7,364,378	**8,631,701**	**73,119**
Less—Current portion due within one year	(1,723,888)	**(2,368,116)**	**(20,060)**
	¥ 5,640,490	**¥ 6,263,585**	**$ 53,059**

As of March 31, 2007, approximately 39%, 24%, 11% and 26% of long-term debt are denominated in U.S. dollars, Japanese yen, euros, and other currencies, respectively.

As of March 31, 2007, property, plant and equipment with a book value of ¥89,233 million ($756 million) and in addition, other assets aggregating ¥36,488 million ($309 million) were pledged as collateral mainly for certain debt obligations of subsidiaries.

The aggregate amounts of annual maturities of long-term debt during the next five years are as follows:

Years ending March 31,	Yen in millions	U.S. dollars in millions
2008	¥2,368,116	$20,060
2009	1,778,730	15,068
2010	1,594,216	13,505
2011	792,424	6,713
2012	866,031	7,336

Standard agreements with certain banks in Japan include provisions that collateral (including sums on deposit with such banks) or guarantees will be furnished upon the banks' request and that any collateral furnished, pursuant to such agreements or otherwise, will be applicable to all present or future indebtedness to such banks. During the year ended March 31, 2007, Toyota has not received any significant such requests from these banks.

As of March 31, 2007, Toyota has unused long-term lines of credit amounting to ¥4,710,944 million ($39,906 million).

14. Product warranties:

Toyota provides product warranties for certain defects mainly resulting from manufacturing based on warranty contracts with its customers at the time of sale of products. Toyota accrues estimated warranty costs to be incurred in the future in accordance with the warranty contracts. The net change in the accrual for the product warranties for the years ended March 31, 2005, 2006 and 2007, which is included in "Accrued expenses" in the accompanying consolidated balance sheets, consist of the following:

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
Liabilities for product warranties at beginning of year	¥ 291,747	¥ 330,552	**¥ 377,879**	**$ 3,201**
Payments made during year	(214,876)	(252,453)	**(279,597)**	**(2,368)**
Provision for warranties	255,610	298,719	**336,543**	**2,851**
Changes relating to pre-existing warranties	(3,654)	(9,457)	**(29,458)**	**(250)**
Other	1,725	10,518	**7,085**	**60**
Liabilities for product warranties at end of year	¥ 330,552	¥ 377,879	**¥ 412,452**	**$ 3,494**

The other amount primarily includes the impact of currency translation adjustments and the impact of consolidation and deconsolidation of certain entities due to changes in ownership interest.

In addition to product warranties above, Toyota initiates recall actions or voluntary service campaigns to repair or to replace parts which might be expected to fail from products safety perspectives or customer satisfaction standpoints. Toyota accrues costs of these activities, which are not included in the reconciliation above, based on management's estimates.

15. Other payables:

Other payables are mainly related to purchases of property, plant and equipment and non-manufacturing purchases.

16. Income taxes:

The components of income before income taxes comprise the following:

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
Income before income taxes:				
Parent company and domestic subsidiaries	¥ 946,626	¥1,159,116	**¥1,412,674**	**$11,967**
Foreign subsidiaries	808,011	928,244	**969,842**	**8,215**
	¥1,754,637	¥2,087,360	**¥2,382,516**	**$20,182**

The provision for income taxes consists of the following:

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
Current income tax expense:				
Parent company and domestic subsidiaries	¥376,845	¥451,593	**¥591,840**	**$5,013**
Foreign subsidiaries	196,354	310,298	**174,164**	**1,475**
Total current	573,199	761,891	**766,004**	**6,488**
Deferred income tax expense (benefit):				
Parent company and domestic subsidiaries	34,820	76,503	**51,740**	**438**
Foreign subsidiaries	49,891	(43,241)	**80,568**	**683**
Total deferred	84,711	33,262	**132,308**	**1,121**
Total provision	¥657,910	¥795,153	**¥898,312**	**$7,609**

Toyota is subject to a number of different income taxes which, in the aggregate, indicate a statutory rate in Japan of approximately 40.2% for the years ended March 31, 2005, 2006, and 2007. Such rate was also used to calculate the tax effects of temporary differences, which are expected to be realized in the future years. Reconciliation of the differences between the statutory tax rate and the effective income tax rate is as follows:

	For the years ended March 31,		
	2005	2006	**2007**
Statutory tax rate	40.2%	40.2%	**40.2%**
Increase (reduction) in taxes resulting from:			
Non-deductible expenses	0.3	0.4	**0.5**
Increase in deferred tax liabilities on undistributed earnings of foreign subsidiaries and affiliates accounted for by the equity method	1.8	2.8	**3.1**
Valuation allowance	(0.1)	(0.4)	**0.1**
Tax credits	(3.4)	(4.1)	**(3.9)**
Other	(1.3)	(0.8)	**(2.3)**
Effective income tax rate	37.5%	38.1%	**37.7%**

Significant components of deferred tax assets and liabilities are as follows:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Deferred tax assets			
Accrued pension and severance costs	¥ 183,824	**¥ 104,470**	**$ 885**
Warranty reserves and accrued expenses	208,654	**218,125**	**1,848**
Other accrued employees' compensation	115,143	**120,004**	**1,016**
Operating loss carryforwards for tax purposes	44,293	**35,629**	**302**
Inventory adjustments	50,407	**57,698**	**489**
Property, plant and equipment and other assets	162,872	**168,535**	**1,428**
Other	308,317	**349,933**	**2,964**
Gross deferred tax assets	1,073,510	**1,054,394**	**8,932**
Less—Valuation allowance	(93,629)	**(95,225)**	**(807)**
Total deferred tax assets	979,881	**959,169**	**8,125**
Deferred tax liabilities			
Unrealized gains on securities	(451,282)	**(465,280)**	**(3,941)**
Undistributed earnings of foreign subsidiaries and affiliates accounted for by the equity method	(502,232)	**(559,591)**	**(4,740)**
Basis difference of acquired assets	(36,135)	**(37,778)**	**(320)**
Lease transactions	(335,294)	**(419,259)**	**(3,552)**
Gain on securities contribution to employee retirement benefit trust	(66,523)	**(66,523)**	**(564)**
Other	(61,321)	**(80,380)**	**(681)**
Gross deferred tax liabilities	(1,452,787)	**(1,628,811)**	**(13,798)**
Net deferred tax liability	¥ (472,906)	**¥ (669,642)**	**$ (5,673)**

The valuation allowance mainly relates to deferred tax assets of the consolidated subsidiaries with operating loss carryforwards for tax purposes that are not expected to be realized.

The net changes in the total valuation allowance for deferred tax assets for the years ended March 31, 2005, 2006 and 2007 consist of the following:

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
Valuation allowance at beginning of year	¥104,083	¥102,737	**¥ 93,629**	**$ 793**
Additions	21,249	10,285	**20,785**	**176**
Deductions	(22,829)	(19,084)	**(19,015)**	**(161)**
Other	234	(309)	**(174)**	**(1)**
Valuation allowance at end of year	¥102,737	¥ 93,629	**¥ 95,225**	**$ 807**

The other amount includes the impact of consolidation and deconsolidation of certain entities due to changes in ownership interest during the years ended March 31, 2005, 2006 and 2007.

The deferred tax assets and liabilities that comprise the net deferred tax liability are included in the consolidated balance sheets as follows:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Deferred tax assets			
Deferred income taxes (Current assets)	¥ 520,494	**¥ 551,503**	**$ 4,672**
Investments and other assets – other	106,715	**98,043**	**830**
Deferred tax liabilities			
Other current liabilities	(7,120)	**(6,788)**	**(58)**
Deferred income taxes (Long-term liabilities)	(1,092,995)	**(1,312,400)**	**(11,117)**
Net deferred tax liability	¥ (472,906)	**¥ (669,642)**	**$ (5,673)**

Because management intends to reinvest undistributed earnings of foreign subsidiaries to the extent not expected to be remitted in the foreseeable future, management has made no provision for income taxes on those undistributed earnings aggregating ¥2,506,679 million ($21,234 million) as of March 31, 2007. Toyota estimates an additional tax provision of ¥229,863 million ($1,947 million) would be required if the full amount of those undistributed earnings became subject to Japanese taxes.

Operating loss carryforwards for tax purposes attributed to consolidated subsidiaries as of March 31, 2007 were approximately ¥101,156 million ($857 million) and are available as an offset against future taxable income of such subsidiaries. The majority of these carryforwards expire in years 2008 to 2027.

17. Shareholders' equity:

Changes in the number of shares of common stock issued have resulted from the following:

	For the years ended March 31,		
	2005	2006	**2007**
Common stock issued			
Balance at beginning of year	3,609,997,492	3,609,997,492	**3,609,997,492**
Issuance during the year	—	—	**—**
Purchase and retirement	—	—	**—**
Balance at end of year	3,609,997,492	3,609,997,492	**3,609,997,492**

The Corporation Act provides that an amount equal to 10% of distributions from surplus paid by the parent company and its Japanese subsidiaries be appropriated as a capital reserve or a retained earnings reserve. No further appropriations are required when the total amount of the capital reserve and the retained earnings reserve reaches 25% of stated capital.

The retained earnings reserve included in retained earnings as of March 31, 2006 and 2007 was ¥145,103 million and ¥151,102 million ($1,280 million), respectively. The Corporation Act provides that the retained earnings reserve of the parent company and its Japanese subsidiaries is restricted and unable to be used for dividend payments, and is excluded from the calculation of the profit available for dividend.

The amounts of statutory retained earnings of the parent company available for dividend payments to shareholders were ¥5,255,265 million and ¥5,680,249 million ($48,117 million) as of

March 31, 2006 and 2007, respectively. In accordance with customary practice in Japan, the distributions from surplus are not accrued in the financial statements for the corresponding period, but are recorded in the subsequent accounting period after shareholders' approval has been obtained. Retained earnings at March 31, 2007 include amounts representing year-end cash dividends of ¥223,856 million ($1,896 million), ¥70 ($0.59) per share, which were approved at the Ordinary General Shareholders' Meeting, held on June 22, 2007.

Retained earnings at March 31, 2007 include ¥1,232,413 million ($10,440 million) relating to equity in undistributed earnings of companies accounted for by the equity method.

