

TOYOTA MOTOR CORP/  
Form 20-F  
June 25, 2007  
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As filed with the Securities and Exchange Commission on June 25, 2007

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**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 20-F**

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(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**OR**

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended: March 31, 2007**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**OR**

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**Commission file number: 1-14948**

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**TOYOTA JIDOSHA KABUSHIKI KAISHA**

(Exact Name of Registrant as Specified in its Charter)

# TOYOTA MOTOR CORPORATION

(Translation of Registrant's Name into English)

**Japan**

(Jurisdiction of Incorporation or Organization)

\_\_\_\_\_  
**1 Toyota-cho, Toyota City**

**Aichi Prefecture 471-8571**

**Japan**

**+81 565 28-2121**

(Address of Principal Executive Offices)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

**Title of Each Class:**

**Common Stock**

**Name of Each Exchange on Which Registered:**

**The New York Stock Exchange**

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

**None**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

**None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report: **3,197,936,692 Shares of Common Stock as of March 31, 2007**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934: Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ☐ Item 18 ☒

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act): Yes ☐ No ☒



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As used in this annual report, the term "fiscal year" preceding a year means the twelve-month period ended March 31 of the year referred to. All other references to years refer to the applicable calendar year, unless the context otherwise requires. As used herein, the term "Toyota" refers to Toyota Motor Corporation and its consolidated subsidiaries as a group, unless the context otherwise indicates.

In parts of this annual report, amounts reported in Japanese yen have been translated into U.S. dollars for the convenience of readers. Unless otherwise noted, the rate used for this translation was ¥118.05= \$1.00. This was the approximate exchange rate in Japan on March 30, 2007.

### **CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

Written forward-looking statements may appear in documents filed with the Securities and Exchange Commission, or the SEC, including this annual report, documents incorporated by reference, reports to shareholders and other communications.

The U.S. Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking information to encourage companies to provide prospective information about themselves without fear of litigation so long as the information is identified as forward looking and is accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in the information. Toyota relies on this safe harbor in making forward-looking statements.

Forward-looking statements appear in a number of places in this annual report and include statements regarding Toyota's current intent, belief, targets or expectations or those of its management. In many, but not all cases, words such as "aim," "anticipate," "believe," "estimate," "expect," "hope," "intend," "may," "plan," "predict," "probability," "risk," "should," "will," "would," and similar expressions, are used as they related to Toyota or its subsidiaries to identify forward-looking statements. These statements reflect Toyota's current views with respect to future events and are subject to risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual results may vary materially from those which are anticipated, aimed at, believed, estimated, expected, intended or planned.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. Actual results may differ from those in forward-looking statements as a result of various factors. Important factors that could cause actual results to differ materially from estimates or forecasts contained in the forward-looking statements are identified in "Risk Factors" and elsewhere in this annual report, and include, among others:

(i) changes in economic conditions and market demand affecting, and the competitive environment in, the automotive markets in Japan, North America, Europe and other markets in which Toyota operates;

(ii) fluctuations in currency exchange rates, particularly with respect to the value of the Japanese yen, the U.S. dollar, the euro, the Australian dollar and the British pound;

(iii) Toyota's ability to realize production efficiencies and to implement capital expenditures at the levels and times planned by management;

(iv) changes in the laws, regulations and government policies in the markets in which Toyota operates that affect its automotive operations, particularly laws, regulations and policies relating to trade, environmental protection, vehicle emissions, vehicle fuel economy and vehicle safety, as well as changes in laws, regulations and government policies that affect Toyota's other operations, including the outcome of future litigation and other legal proceedings;

(v) political instability in the markets in which Toyota operates;

(vi) Toyota's ability to timely develop and achieve market acceptance of new products; and

(vii) fuel shortages or interruptions in transportation systems, labor strikes, work stoppages or other interruptions to, or difficulties in, the employment of labor in the major markets where Toyota purchases materials, components and supplies for the production of its products or where its products are produced, distributed or sold.

**Table of Contents****PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****3.A SELECTED FINANCIAL DATA**

You should read the U.S. GAAP selected consolidated financial information presented below together with Operating and Financial Review and Prospects and Toyota's consolidated financial statements contained in this annual report.

Beginning in fiscal 2004, Toyota discontinued the preparation of annual consolidated financial statements under Japanese GAAP and Toyota currently prepares its annual consolidated financial statements only under U.S. GAAP.

**U.S. GAAP Selected Financial Data**

The following selected financial data have been derived from Toyota's consolidated financial statements. These financial statements were prepared in accordance with U.S. GAAP.

|                                                                                              | 2003         | 2004         | Year Ended March 31,<br>20052006               |                          | 2007         | 2007       |
|----------------------------------------------------------------------------------------------|--------------|--------------|------------------------------------------------|--------------------------|--------------|------------|
|                                                                                              |              |              | (in millions, except share and per share data) |                          |              |            |
| Consolidated Statement of Income Data:                                                       |              |              |                                                |                          |              |            |
| Automotive:                                                                                  |              |              |                                                |                          |              |            |
| Revenues                                                                                     | ¥ 14,311,451 | ¥ 15,973,826 | ¥ 17,113,535                                   | ¥ 19,338,144             | ¥ 21,928,006 | \$ 185,752 |
| Operating income                                                                             | 1,246,925    | 1,518,954    | 1,452,535                                      | 1,694,045                | 2,038,828    | 17,271     |
| Financial Services:                                                                          |              |              |                                                |                          |              |            |
| Revenues                                                                                     | 724,898      | 736,852      | 781,261                                        | 996,909                  | 1,300,548    | 11,017     |
| Operating income                                                                             | 30,328       | 145,998      | 200,853                                        | 155,817                  | 158,495      | 1,343      |
| All Other:                                                                                   |              |              |                                                |                          |              |            |
| Revenues                                                                                     | 795,217      | 896,244      | 1,030,320                                      | 1,190,291                | 1,323,731    | 11,213     |
| Operating income (loss)                                                                      | 4,529        | 15,247       | 33,743                                         | 39,748                   | 39,679       | 336        |
| Elimination of intersegment:                                                                 |              |              |                                                |                          |              |            |
| Revenues                                                                                     | (330,013)    | (312,162)    | (373,590)                                      | (488,435)                | (604,194)    | (5,118)    |
| Operating income (loss)                                                                      | (10,136)     | (13,309)     | (14,944)                                       | (11,268)                 | 1,681        | 14         |
| Total Company:                                                                               |              |              |                                                |                          |              |            |
| Revenues                                                                                     | 15,501,553   | 17,294,760   | 18,551,526                                     | 21,036,909               | 23,948,091   | 202,864    |
| Operating income                                                                             | 1,271,646    | 1,666,890    | 1,672,187                                      | 1,878,342                | 2,238,683    | 18,964     |
| Income before income taxes, minority interest and equity in earnings of affiliated companies | 1,226,652    | 1,765,793    | 1,754,637                                      | 2,087,360 <sub>(1)</sub> | 2,382,516    | 20,182     |
| Net income                                                                                   | 750,942      | 1,162,098    | 1,171,260                                      | 1,372,180                | 1,644,032    | 13,927     |
| Net income per share:                                                                        |              |              |                                                |                          |              |            |
| Basic                                                                                        | 211.32       | 342.90       | 355.35                                         | 421.76                   | 512.09       | 4.34       |
| Diluted                                                                                      | 211.32       | 342.86       | 355.28                                         | 421.62                   | 511.80       | 4.34       |
| Shares used in computing net income per share, basic (in thousands)                          | 3,553,602    | 3,389,074    | 3,296,092                                      | 3,253,450                | 3,210,423    |            |
| Shares used in computing net income per share, diluted (in thousands)                        | 3,553,624    | 3,389,377    | 3,296,754                                      | 3,254,499                | 3,212,235    |            |



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|                                                              | 2003                                                              | 2004         | Year Ended March 31, |              | 2007         | 2007       |
|--------------------------------------------------------------|-------------------------------------------------------------------|--------------|----------------------|--------------|--------------|------------|
|                                                              | (in millions, except per share and numbers of vehicles sold data) |              |                      |              |              |            |
| Consolidated Balance Sheet Data (end of period):             |                                                                   |              |                      |              |              |            |
| Total Assets:                                                | ¥ 20,152,974                                                      | ¥ 22,040,228 | ¥ 24,335,011         | ¥ 28,731,595 | ¥ 32,574,779 | \$ 275,941 |
| Short-term debt, including current portion of long-term debt | 3,118,665                                                         | 3,314,219    | 3,532,747            | 4,756,907    | 5,865,507    | 49,686     |
| Long-term debt, less current portion                         | 4,137,528                                                         | 4,247,266    | 5,014,925            | 5,640,490    | 6,263,585    | 53,059     |
| Shareholders' equity                                         | 7,121,000                                                         | 8,178,567    | 9,044,950            | 10,560,449   | 11,836,092   | 100,263    |
| Common stock                                                 | 397,050                                                           | 397,050      | 397,050              | 397,050      | 397,050      | 3,363      |
| Other Data:                                                  |                                                                   |              |                      |              |              |            |
| Dividends per share                                          | ¥ 36.0                                                            | ¥ 45.0       | ¥ 65.0               | ¥ 90.0       | ¥ 120.0      | \$ 1.02    |
| Number of vehicles sold                                      |                                                                   |              |                      |              |              |            |
| Japan                                                        | 2,217,770                                                         | 2,303,078    | 2,381,325            | 2,364,484    | 2,273,152    |            |
| North America                                                | 1,981,912                                                         | 2,102,681    | 2,271,139            | 2,556,050    | 2,942,661    |            |
| Europe                                                       | 775,952                                                           | 898,201      | 978,963              | 1,022,781    | 1,223,628    |            |
| Asia                                                         | 461,924                                                           | 557,465      | 833,507              | 880,661      | 789,637      |            |
| Others                                                       | 675,720                                                           | 857,938      | 943,444              | 1,150,587    | 1,295,581    |            |
| Worldwide total                                              | 6,113,278                                                         | 6,719,363    | 7,408,378            | 7,974,563    | 8,524,659    |            |