On June 23, 2004, at the Ordinary General Shareholders' Meeting, the shareholders of the parent company approved to purchase up to 65 million shares of its common stock at a cost up to ¥250,000 million during the period until the next Ordinary General Shareholders' Meeting which was held on June 23, 2005, and in accordance with former Japanese Commercial Code, also approved to change the Articles of Incorporation to authorize the Board of Directors to repurchase treasury stock on the basis of its resolution. During this approved period of time, the parent company purchased approximately 59 million of shares.

On June 23, 2005, the shareholders of the parent company approved to purchase up to 65 million shares of its common stock at a cost up to ¥250,000 million during the period until the next Ordinary General Shareholders' Meeting which was held on June 23, 2006. As a result, the parent company repurchased approximately 38 million shares during the approved period of time.

On June 23, 2006, at the Ordinary General Shareholders' Meeting, the shareholders of the parent company approved to purchase up to 30 million shares of its common stock at a cost up to ¥200,000 million during the purchase period of one year from the following day. As a result, the parent company repurchased approximately 28 million shares during the approved period of time.

On June 22, 2007, at the Ordinary General Shareholders' Meeting, the shareholders of the parent company approved to purchase up to 30 million shares of its common stock at a cost up to ¥250,000 million during the purchase period of one year from the following day. These approvals by the shareholders are not required under the current regulation.

In years prior to 1997 (beginning of preparation for consolidated financial statements in accordance with accounting principles generally accepted in the United States of America), Toyota had made free distributions of shares to its shareholders for which no accounting entry is required in Japan. Had the distributions been accounted for in a manner used by companies in the United States of America, ¥2,576,606 million ($21,826 million) would have been transferred from retained earnings to the appropriate capital accounts.

Detailed components of accumulated other comprehensive income at March 31, 2006 and 2007 and the related changes, net of taxes for the years ended March 31, 2005, 2006 and 2007 consist of the following:

	Yen in millions				
	Foreign currency translation adjustments	Unrealized gains on securities	Minimum pension liability adjustments	Pension liability adjustments	Accumulated other comprehensive income (loss)
Balances at March 31, 2004	¥(515,030)	¥336,924	¥(26,486)	¥ —	¥ (204,592)
Other comprehensive income	75,697	38,455	9,780	—	123,932
Balances at March 31, 2005	(439,333)	375,379	(16,706)	—	(80,660)
Other comprehensive income	268,410	244,629	4,937	—	517,976
Balances at March 31, 2006	(170,923)	620,008	(11,769)	—	437,316
Other comprehensive income	130,746	38,800	3,499	—	173,045
Adjustment to initially apply FAS 158	—	—	8,270	82,759	91,029
Balances at March 31, 2007	**¥ (40,177)**	**¥658,808**	**¥ —**	**¥82,759**	**¥ 701,390**

	U.S. dollars in millions				
	Foreign currency translation adjustments	Unrealized gains on securities	Minimum pension liability adjustments	Pension liability adjustments	Accumulated other comprehensive income (loss)
Balances at March 31, 2006	$(1,448)	$5,252	$(99)	$ —	$3,705
Other comprehensive income	1,107	329	29	—	1,465
Adjustment to initially apply FAS 158	—	—	70	701	771
Balances at March 31, 2007	**$ (341)**	**$5,581**	**$ —**	**$701**	**$5,941**

Tax effects allocated to each component of other comprehensive income for the years ended March 31, 2005, 2006 and 2007 are as follows:

	Yen in millions		
	Pre-tax amount	Tax expense (benefit)	Net-of-tax amount
For the year ended March 31, 2005			
Foreign currency translation adjustments	¥ 76,089	¥ (392)	¥ 75,697
Unrealized gains on securities:			
Unrealized net holding gains arising for the year	87,266	(35,081)	52,185
Less: reclassification adjustments for gains included in net income	(22,960)	9,230	(13,730)
Minimum pension liability adjustments	16,354	(6,574)	9,780
Other comprehensive income	¥ 156,749	¥ (32,817)	¥123,932
For the year ended March 31, 2006			
Foreign currency translation adjustments	¥ 272,214	¥ (3,804)	¥268,410
Unrealized gains on securities:			
Unrealized net holding gains arising for the year	555,789	(223,427)	332,362
Less: reclassification adjustments for gains included in net income	(146,710)	58,977	(87,733)
Minimum pension liability adjustments	8,260	(3,323)	4,937
Other comprehensive income	¥ 689,553	¥(171,577)	¥517,976
For the year ended March 31, 2007			
Foreign currency translation adjustments	**¥ 133,835**	**¥ (3,089)**	**¥130,746**
Unrealized gains on securities:			
Unrealized net holding gains arising for the year	**78,055**	**(31,378)**	**46,677**
Less: reclassification adjustments for gains included in net income	**(13,172)**	**5,295**	**(7,877)**
Minimum pension liability adjustments	**5,854**	**(2,355)**	**3,499**
Other comprehensive income	**¥ 204,572**	**¥ (31,527)**	**¥173,045**

	U.S. dollars in millions		
	Pre-tax amount	Tax expense (benefit)	Net-of-tax amount
For the year ended March 31, 2007			
Foreign currency translation adjustments	**$1,133**	**$ (26)**	**$1,107**
Unrealized gains on securities:			
Unrealized net holding gains arising for the year	**661**	**(266)**	**395**
Less: reclassification adjustments for gains included in net income	**(111)**	**45**	**(66)**
Minimum pension liability adjustments	**49**	**(20)**	**29**
Other comprehensive income	**$1,732**	**$(267)**	**$1,465**

18. Stock-based compensation:

In June 1997, the parent company's shareholders approved a stock option plan for board members. In June 2001, the shareholders approved an amendment of the plan to include both board members and key employees. Each year, since the plans' inception, the shareholders have approved the authorization for the grant of options for the purchase of Toyota's common stock. Authorized shares for each year that remain ungranted are unavailable for grant in future years. Stock options granted in and after August 2002 have terms ranging from 6 years to 8 years and an exercise price equal to 1.025 times the closing price of Toyota's common stock on the date of grant. These options generally vest 2 years from the date of grant.

On June 22, 2007, at the Ordinary General Shareholders' Meeting, the shareholders of the parent company approved the authorization of an additional up to 3,500,000 shares for issuance under the Toyota's stock option plan for directors, officers and employees of the parent company, its subsidiaries and affiliates.

Toyota adopted FAS 123(R) in fiscal year beginning from April 1, 2006. For the year ended March 31, 2007, Toyota recognized stock-based compensation expenses for stock options of ¥1,936 million ($16 million) as selling, general and administrative expenses.

The weighted-average grant-date fair value of options granted during the years ended March 31, 2005, 2006 and 2007 was ¥1,139, ¥723, and ¥1,235 ($10), respectively. Before March 31, 2006, the fair value of options granted was amortized over the option vesting period in determining the pro forma net income described in note 2 to the consolidated financial statements. On and after April 1, 2006, the fair value of options granted is amortized over the option vesting period in determining net income in the consolidated statements of income. The grant-date fair value of options granted is estimated using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2005	2006	**2007**
Dividend rate	1.5%	2.1%	**1.5%**
Risk-free interest rate	1.2%	0.7%	**1.4%**
Expected volatility	32%	27%	**27%**
Expected holding period (years)	5.3	4.0	**5.0**

The following table summarizes Toyota's stock option activity:

		Yen		Yen in millions
	Number of options	Weighted-average exercise price	Weighted-average remaining contractual life in years	Aggregate intrinsic value
Options outstanding at March 31, 2004	4,896,400	¥ 3,401	3.83	
Granted	2,021,000	4,541		
Exercised	(810,300)	2,995		
Canceled	(606,800)	4,105		
Options outstanding at March 31, 2005	5,500,300	3,802	3.86	
Granted	2,104,000	4,377		
Exercised	(1,354,000)	3,052		
Canceled	(1,463,400)	4,085		
Options outstanding at March 31, 2006	4,786,900	4,180	4.52	
Granted	3,176,000	6,140		
Exercised	(1,233,100)	4,008		
Canceled	(437,100)	4,590		
Options outstanding at March 31, 2007	**6,292,700**	**¥ 5,175**	**5.53**	**¥14,947**
Options exercisable at March 31, 2005	1,740,300	¥ 3,641	1.69	
Options exercisable at March 31, 2006	946,900	¥ 3,078	3.09	
Options exercisable at March 31, 2007	1,282,700	¥ 3,990	2.90	¥4,567

The total intrinsic value of options exercised for the years ended March 31, 2005, 2006 and 2007 was ¥897 million, ¥3,273 million and ¥3,866 million ($33 million), respectively.

As of March 31, 2007, there were unrecognized compensation expenses of ¥2,423 million ($21 million) for stock options granted. Those expenses are expected to be recognized over a weighted-average period of 1.2 years.

Cash received from the exercise of stock options for the years ended March 31, 2005, 2006 and 2007 was ¥2,427 million, ¥4,133 million and ¥4,942 million ($42 million), respectively.

The following table summarizes information for options outstanding and options exercisable at March 31, 2007:

	Outstanding				Exercisable		
Exercise price range	Number of shares	Weighted-average exercise price	Weighted-average exercise price	Weighted-average remaining life	Number of shares	Weighted-average exercise price	Weighted-average exercise price
Yen		Yen	Dollars	Years		Yen	Dollars
¥2,958–4,500	2,370,000	¥4,112	$35	3.89	489,000	¥3,095	$26
4,501–6,140	3,922,700	5,816	49	6.52	793,700	4,541	38
2,958–6,140	6,292,700	5,175	44	5.53	1,282,700	3,990	34

19. Employee benefit plans:

Pension and severance plans—

Upon terminations of employments, employees of the parent company and subsidiaries in Japan are entitled, under the retirement plans of each company, to lump-sum indemnities or pension payments, based on current rates of pay and lengths of service or the number of "points" mainly determined by those. Under normal circumstances, the minimum payment prior to retirement age is an amount based on voluntary retirement. Employees receive additional benefits on involuntary retirement, including retirement at the age limit.

Effective October 1, 2004, the parent company amended its retirement plan to introduce a "point" based retirement benefit plan. Under the new plan, employees are entitled to lump-sum or pension payments determined based on accumulated "points" vested in each year of service.

There are three types of "points" that vest in each year of service consisting of "service period points" which are attributed to the length of service, "job title points" which are attributed to the job title of each employee, and "performance points" which are attributed to the annual performance evaluation of each employee. Under normal circumstances, the minimum payment prior to retirement age is an amount reflecting an adjustment rate applied to represent voluntary retirement. Employees receive additional benefits upon involuntary retirement, including retirement at the age limit.

Effective October 1, 2005, the parent company partly mended its retirement plan and introduced the quasi cash-balance plan under which benefits are determined based on the variable-interest crediting rate rather than the fixed-interest crediting rate as was in the pre-amended plan. The amendment did not have a material quantitative impact on the projected benefit obligation of the parent company as of March 31, 2006.

The parent company and most subsidiaries in Japan have contributory funded defined benefit pension plans, which are pursuant to the Corporate Defined Benefit Pension Plan Law (CDBPPL). The contributions to the plans are funded with several financial institutions in accordance with the applicable laws and regulations. These pension plan assets consist principally of investments in government obligations, equity and fixed income securities, and insurance contracts.

Most foreign subsidiaries have pension plans or severance indemnity plans covering substantially all of their employees under which the cost of benefits are currently invested or accrued. The benefits for these plans are based primarily on lengths of service and current rates of pay.

Toyota uses a March 31 measurement date for the majority of its benefit plans.

Transfer to the government of the Substitutional Portion of the Employee Pension Fund Liabilities—
The parent company and most subsidiaries in Japan had maintained employees' pension funds (EPFs) pursuant to the Japanese Welfare Pension Insurance Law ("JWPIL"). The EPF consisted of two tiers, a Substitutional Portion, in which the EPF, in lieu of the government's social insurance program, collected contributions, funded them and paid benefits to the employees with respect to the pay-related portion of the old-age pension benefits prescribed by JWPIL, and a Corporate Portion which was established at the discretion of each employer.

In June 2001, the CDBPPL was enacted and allowed any EPF to terminate its operation relating to the Substitutional Portion that in the past an EPF had operated and managed in lieu of the government, subject to approval from the Japanese Minister of Health, Labour and Welfare. In September 2003, Toyota Motor Pension Fund, the parent company's EPF under JWPIL, obtained the approval from the Minister for the exemption from benefit payments related to employee services of the Substitutional Portion. In January 2004, Toyota Motor Pension Fund completed the transfer of the plan assets attributable to the Substitutional Portion to the government. In addition, during the years ended March 31, 2004 and 2005, subsidiaries in Japan that had EPFs under JWPIL also completed the transfer of the plan assets attributable to the Substitutional Portion in compliance with the same procedures followed by the parent company.

In accordance with the consensus on EITF Issue No. 03-2, *Accounting for the Transfer to the Japanese Government of the Substitutional Portion of Employee Pension Fund Liabilities* ("EITF 03-2"), Toyota accounted the entire separation process, upon completion of transfer of the plan assets attributable to the Substitutional Portion to the government, as a single settlement transaction. During the year ended March 31, 2005, Toyota recognized a settlement loss of ¥96,066 million as part of net periodic pension cost which is the proportionate amount of the net unrecognized loss immediately prior to the separation related to the entire EPFs under JWPIL, and which is determined based on the proportion of the projected benefit obligation settled to the total projected benefit obligation immediately prior to the separation. Toyota also recognized as a reduction of net periodic pension cost totaling ¥21,722 million for the year ended March 31, 2005, which resulted in a gain attributed to the derecognition of previously accrued salary progression. In addition, Toyota recognized a gain of ¥121,553 million for the year ended March 31, 2005, which represented the difference between the obligation settled and the assets transferred to the government. These gains and loss are reflected in the consolidated statement of income for the year ended March 31, 2005 as follows:

	Yen in millions		
	For the year ended March 31, 2005		
	Costs of products sold	Selling, general and administrative	Total
Settlement loss	¥(85,379)	¥ (10,687)	¥ (96,066)
Gain on derecognition of previously accrued salary progression	19,494	2,228	21,722
Gain on difference between the obligation settled and the assets transferred	—	121,553	121,553
Total	¥(65,885)	¥113,094	¥ 47,209

All these gains and loss are non-cash gains and loss, and reported on a net basis in "Pension and severance costs, less payments" in the consolidated statement of cash flows for the year ended March 31, 2005.

During the years ended March 31, 2006 and 2007, no significant gains or losses relating to the transfer to the government of the Substitutional Portion of the EPF liabilities were recognized.

The impact of adopting FAS 158—
Toyota adopted the provisions regarding recognition of funded status and disclosure under FAS 158 as of March 31, 2007. Toyota recognized the overfunded or underfunded status of its defined benefit postretirement plans as prepaid pension and severance costs or accrued pension and severance costs on its consolidated balance sheet, with corresponding adjustments to accumulated other comprehensive income, net of tax. The impacts of adopting the provisions of FAS 158 on Toyota's consolidated balance sheet as of March 31, 2007 are as follows. The adoption of the provisions had no impact on Toyota's consolidated statement of income for the year ended March 31, 2007.

	Yen in millions		
	Amount before adoption of FAS 158	FAS 158 Adjustment	Amount after adoption of FAS 158
Investments and other assets – other (Prepaid pension and severance costs)	**¥246,499**	**¥142,520**	**¥389,019**
Accrued expenses (Accrued pension and severance costs)	**—**	**30,951**	**30,951**
Accrued pension and severance costs	**672,154**	**(31,568)**	**640,586**
Accumulated other comprehensive income (loss) (Pre-tax amount)	**(26,337)**	**133,437**	**107,100**
Accumulated other comprehensive income (loss) (Net-of-tax amount)	**(8,270)**	**91,029**	**82,759**

	U.S. dollars in millions		
	Amount before adoption of FAS 158	FAS 158 Adjustment	Amount after adoption of FAS 158
Investments and other assets – other (Prepaid pension and severance costs)	**$2,089**	**$1,207**	**$3,296**
Accrued expenses (Accrued pension and severance costs)	**—**	**262**	**262**
Accrued pension and severance costs	**5,694**	**(267)**	**5,427**
Accumulated other comprehensive income (loss) (Pre-tax amount)	**(223)**	**1,130**	**907**
Accumulated other comprehensive income (loss) (Net-of-tax amount)	**(70)**	**771**	**701**

Information regarding Toyota's defined benefit plans is as follow:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Change in benefit obligation			
Benefit obligation at beginning of year	¥1,450,739	**¥1,582,958**	**$13,409**
Service cost	64,582	**80,414**	**681**
Interest cost	40,196	**48,128**	**408**
Plan participants' contributions	578	**1,988**	**17**
Plan amendments	(3,468)	**(197)**	**(2)**
Net actuarial loss	33,878	**65,227**	**553**
Acquisition and other	59,956	**5,927**	**50**
Benefits paid	(63,503)	**(76,476)**	**(648)**
Benefit obligation at end of year	1,582,958	**1,707,969**	**14,468**
Change in plan assets			
Fair value of plan assets at beginning of year	934,684	**1,276,204**	**10,811**
Actual return on plan assets	276,416	**87,471**	**741**
Acquisition and other	35,908	**2,734**	**23**
Employer contributions	92,121	**133,530**	**1,131**
Plan participants' contributions	578	**1,988**	**17**
Benefits paid	(63,503)	**(76,476)**	**(648)**
Fair value of plan assets at end of year	1,276,204	**1,425,451**	**12,075**
Funded status	¥ 306,754	**¥ 282,518**	**$ 2,393**

Amounts reconciled from the funded status to net amount recognized in the consolidated balance sheet as of March 31, 2006 are comprised of the following:

	Yen in millions
	March 31, 2006
Funded status	¥306,754
Unrecognized net actuarial loss	(2,657)
Unrecognized prior service costs	152,200
Unrecognized net transition obligation	(11,346)
Net amount recognized	¥444,951

Amounts recognized in the consolidated balance sheet as of March 31, 2006 are comprised of the following:

	Yen in millions
	March 31,
	2006
Accrued pension and severance costs	¥ 679,918
Investments and other assets – other (Prepaid pension and severance costs)	(190,987)
Investments and other assets – other (Intangible assets)	(7,112)
Accumulated other comprehensive loss	(36,868)
Net amount recognized	¥ 444,951

Amounts recognized in the consolidated balance sheet as of March 31, 2007 are comprised of the following:

	Yen in millions	U.S. dollars in millions
	March 31,	March 31,
	2007	**2007**
Accrued expenses (Accrued pension and severance costs)	**¥ 30,951**	**$ 262**
Accrued pension and severance costs	**640,586**	**5,427**
Investments and other assets – other (Prepaid pension and severance costs)	**(389,019)**	**(3,296)**
Net amount recognized	**¥ 282,518**	**$ 2,393**

Amounts recognized in accumulated other comprehensive income as of March 31, 2007 are comprised of the following:

	Yen in millions	U.S. dollars in millions
	March 31,	March 31,
	2007	**2007**
Net actuarial loss	**¥ (14,041)**	**$ (119)**
Prior service costs	**130,543**	**1,106**
Net transition obligation	**(9,402)**	**(80)**
Net amount recognized	**¥107,100**	**$ 907**

The accumulated benefit obligation for all defined benefit pension plans was ¥1,474,574 million and ¥1,552,827 million ($13,154 million) at March 31, 2006 and 2007, respectively.

The projected benefit obligation, accumulated benefit obligation and fair value of plan assets for which the accumulated benefit obligations exceed plan assets are as follows:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Projected benefit obligation	¥535,482	**¥529,354**	**$4,484**
Accumulated benefit obligation	511,668	**498,127**	**4,220**
Fair value of plan assets	83,790	**95,274**	**807**

Components of the net periodic pension cost are as follows:

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
Service cost	¥ 60,715	¥ 64,582	**¥ 80,414**	**$ 681**
Interest cost	37,790	40,196	**48,128**	**408**
Expected return on plan assets	(27,517)	(24,278)	**(38,139)**	**(323)**
Amortization of prior service costs	(16,599)	(17,037)	**(17,301)**	**(146)**
Recognized net actuarial loss	22,366	19,489	**8,299**	**70**
Settlement loss resulting from the transfer of the Substitutional Portion	74,344	—	**—**	**—**
Amortization of net transition obligation	9,981	1,944	**1,944**	**16**
Net periodic pension cost	¥161,080	¥ 84,896	**¥ 83,345**	**$ 706**

The estimated prior service costs, net actuarial loss and net transition obligations that will be amortized from accumulated other comprehensive income into net periodic pension cost during the year ending March 31, 2008 are ¥(17,300) million ($(147) million), ¥3,400 million ($29 million) and ¥1,900 million ($16 million), respectively.

Prior to the adoption of the provisions regarding recognition of funded status and disclosure under FAS 158 as of March 31, 2007, Toyota had recorded a minimum pension liability for plans where the accumulated benefit obligation net of plan assets exceeded the accrued pension and severance costs. The minimum pension liability amount at March 31, 2006 was ¥43,980 million. Changes in the minimum pension liability are reflected as adjustments in other comprehensive income for the years ended March 31, 2005, 2006 and 2007 as follows:

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
Minimum pension liability adjustments, included in other comprehensive income	¥9,780	¥4,937	**¥3,499**	**$29**

The minimum pension liability recognized as of March 31, 2007 was eliminated upon the adoption of the provisions regarding recognition of funded status and disclosure under FAS 158.

Weighted-average assumptions used to determine benefit obligations as of March 31, 2006 and 2007 are as follows:

	March 31,	
	2006	**2007**
Discount rate	2.6%	**2.7%**
Rate of compensation increase	0.1–11.0%	**0.1–10.0%**

Weighted-average assumptions used to determine net periodic pension cost for the years ended March 31, 2005, 2006 and 2007 are as follows:

	For the years ended March 31,		
	2005	2006	**2007**
Discount rate	2.2%	2.6%	**2.6%**
Expected return on plan assets	2.1%	2.9%	**3.0%**
Rate of compensation increase	0.5–9.7%	0.1–9.7%	**0.1–11.0%**

The expected rate of return on plan assets is determined after considering several applicable factors including, the composition of plan assets held, assumed risks of asset management, historical results of the returns on plan assets, Toyota's principal policy for plan asset management, and forecasted market conditions.

Toyota's pension plan weighted-average asset allocations as of March 31, 2006 and 2007, by asset category are as follows:

	Plan assets at March 31,	
	2006	**2007**
Equity securities	68.2%	**67.2%**
Debt securities	18.8	**20.8**
Real estate	0.5	**0.7**
Other	12.5	**11.3**
Total	100.0%	**100.0%**

Toyota's policy and objective for plan asset management is to maximize returns on plan assets to meet future benefit payment requirements under risks which Toyota considers permissible. Asset allocations under the plan asset management are determined based on Toyota's plan asset management guidelines which are established to achieve the optimized asset compositions in terms of the long-term overall plan asset management. Prior to making individual investments, Toyota performs in-depth assessments of corresponding factors including risks, transaction costs and liquidity of each potential investment under consideration. To measure the performance of the plan asset management, Toyota establishes bench mark return rates for each individual investment, combines these individual bench mark rates based on the asset composition ratios within each asset category, and compares the combined rates with the corresponding actual return rates on each asset category.

Toyota expects to contribute ¥132,447 million ($1,122 million) to its pension plan in the year ending March 31, 2008.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Years ending March 31,	Yen in millions	U.S. dollars in millions
2008	¥ 74,946	$ 635
2009	82,650	700
2010	79,124	670
2011	76,904	652
2012	73,085	619
from 2013 to 2017	375,621	3,182
Total	¥762,330	$6,458

Postretirement benefits other than pensions and postemployment benefits—

Toyota's U.S. subsidiaries provide certain health care and life insurance benefits to eligible retired employees. In addition, Toyota provides benefits to certain former or inactive employees after employment, but before retirement. These benefits are currently unfunded and provided through various insurance companies and health care providers. The costs of these benefits are recognized over the period the employee provides credited service to Toyota. Toyota's obligations under these arrangements are not material.

20. Derivative financial instruments:

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

Fair value hedges—

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

For the years ended March 31, 2005, 2006 and 2007, the ineffective portion of Toyota's fair value hedge relationships which are included in cost of financing operations in the accompanying consolidated statements of income were not material. For fair value hedging relationships, the components of each derivative's gain or loss are included in the assessment of hedge effectiveness.

Undesignated derivative financial instruments—

Toyota uses foreign exchange forward contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements, and interest rate options, to manage its exposure to foreign currency exchange rate fluctuations and interest rate fluctuations from an economic perspective, and which Toyota is unable or has elected not to apply hedge accounting. Unrealized gains or losses on these derivative instruments are reported in the cost of financing operations and foreign exchange gain, net in the accompanying consolidated statements of income together with realized gains or losses on those derivative instruments.

21. Other financial instruments:

Toyota has certain financial instruments, including financial assets and liabilities and off-balance sheet financial instruments which arose in the normal course of business. These financial instruments are executed with creditworthy financial institutions, and virtually all foreign currency contracts are denominated in U.S. dollars, euros and other currencies of major industrialized countries. Financial instruments involve, to varying degrees, market risk as instruments are subject to price fluctuations, and elements of credit risk in the event a counterparty should default. In the unlikely event the counterparties fail to meet the contractual terms of a foreign currency or an interest rate instrument, Toyota's risk is limited to the fair value of the instrument. Although Toyota may be exposed to losses in the event of non-performance by counterparties on financial instruments, it does not anticipate significant losses due to the nature of its counterparties. Counterparties to Toyota's financial instruments represent, in general, international financial institutions. Additionally, Toyota does not have a significant exposure to any individual counterparty. Based on the creditworthiness of these financial institutions, collateral is generally not required of the counterparties or of Toyota. Toyota believes that the overall credit risk related to its financial instruments is not significant.

The estimated fair values of Toyota's financial instruments, excluding marketable securities and other securities investments and affiliated companies, are summarized as follows:

	Yen in millions	
	March 31, 2006	
	Carrying amount	Estimated fair value
Asset (Liability)		
Cash and cash equivalents	¥ 1,569,387	¥ 1,569,387
Time deposits	50,349	50,349
Total finance receivables, net	7,601,838	7,413,229
Other receivables	416,336	416,336
Short-term borrowings	(3,033,019)	(3,033,019)
Long-term debt including the current portion	(7,306,037)	(7,297,826)
Foreign exchange forward contracts	(8,136)	(8,136)
Interest rate and currency swap agreements	101,890	101,890
Option contracts purchased	2,994	2,994
Option contracts written	(3,035)	(3,035)

	Yen in millions		U.S. dollars in millions	
	March 31, 2007		March 31, 2007	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Asset (Liability)				
Cash and cash equivalents	**¥ 1,900,379**	**¥ 1,900,379**	**$ 16,098**	**$ 16,098**
Time deposits	**26,709**	**26,709**	**226**	**226**
Total finance receivables, net	**8,938,284**	**8,998,023**	**75,715**	**76,222**
Other receivables	**486,170**	**486,170**	**4,118**	**4,118**
Short-term borrowings	**(3,497,391)**	**(3,497,391)**	**(29,626)**	**(29,626)**
Long-term debt including the current portion	**(8,580,815)**	**(8,595,301)**	**(72,688)**	**(72,811)**
Foreign exchange forward contracts	**(4,327)**	**(4,327)**	**(37)**	**(37)**
Interest rate and currency swap agreements	**115,640**	**115,640**	**980**	**980**
Option contracts purchased	**3,249**	**3,249**	**28**	**28**
Option contracts written	**(2,341)**	**(2,341)**	**(20)**	**(20)**

Following are explanatory notes regarding the financial assets and liabilities other than derivative financial instruments.

Cash and cash equivalents, time deposits and other receivables—

In the normal course of business, substantially all cash and cash equivalents, time deposits and other receivables are highly liquid and are carried at amounts which approximate fair value.

Finance receivables, net—

The carrying value of variable rate finance receivables was assumed to approximate fair value as they were repriced at prevailing market rates at March 31, 2006 and 2007. The fair value of fixed rate finance receivables was estimated by discounting expected cash flows using the rates at which loans of similar credit quality and maturity would be made as of March 31, 2006 and 2007.

Short-term borrowings and long-term debt—

The fair values of short-term borrowings and total long-term debt including the current portion were estimated based on the discounted amounts of future cash flows using Toyota's current incremental borrowing rates for similar liabilities.

22. Lease commitments:

Toyota leases certain assets under capital lease and operating lease arrangements.

An analysis of leased assets under capital leases is as follows:

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Class of property			
Building	¥ 12,095	**¥ 13,560**	**$ 115**
Machinery and equipment	139,063	**147,926**	**1,253**
Less—Accumulated depreciation	(112,495)	**(126,178)**	**(1,069)**
	¥ 38,663	**¥ 35,308**	**$ 299**

Amortization expenses under capital leases for the years ended March 31, 2005, 2006 and 2007 were ¥12,725 million, ¥11,348 million and ¥10,559 million ($89 million), respectively.

Future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of March 31, 2007 are as follows:

Years ending March 31,	Yen in millions	U.S. dollars in millions
2008	¥12,829	$109
2009	8,569	73
2010	7,805	66
2011	24,441	207
2012	1,075	9
Thereafter	1,129	9
Total minimum lease payments	55,848	473
Less—Amount representing interest	(4,962)	(42)
Present value of net minimum lease payments	50,886	431
Less—Current obligations	(12,253)	(104)
Long-term capital lease obligations	¥38,633	$327

Rental expenses under operating leases for the years ended March 31, 2005, 2006 and 2007 were ¥83,784 million, ¥93,867 million and ¥107,301 million ($909 million), respectively.

The minimum rental payments required under operating leases relating primarily to land, buildings and equipment having initial or remaining non-cancelable lease terms in excess of one year at March 31, 2007 are as follows:

Years ending March 31,	Yen in millions	U.S. dollars in millions
2008	¥11,364	$ 96
2009	8,413	71
2010	6,932	59
2011	5,380	46
2012	4,482	38
Thereafter	19,570	166
Total minimum future rentals	¥56,141	$476

23. Other commitments and contingencies, concentrations and factors that may affect future operations:

Commitments outstanding at March 31, 2007 for the purchase of property, plant and equipment and other assets totaled ¥132,443 million ($1,122 million).

Toyota enters into contracts with Toyota dealers to guarantee customers' payments of their installment payables that arise from installment contracts between customers and Toyota dealers, as and when requested by Toyota dealers. Guarantee periods are set to match maturity of installment payments, and at March 31, 2007, range from 1 month to 35 years; however, they are generally shorter than the useful lives of products sold. Toyota is required to execute its guarantee primarily when customers are unable to make required payments. The maximum potential amount of future payments as of March 31, 2007 is ¥1,333,961 million ($11,300 million). Liabilities for guarantees totaling ¥3,614 million ($31 million) have been provided as of March 31, 2007. Under these guarantee contracts, Toyota is entitled to recover any amount paid by Toyota from the customers whose original obligations Toyota has guaranteed.

In February 2003, Toyota, General Motors Corporation, Ford, DaimlerChrysler, Honda, Nissan and BMW and their U.S. and Canadian sales and marketing subsidiaries, the National Automobile Dealers Association and the Canadian Automobile Dealers Association were named as defendants in purported nationwide class actions on behalf of all purchasers of new motor vehicles in the United States since January 1, 2001. 26 similar actions were filed in federal district courts in California, Illinois, New York, Massachusetts, Florida, New Jersey and Pennsylvania. Additionally, 56 parallel class actions were filed in state courts in California, Minnesota, New Mexico, New York, Tennessee, Wisconsin, Arizona, Florida, Iowa, New Jersey and Nebraska on behalf of the same purchasers in these states. As of April 1, 2005, actions filed in federal district courts were consolidated in Maine and actions filed in the state courts of California and New Jersey were also consolidated, respectively.

The nearly identical complaints allege that the defendants violated the Sherman Antitrust Act by conspiring among themselves and with their dealers to prevent the sale to United States citizens of vehicles produced for the Canadian market. The complaints allege that new vehicle prices in Canada are 10% to 30% lower than those in the United States and that preventing the sale of these vehicles to United States citizens resulted in United States consumers paying excessive prices for the same type of vehicles. The complaints seek permanent injunctions against the alleged antitrust violations and treble damages in an unspecified amount. In March 2004, the federal district court of Maine (i) dismissed claims against certain

Canadian sales and marketing subsidiaries, including Toyota Canada, Inc., for lack of personal jurisdiction but denied or deferred to dismiss claims against certain other Canadian companies, and (ii) dismissed the claim for damages based on the Sherman Antitrust Act but did not bar the plaintiffs from seeking injunctive relief against the alleged antitrust violations. The plaintiffs have submitted an amended compliant adding a claim for damages based on state antitrust laws and Toyota has responded to the plaintiff's discovery requests. Toyota believes that its actions have been lawful. In the interest of quickly resolving these legal actions, however, Toyota entered into a settlement agreement with the plaintiffs at the end of February 2006. The settlement agreement is pending the approval of the federal district court, and immediately upon approval the plaintiffs will, in accordance with the terms of the settlement agreement, withdraw all pending actions against Toyota in the federal district court as well as all state courts and all related actions will be closed.

Toyota has various other legal actions, governmental proceedings and other claims pending against it, including product liability claims in the United States. Although the claimants in some of these actions seek potentially substantial damages, Toyota cannot currently determine its potential liability or the damages, if any, with respect to these claims. However, based upon information currently available to Toyota, Toyota believes that its losses from these matters, if any, would not have a material adverse effect on Toyota's financial position, operating results or cash flows.

In October 2000, the European Union brought into effect a directive that requires member states to promulgate regulations implementing the following: (i) manufacturers shall bear all or a significant part of the costs for taking back end-of-life vehicles put on the market after July 1, 2002 and dismantling and recycling those vehicles. Beginning January 1, 2007, this requirement became applicable to vehicles put on the market before July 1, 2002; (ii) manufacturers may not use certain hazardous materials in vehicles to be sold after July 2003; (iii) vehicles type-approved and put on the market after December 15, 2008, shall be re-usable and/or recyclable to a minimum of 85% by weight per vehicle and shall be re-usable and/or recoverable to a minimum of 95% by weight per vehicle; and (iv) end-of-life vehicles must meet actual re-use of 80% and re-use as material or energy of 85%, respectively, of vehicle weight by 2006, rising respectively to 85% and 95% by 2015. A law to implement the directive came into effect in all member states including Bulgaria, Romania that joined the European Union in January 2007. Currently, there are uncertainties surrounding the implementation of the applicable regulations in different European Union member states, particularly regarding manufacturer responsibilities and resultant expenses that may be incurred.

In addition, under this directive member states must take measures to ensure that car manufacturers, distributors and other auto-related economic operators establish adequate used vehicle collection and treatment facilities and to ensure that hazardous materials and recyclable parts are removed from vehicles prior to shredding. This directive impacts Toyota's vehicles sold in the European Union and Toyota expects to introduce vehicles that are in compliance with such measures taken by the member states pursuant to the directive.

Based on the legislation that has been enacted to date, Toyota has provided for its estimated liability related to covered vehicles in existence as of March 31, 2007. Depending on the legislation that will be enacted subject to other circumstances, Toyota may be required to provide additional accruals for the expected costs to comply with these regulations. Although Toyota does not expect its compliance with the directive to result in significant cash expenditures, Toyota is continuing to assess the impact of this future legislation on its results of operations, cash flows and financial position.

Toyota purchases materials that are equivalent to approximately 10% of material costs from a supplier which is an affiliated company.

The parent company has a concentration of labor supply in employees working under collective bargaining agreements and a substantial portion of these employees are working under the agreement that will expire on December 31, 2008.

24. Segment data:

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

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

The following tables present certain information regarding Toyota's industry segments and operations by geographic areas and overseas revenues by destination as of and for the years ended March 31, 2005, 2006 and 2007. From the year ended March 31, 2006, in Geographical Segment information and overseas revenues by destination information, "Asia" region has been disclosed separately from "Other" region. Prior year information has also been disclosed for comparative purposes.

Segment operating results and assets—

As of and for the year ended March 31, 2005:

	Yen in millions				
	Automotive	Financial Services	All Other	Inter-segment Elimination/ Unallocated Amount	Consolidated
Net revenues					
Sales to external customers	¥17,098,415	¥ 760,664	¥ 692,447	¥ —	¥18,551,526
Inter-segment sales and transfers	15,120	20,597	337,873	(373,590)	—
Total	17,113,535	781,261	1,030,320	(373,590)	18,551,526
Operating expenses	15,661,000	580,408	996,577	(358,646)	16,879,339
Operating income	¥ 1,452,535	¥ 200,853	¥ 33,743	¥ (14,944)	¥ 1,672,187
Assets	¥11,141,197	¥9,487,248	¥1,025,517	¥2,681,049	¥24,335,011
Investment in equity method investees	1,271,044	215,642	—	75,746	1,562,432
Depreciation expenses	754,339	220,584	22,790	—	997,713
Capital expenditure	1,161,757	726,777	50,555	(15,849)	1,923,240

As of and for the year ended March 31, 2006:

	Yen in millions				
	Automotive	Financial Services	All Other	Inter-segment Elimination/ Unallocated Amount	Consolidated
Net revenues					
Sales to external customers	¥19,325,616	¥ 977,416	¥ 733,877	¥ —	¥21,036,909
Inter-segment sales and transfers	12,528	19,493	456,414	(488,435)	—
Total	19,338,144	996,909	1,190,291	(488,435)	21,036,909
Operating expenses	17,644,099	841,092	1,150,543	(477,167)	19,158,567
Operating income	¥ 1,694,045	¥ 155,817	¥ 39,748	¥ (11,268)	¥ 1,878,342
Assets	¥12,354,827	¥11,613,508	¥1,191,261	¥3,571,999	¥28,731,595
Investment in equity method investees	1,459,556	287,326	—	73,835	1,820,717
Depreciation expenses	880,360	301,734	29,084	—	1,211,178
Capital expenditure	1,615,814	1,110,191	45,282	(47)	2,771,240

As of and for the year ended March 31, 2007:

	Yen in millions				
	Automotive	Financial Services	All Other	Inter-segment Elimination/ Unallocated Amount	Consolidated
Net revenues					
Sales to external customers	**¥21,914,168**	**¥ 1,277,994**	**¥ 755,929**	**¥ —**	**¥23,948,091**
Inter-segment sales and transfers	**13,838**	**22,554**	**567,802**	**(604,194)**	**—**
Total	**21,928,006**	**1,300,548**	**1,323,731**	**(604,194)**	**23,948,091**
Operating expenses	**19,889,178**	**1,142,053**	**1,284,052**	**(605,875)**	**21,709,408**
Operating income	**¥ 2,038,828**	**¥ 158,495**	**¥ 39,679**	**¥ 1,681**	**¥ 2,238,683**
Assets	**¥13,297,362**	**¥13,735,434**	**¥1,459,965**	**¥4,082,018**	**¥32,574,779**
Investment in equity method investees	**1,664,938**	**303,271**	**—**	**59,072**	**2,027,281**
Depreciation expenses	**950,762**	**402,876**	**28,956**	**—**	**1,382,594**
Capital expenditure	**1,570,875**	**1,268,186**	**47,948**	**(51,192)**	**2,835,817**

	U.S. dollars in millions				
	Automotive	Financial Services	All Other	Inter-segment Elimination/ Unallocated Amount	Consolidated
Net revenues					
Sales to external customers	**$185,635**	**$ 10,826**	**$ 6,403**	**$ —**	**$202,864**
Inter-segment sales and transfers	**117**	**191**	**4,810**	**(5,118)**	**—**
Total	**185,752**	**11,017**	**11,213**	**(5,118)**	**202,864**
Operating expenses	**168,481**	**9,674**	**10,877**	**(5,132)**	**183,900**
Operating income	**$ 17,271**	**$ 1,343**	**$ 336**	**$ 14**	**$ 18,964**
Assets	**$112,642**	**$116,353**	**$12,367**	**$34,579**	**$275,941**
Investment in equity method investees	**14,104**	**2,569**	**—**	**500**	**17,173**
Depreciation expenses	**8,054**	**3,413**	**245**	**—**	**11,712**
Capital expenditure	**13,307**	**10,743**	**406**	**(434)**	**24,022**

Sales to external customers and operating income of the Financial Services segment for the year ended March 31, 2005, includes the impact of adjustments totaling ¥14,991 million made by a sales financing subsidiary in the United States of America for the correction of errors relating to prior periods mainly in connection with capitalization of certain disbursements, including disbursements made in prior years, directly related to origination of loans in accordance with FAS No. 91.

Geographic information—

As of and for the year ended March 31, 2005:

	Yen in millions						
	Japan	North America	Europe	Asia	Other	Inter-segment Elimination/ Unallocated Amount	Consolidated
Net revenues							
Sales to external customers	¥ 7,408,136	¥6,187,624	¥2,305,450	¥1,572,113	¥1,078,203	¥ —	¥18,551,526
Inter-segment sales and transfers	4,596,019	185,829	173,977	53,309	105,499	(5,114,633)	—
Total	12,004,155	6,373,453	2,479,427	1,625,422	1,183,702	(5,114,633)	18,551,526
Operating expenses	11,016,913	5,925,894	2,370,886	1,531,650	1,136,248	(5,102,252)	16,879,339
Operating income	¥ 987,242	¥ 447,559	¥ 108,541	¥ 93,772	¥ 47,454	¥ (12,381)	¥ 1,672,187
Assets	¥10,740,796	¥7,738,898	¥2,242,566	¥ 945,635	¥ 998,172	¥ 1,668,944	¥24,335,011
Long-lived assets	3,110,123	1,708,147	544,597	247,507	185,220	—	5,795,594

As of and for the year ended March 31, 2006:

	Yen in millions						
	Japan	North America	Europe	Asia	Other	Inter-segment Elimination/ Unallocated Amount	Consolidated
Net revenues							
Sales to external customers	¥ 7,735,109	¥7,455,818	¥2,574,014	¥1,836,855	¥1,435,113	¥ —	¥21,036,909
Inter-segment sales and transfers	5,376,348	232,124	153,395	205,951	166,623	(6,134,441)	—
Total	13,111,457	7,687,942	2,727,409	2,042,806	1,601,736	(6,134,441)	21,036,909
Operating expenses	12,035,567	7,192,304	2,633,462	1,897,260	1,534,546	(6,134,572)	19,158,567
Operating income	¥ 1,075,890	¥ 495,638	¥ 93,947	¥ 145,546	¥ 67,190	¥ 131	¥ 1,878,342
Assets	¥12,177,125	¥9,199,818	¥2,471,258	¥1,255,350	¥1,299,072	¥ 2,328,972	¥28,731,595
Long-lived assets	3,395,553	2,403,211	666,543	347,892	253,429	—	7,066,628

As of and for the year ended March 31, 2007:

	Yen in millions						
	Japan	North America	Europe	Asia	Other	Inter-segment Elimination/ Unallocated Amount	Consolidated
Net revenues							
Sales to external customers	**¥ 8,152,884**	**¥ 8,771,495**	**¥3,346,013**	**¥1,969,957**	**¥1,707,742**	**¥ —**	**¥23,948,091**
Inter-segment sales and transfers	**6,662,398**	**258,278**	**196,180**	**255,571**	**215,000**	**(7,587,427)**	**—**
Total	**14,815,282**	**9,029,773**	**3,542,193**	**2,225,528**	**1,922,742**	**(7,587,427)**	**23,948,091**
Operating expenses	**13,358,036**	**8,580,140**	**3,404,810**	**2,107,933**	**1,839,245**	**(7,580,756)**	**21,709,408**
Operating income	**¥ 1,457,246**	**¥ 449,633**	**¥ 137,383**	**¥ 117,595**	**¥ 83,497**	**¥ (6,671)**	**¥ 2,238,683**
Assets	**¥12,992,379**	**¥10,890,157**	**¥2,917,183**	**¥1,563,742**	**¥1,575,255**	**¥ 2,636,063**	**¥32,574,779**
Long-lived assets	**3,558,695**	**2,931,037**	**794,984**	**466,338**	**309,465**	**—**	**8,060,519**

	U.S. dollars in millions						
	Japan	North America	Europe	Asia	Other	Inter-segment Elimination/ Unallocated Amount	Consolidated
Net revenues							
Sales to external customers	**$ 69,063**	**$74,303**	**$28,344**	**$16,687**	**$14,467**	**$ —**	**$202,864**
Inter-segment sales and transfers	**56,437**	**2,188**	**1,662**	**2,165**	**1,821**	**(64,273)**	**—**
Total	**125,500**	**76,491**	**30,006**	**18,852**	**16,288**	**(64,273)**	**202,864**
Operating expenses	**113,156**	**72,682**	**28,842**	**17,856**	**15,580**	**(64,216)**	**183,900**
Operating income	**$ 12,344**	**$ 3,809**	**$ 1,164**	**$ 996**	**$ 708**	**$ (57)**	**$ 18,964**
Assets	**$110,058**	**$92,250**	**$24,712**	**$13,247**	**$13,344**	**$ 22,330**	**$275,941**
Long-lived assets	**30,146**	**24,829**	**6,734**	**3,950**	**2,622**	**—**	**68,281**

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

There are no any individually material countries with respect to revenues, operating expenses, operating income, assets and long-lived assets included in other foreign countries.

Unallocated amounts included in assets represent assets held for corporate purposes, which mainly consist of cash and cash equivalents and marketable securities. Such corporate assets were ¥3,308,055 million, ¥4,231,148 million and ¥4,758,410 million ($40,308 million), as of March 31, 2005, 2006 and 2007, respectively.

Transfers between industries or geographic segments are made at amounts which Toyota's management believes approximate arm's-length transactions. In measuring the reportable segments' income or losses, operating income consists of revenue less operating expenses.

Overseas revenues by destination—

The following information shows revenues that are attributed to countries based on location of customers, excluding customers in Japan. In addition to the disclosure requirements under FAS No. 131, *Disclosure about Segments of an Enterprise and Related Information* ("FAS 131"), Toyota discloses this information in order to provide financial statement users with valuable information.

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
North America	¥6,374,235	¥7,687,738	**¥9,039,560**	**$76,574**
Europe	2,365,525	2,607,819	**3,345,001**	**28,335**
Asia	1,776,554	2,005,777	**2,248,031**	**19,043**
Other	2,089,210	2,721,981	**3,168,580**	**26,841**

Certain financial statement data on non-financial services and financial services businesses—

The financial data below presents separately Toyota's non-financial services and financial services businesses.

Balance sheets—

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Non-Financial Services Businesses			
Current assets			
Cash and cash equivalents	¥ 1,418,022	**¥ 1,714,722**	**$ 14,525**
Marketable securities	633,036	**433,434**	**3,672**
Trade accounts and notes receivable, less allowance for doubtful accounts	2,002,577	**2,044,729**	**17,321**
Inventories	1,620,975	**1,803,956**	**15,281**
Prepaid expenses and other current assets	1,480,043	**1,617,554**	**13,702**
Total current assets	7,154,653	**7,614,395**	**64,501**
Investments and other assets	5,702,376	**6,464,204**	**54,758**
Property, plant and equipment	5,207,760	**5,689,383**	**48,195**
Total Non-Financial Services Businesses assets	18,064,789	**19,767,982**	**167,454**
Financial Services Businesses			
Current assets			
Cash and cash equivalents	151,365	**185,657**	**1,573**
Marketable securities	1,843	**2,029**	**17**
Finance receivables, net	3,497,319	**4,036,363**	**34,192**
Prepaid expenses and other current assets	710,847	**742,040**	**6,286**
Total current assets	4,361,374	**4,966,089**	**42,068**
Noncurrent finance receivables, net	4,830,216	**5,694,733**	**48,240**
Investments and other assets	563,050	**703,476**	**5,959**
Property, plant and equipment	1,858,868	**2,371,136**	**20,086**
Total Financial Services Businesses assets	11,613,508	**13,735,434**	**116,353**
Eliminations	(946,702)	**(928,637)**	**(7,866)**
Total assets	¥28,731,595	**¥32,574,779**	**$275,941**

Assets in the non-financial services include unallocated corporate assets.

	Yen in millions		U.S. dollars in millions
	March 31,		March 31,
	2006	**2007**	**2007**
Non-Financial Services Businesses			
Current liabilities			
Short-term borrowings	¥ 797,969	**¥ 726,822**	**$ 6,157**
Current portion of long-term debt	68,299	**249,750**	**2,115**
Accounts payable	2,084,399	**2,212,598**	**18,743**
Accrued expenses	1,357,335	**1,537,918**	**13,028**
Income taxes payable	328,360	**404,388**	**3,426**
Other current liabilities	1,138,529	**1,258,905**	**10,664**
Total current liabilities	5,774,891	**6,390,381**	**54,133**
Long-term liabilities			
Long-term debt	730,072	**537,887**	**4,557**
Accrued pension and severance costs	676,999	**636,221**	**5,390**
Other long-term liabilities	823,540	**976,488**	**8,271**
Total long-term liabilities	2,230,611	**2,150,596**	**18,218**
Total Non-Financial Services Businesses liabilities	8,005,502	**8,540,977**	**72,351**
Financial Services Businesses			
Current liabilities			
Short-term borrowings	2,932,799	**3,404,713**	**28,841**
Current portion of long-term debt	1,662,589	**2,189,367**	**18,546**
Accounts payable	9,273	**16,286**	**138**
Accrued expenses	111,133	**135,106**	**1,145**
Income taxes payable	19,128	**16,808**	**142**
Other current liabilities	305,136	**417,457**	**3,537**
Total current liabilities	5,040,058	**6,179,737**	**52,349**
Long-term liabilities			
Long-term debt	5,071,482	**5,851,882**	**49,571**
Accrued pension and severance costs	2,919	**4,365**	**37**
Other long-term liabilities	408,883	**462,614**	**3,919**
Total long-term liabilities	5,483,284	**6,318,861**	**53,527**
Total Financial Services Businesses liabilities	10,523,342	**12,498,598**	**105,876**
Eliminations	(947,278)	**(929,132)**	**(7,871)**
Total liabilities	17,581,566	**20,110,443**	**170,356**
Minority interest in consolidated subsidiaries	589,580	**628,244**	**5,322**
Shareholders' equity	10,560,449	**11,836,092**	**100,263**
Total liabilities and shareholders' equity	¥28,731,595	**¥32,574,779**	**$275,941**

Statements of income—

	Yen in millions			U.S. dollars in millions
	For the years ended March 31,			For the year ended March 31,
	2005	2006	**2007**	**2007**
Non-Financial Services Businesses				
Net revenues	¥17,800,357	¥20,068,284	**¥22,679,078**	**$192,114**
Costs and expenses				
Cost of revenues	14,497,252	16,335,340	**18,361,641**	**155,541**
Selling, general and administrative	1,813,288	1,993,528	**2,230,734**	**18,897**
Total costs and expenses	16,310,540	18,328,868	**20,592,375**	**174,438**
Operating income	1,489,817	1,739,416	**2,086,703**	**17,676**
Other income, net	68,736	201,978	**145,570**	**1,233**
Income before income taxes, minority interest and equity in earnings of affiliated companies	1,558,553	1,941,394	**2,232,273**	**18,909**
Provision for income taxes	578,709	736,909	**844,797**	**7,156**
Income before minority interest and equity in earnings of affiliated companies	979,844	1,204,485	**1,387,476**	**11,753**
Minority interest in consolidated subsidiaries	(63,952)	(82,401)	**(49,513)**	**(419)**
Equity in earnings of affiliated companies	131,849	142,139	**193,130**	**1,636**
Net income – Non-Financial Services Businesses	1,047,741	1,264,223	**1,531,093**	**12,970**
Financial Services Businesses				
Net revenues	781,261	996,909	**1,300,548**	**11,017**
Costs and expenses				
Cost of revenues	376,150	613,563	**879,203**	**7,448**
Selling, general and administrative	204,258	227,529	**262,850**	**2,226**
Total costs and expenses	580,408	841,092	**1,142,053**	**9,674**
Operating income	200,853	155,817	**158,495**	**1,343**
Other expense, net	(4,764)	(9,859)	**(8,171)**	**(69)**
Income before income taxes, minority interest and equity in earnings of affiliated companies	196,089	145,958	**150,324**	**1,274**
Provision for income taxes	78,748	58,241	**53,548**	**454**
Income before minority interest and equity in earnings of affiliated companies	117,341	87,717	**96,776**	**820**
Minority interest in consolidated subsidiaries	(988)	(1,992)	**(174)**	**(2)**
Equity in earnings of affiliated companies	7,622	22,227	**16,385**	**139**
Net income – Financial Services Businesses	123,975	107,952	**112,987**	**957**
Eliminations	(456)	5	**(48)**	**(0)**
Net income	¥ 1,171,260	¥ 1,372,180	**¥ 1,644,032**	**$ 13,927**

Statements of cash flows—

	Yen in millions			Yen in millions		
	For the year ended March 31, 2005			For the year ended March 31, 2006		
	Non-Financial Services Businesses	Financial Services Businesses	Consolidated	Non-Financial Services Businesses	Financial Services Businesses	Consolidated
Cash flows from operating activities						
Net income	¥ 1,047,741	¥ 123,975	¥ 1,171,260	¥ 1,264,223	¥ 107,952	¥ 1,372,180
Adjustments to reconcile net income to net cash provided by operating activities						
Depreciation	777,129	220,584	997,713	909,444	301,734	1,211,178
Provision for doubtful accounts and credit losses	15,752	47,402	63,154	10,361	52,285	62,646
Pension and severance costs, less payments	(53,401)	468	(52,933)	22,664	1,196	23,860
Losses on disposal of fixed assets	48,334	825	49,159	54,614	367	54,981
Unrealized losses on available-for-sale securities, net	2,324	—	2,324	4,163	—	4,163
Deferred income taxes	29,398	54,860	84,711	31,370	1,889	33,262
Minority interest in consolidated subsidiaries	63,952	988	64,938	82,401	1,992	84,393
Equity in earnings of affiliated companies	(131,849)	(7,622)	(139,471)	(142,139)	(22,227)	(164,366)
Changes in operating assets and liabilities, and other	(97,535)	203,762	130,085	(214,507)	138,766	(166,817)
Net cash provided by operating activities	1,701,845	645,242	2,370,940	2,022,594	583,954	2,515,480
Cash flows from investing activities						
Additions to finance receivables	—	(9,562,203)	(5,594,375)	—	(11,407,390)	(6,476,979)
Collection of and proceeds from sale of finance receivables	—	8,586,796	4,674,919	—	10,545,425	5,718,130
Additions to fixed assets excluding equipment leased to others	(1,049,572)	(18,715)	(1,068,287)	(1,516,658)	(6,801)	(1,523,459)
Additions to equipment leased to others	(146,891)	(708,062)	(854,953)	(144,391)	(1,103,390)	(1,247,781)
Proceeds from sales of fixed assets excluding equipment leased to others	60,034	9,362	69,396	81,950	7,628	89,578
Proceeds from sales of equipment leased to others	84,450	232,006	316,456	112,692	297,991	410,683
Purchases of marketable securities and security investments	(1,053,417)	(112,374)	(1,165,791)	(764,016)	(193,280)	(957,296)
Proceeds from sales of and maturity of marketable securities and security investments	471,614	102,329	573,943	561,948	129,084	691,032
Payment for additional investments in affiliated companies, net of cash acquired	(901)	—	(901)	(1,802)	—	(1,802)
Changes in investments and other assets, and other	84,979	(16,485)	(11,603)	(3,292)	(83,104)	(77,606)
Net cash used in investing activities	(1,549,704)	(1,487,346)	(3,061,196)	(1,673,569)	(1,813,837)	(3,375,500)
Cash flows from financing activities						
Purchase of common stock	(264,106)	—	(264,106)	(129,629)	—	(129,629)
Proceeds from issuance of long-term debt	27,363	1,862,012	1,863,710	33,904	1,930,823	1,928,788
Payments of long-term debt	(59,689)	(1,160,710)	(1,155,223)	(59,778)	(1,233,336)	(1,187,506)
Increase in short-term borrowings	564	178,956	140,302	86,731	513,602	509,826
Dividends paid	(165,299)	—	(165,299)	(244,568)	—	(244,568)
Other	(7,000)	7,000	—	—	—	—
Net cash provided by (used in) financing activities	(468,167)	887,258	419,384	(313,340)	1,211,089	876,911
Effect of exchange rate changes on cash and cash equivalents	21,276	3,573	24,849	58,211	10,532	68,743
Net increase (decrease) in cash and cash equivalents	(294,750)	48,727	(246,023)	93,896	(8,262)	85,634
Cash and cash equivalents at beginning of year	1,618,876	110,900	1,729,776	1,324,126	159,627	1,483,753
Cash and cash equivalents at end of year	¥ 1,324,126	¥ 159,627	¥ 1,483,753	¥ 1,418,022	¥ 151,365	¥ 1,569,387

	Yen in millions			U.S.dollars in millions		
	For the year ended March 31, 2007			For the year ended March 31, 2007		
	Non-Financial Services Businesses	Financial Services Businesses	Consolidated	Non-Financial Services Businesses	Financial Services Businesses	Consolidated
Cash flows from operating activities						
Net income	¥ 1,531,093	¥ 112,987	¥ 1,644,032	$ 12,970	$ 957	$ 13,927
Adjustments to reconcile net income to net cash provided by operating activities						
Depreciation	979,718	402,876	1,382,594	8,299	3,413	11,712
Provision for doubtful accounts and credit losses	(841)	72,703	71,862	(7)	616	609
Pension and severance costs, less payments	(33,319)	1,265	(32,054)	(282)	10	(272)
Losses on disposal of fixed assets	49,193	1,279	50,472	417	11	428
Unrealized losses on available-for-sale securities, net	4,614	—	4,614	39	—	39
Deferred income taxes	42,698	89,643	132,308	362	759	1,121
Minority interest in consolidated subsidiaries	49,513	174	49,687	419	2	421
Equity in earnings of affiliated companies	(193,130)	(16,385)	(209,515)	(1,636)	(139)	(1,775)
Changes in operating assets and liabilities, and other	182,548	125,700	144,173	1,546	1,065	1,221
Net cash provided by operating activities	2,612,087	790,242	3,238,173	22,127	6,694	27,431
Cash flows from investing activities						
Additions to finance receivables	—	(14,046,532)	(7,343,474)	—	(118,988)	(62,206)
Collection of and proceeds from sale of finance receivables	—	12,776,507	6,236,582	—	108,230	52,830
Additions to fixed assets excluding equipment leased to others	(1,414,468)	(11,346)	(1,425,814)	(11,982)	(96)	(12,078)
Additions to equipment leased to others	(153,163)	(1,256,840)	(1,410,003)	(1,297)	(10,647)	(11,944)
Proceeds from sales of fixed assets excluding equipment leased to others	56,040	8,381	64,421	475	71	546
Proceeds from sales of equipment leased to others	107,270	252,653	359,923	909	2,140	3,049
Purchases of marketable securities and security investments	(889,008)	(179,197)	(1,068,205)	(7,531)	(1,518)	(9,049)
Proceeds from sales of and maturity of marketable securities and security investments	708,130	117,041	825,171	5,998	991	6,989
Payment for additional investments in affiliated companies, net of cash acquired	(1,651)	—	(1,651)	(14)	—	(14)
Changes in investments and other assets, and other	(21,751)	15,250	(51,328)	(185)	130	(435)
Net cash used in investing activities	(1,608,601)	(2,324,083)	(3,814,378)	(13,627)	(19,687)	(32,312)
Cash flows from financing activities						
Purchase of common stock	(295,699)	—	(295,699)	(2,505)	—	(2,505)
Proceeds from issuance of long-term debt	31,509	2,897,028	2,890,000	267	24,541	24,481
Payments of long-term debt	(41,833)	(1,694,407)	(1,726,823)	(354)	(14,353)	(14,628)
Increase (decrease) in short-term borrowings	(83,651)	362,078	353,397	(709)	3,067	2,994
Dividends paid	(339,107)	—	(339,107)	(2,873)	—	(2,873)
Net cash provided by (used in) financing activities	(728,781)	1,564,699	881,768	(6,174)	13,255	7,469
Effect of exchange rate changes on cash and cash equivalents	21,995	3,434	25,429	187	29	216
Net increase in cash and cash equivalents	296,700	34,292	330,992	2,513	291	2,804
Cash and cash equivalents at beginning of year	1,418,022	151,365	1,569,387	12,012	1,282	13,294
Cash and cash equivalents at end of year	¥ 1,714,722	¥ 185,657	¥ 1,900,379	$ 14,525	$ 1,573	$ 16,098

25. Per share amounts:

Reconciliations of the differences between basic and diluted net income per share for the years ended March 31, 2005, 2006 and 2007 are as follows:

	Yen in millions	Thousands of shares	Yen	U.S. dollars
	Net income	Weighted-average shares	Net income per share	Net income per share
For the year ended March 31, 2005				
Basic net income per common share	¥1,171,260	3,296,092	¥355.35	
Effect of dilutive securities				
Assumed exercise of dilutive stock options	(1)	662		
Diluted net income per common share	¥1,171,259	3,296,754	¥355.28	
For the year ended March 31, 2006				
Basic net income per common share	¥1,372,180	3,253,450	¥421.76	
Effect of dilutive securities				
Assumed exercise of dilutive stock options	(5)	1,049		
Diluted net income per common share	¥1,372,175	3,254,499	¥421.62	
For the year ended March 31, 2007				
Basic net income per common share	**¥1,644,032**	**3,210,422**	**¥512.09**	**$4.34**
Effect of dilutive securities				
Assumed exercise of dilutive stock options	**(2)**	**1,812**		
Diluted net income per common share	**¥1,644,030**	**3,212,234**	**¥511.80**	**$4.34**

Certain stock options were not included in the computation of diluted net income per share for the years ended March 31, 2005 because the options' exercise prices were greater than the average market price per common share during the period.

The following table shows Toyota's net assets per share as of March 31, 2006 and 2007. Net assets per share amounts are calculated as dividing net assets' amount at the end of each period by the number of shares issued and outstanding at the end of corresponding period. In addition to the disclosure requirements under FAS No. 128, *Earnings per Share*, Toyota discloses this information in order to provide financial statement users with valuable information.

	Yen in millions	Thousands of shares	Yen	U.S. dollars
	Net assets	Shares issued and outstanding at the end of the year	Net assets per share	Net assets per share
March 31, 2006	¥10,560,449	3,241,757	¥3,257.63	
March 31, 2007	**11,836,092**	**3,197,936**	**3,701.17**	**$31.35**

Management's Annual Report on Internal Control over Financial Reporting

Toyota's management is responsible for establishing and maintaining effective internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Toyota's internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of Toyota's assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that Toyota's receipts and expenditures are being made only in accordance with authorizations of Toyota's management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of Toyota's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Toyota's management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, management concluded that Toyota's internal control over financial reporting was effective as of March 31, 2007.

Management's assessment of the effectiveness of Toyota's internal control over financial reporting as of March 31, 2007 has been audited by PricewaterhouseCoopers Aarata, an independent registered public accounting firm, as stated in their report which is included herein.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
Toyota Jidosha Kabushiki Kaisha ("Toyota Motor Corporation")

We have completed an integrated audit of Toyota Motor Corporation's March 31, 2007 consolidated financial statements and of its internal control over financial reporting as of March 31, 2007 and audits of its March 31, 2005 and 2006 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, shareholders' equity and cash flows present fairly, in all material respects, the financial position of Toyota Motor Corporation and its subsidiaries at March 31, 2006 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans effective March 31, 2007.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of March 31, 2007 based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers Aarata

Nagoya, Japan
June 22, 2007

Investor Information

As of March 31, 2007

Toyota Motor Corporation

Corporate Data

Established
August 28, 1937

Common Stock
¥397,049 million

Number of Employees
67,650 (Consolidated: 299,394)

Fiscal Year-End
March 31

Corporate Web Site

Corporate Information
http://www.toyota.co.jp/en

IR Information
http://www.toyota.co.jp/en/ir

Stock Information

Securities Code
7203 (Japan)

Number of Shares Authorized
10,000,000,000 shares

Number of Shares Issued
3,609,997,492 shares

Number of Shareholders
408,504

Number of Shares per Trading Unit
100 shares

Stock Listings
Japan: Tokyo, Nagoya, Osaka, Fukuoka, Sapporo
Overseas: New York, London

Contact Points for Investors

Toyota City Head Office
1, Toyota-cho, Toyota City, Aichi Prefecture 471-8571, Japan
Telephone: (0565) 28-2121 Facsimile: (0565) 23-5800

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Telephone: (03) 3817-7111 Facsimile: (03) 3817-9092

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9 West 57th St., Suite 4900, New York, NY 10019, U.S.A.
Telephone: (212) 223-0303 Facsimile: (212) 759-7670

London
Toyota Motor Europe
Curzon Square, 25 Park Lane, London, W1K 1RA, U.K.
Telephone: (020) 7290-8500 Facsimile: (020) 7290-8501

Shareholder Services

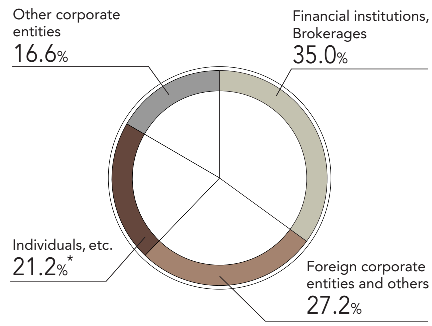
Transfer Agent in Japan
Mitsubishi UFJ Trust and Banking Corporation
4-5, Marunouchi, 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan
Telephone: (03) 3212-1211 Japan Toll-Free: (0120) 232-711

Depositary and Transfer Agent for American Depositary Receipts
The Bank of New York
101 Barclay Street, New York, NY 10286, U.S.A.
Telephone: (212) 815-3700 U.S. Toll Free: 888-269-2377 (888-BNY-ADRS)
http://www.adrbny.com
Ratio: 1 ADR = 2 common stocks
Ticker Symbol: TM

Major Shareholders (Top 10) (As of March 31, 2007)

The Master Trust Bank of Japan, Ltd.	218,291	(Thousands of shares)
Japan Trustee Services Bank, Ltd.	217,535	
Toyota Industries Corporation	200,195	
Hero and Company	142,558	
Nippon Life Insurance Co.	131,684	
State Street Bank and Trust Company	130,282	
Trust and Custody Services Bank, Ltd.	107,818	
Tokio Marine and Nichido Fire Insurance Co., Ltd.	83,821	
Mitsui Sumitomo Insurance Co., Ltd.	65,166	
DENSO CORPORATION	58,678	

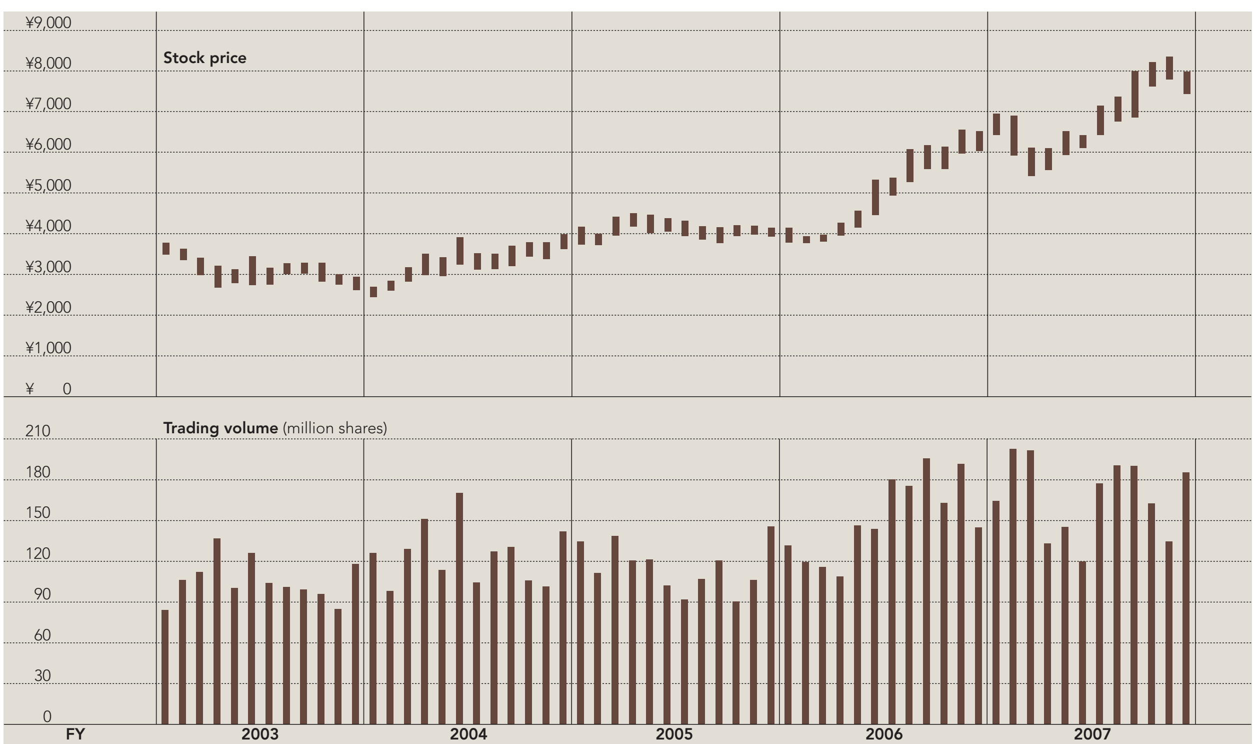
Ownership Breakdown



As of March 31, 2007

* Including shares of 412 million treasury stock

Toyota's Stock Price and Trading Volume on the Tokyo Stock Exchange



	2003	2004	2005	2006	2007
High	¥3,790	¥3,990	¥4,520	¥6,560	¥8,350
Low	2,625	2,455	3,730	3,790	5,430
At Year-End	2,635	3,880	3,990	6,430	7,550

Note: Fiscal years ended March 31

TOYOTA MOTOR CORPORATION

http://www.toyota.co.jp

R100 Percentage of Waste Paperpulp 100%

R70 Percentage of Waste Paperpulp 70%

R60 Percentage of Waste Paperpulp 60%

Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fiber
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