- (1) Includes ¥143.3 billion in gain on exchange of marketable securities relating to the merger of Mitsubishi Tokyo Financial Group, Inc., and UFJ Holdings.

**DIVIDEND INFORMATION**

Toyota normally pays cash dividends twice per year. Toyota's board of directors recommends the dividend to be paid to shareholders and pledgees of record as of March 31 each year. This recommended dividend must then be approved by shareholders at the general shareholders meeting. Toyota pays the dividend immediately following approval of the dividend at the shareholders' meeting, normally around the end of June of each year. In addition to these year-end dividends, Toyota may pay interim dividends in the form of cash distributions from its distributable surplus to shareholders and pledgees of record as of September 30 in each year by resolution of its board of directors and without shareholder approval. Toyota normally pays the interim dividend in late November.

In addition, under the Corporation Act of Japan (the Corporation Act), dividends may be paid to shareholders and pledgees of record of any record date, other than those specified above, as set forth by Toyota's articles of incorporation or as determined by Toyota's board of directors from time to time. Such dividends may be distributed by a resolution of any general shareholders' meeting. Toyota's articles of incorporation also permit Toyota to pay dividends, in addition to interim dividends mentioned in the preceding paragraph, by a resolution of its board of directors. Toyota has incorporated such a provision into its articles of incorporation in order to secure a flexible capital policy. Under the Corporation Act, dividends may be distributed in cash or (except in the case of interim dividends mentioned in the preceding paragraph) in kind, subject to limitations on distributable surplus and to certain other conditions.

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The following table sets forth the dividends declared by Toyota for each of the periods shown. The periods shown are the six months ended on that date. The U.S. dollar equivalents for the cash dividends shown are based on the noon buying rate for Japanese yen on the last date of each period set forth below.

| Period Ended       | Cash Dividends per Share |         |
|--------------------|--------------------------|---------|
|                    | Yen                      | Dollars |
| September 30, 2002 | 16.0                     | 0.13    |
| March 31, 2003     | 20.0                     | 0.17    |
| September 30, 2003 | 20.0                     | 0.18    |
| March 31, 2004     | 25.0                     | 0.24    |
| September 30, 2004 | 25.0                     | 0.23    |
| March 31, 2005     | 40.0                     | 0.37    |
| September 30, 2005 | 35.0                     | 0.31    |
| March 31, 2006     | 55.0                     | 0.47    |
| September 30, 2006 | 50.0                     | 0.42    |
| March 31, 2007     | 70.0                     | 0.59    |

The payment and the amount of any future dividends are subject to the level of Toyota's future earnings, its financial condition and other factors, including statutory restrictions on the payment of dividends.

Toyota deems the benefit of its shareholders as one of its priority management policies and continuously strives to increase per-share earnings, through aggressively promoting its business while improving and strengthening its corporate foundations. 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 factors such as the business results of each term and new investment plans.

**Exchange Rates**

In parts of this annual report, yen amounts have been translated into U.S. dollars for the convenience of investors. Unless otherwise noted, the rate used for the translations was ¥118.05 = \$1.00. This was the approximate exchange rate in Japan on March 30, 2007.

The following table sets forth information regarding the noon buying rates for Japanese yen in New York City as announced for customs purposes by the Federal Reserve Bank of New York expressed in Japanese yen per \$1.00 during the periods shown. On June 22, 2007, the noon buying rate was ¥124.09 = \$1.00. The average exchange rate for the periods shown is the average of the month-end rates during the period.

| Fiscal Year Ended or Ending March 31, | At End    | Average                                |        |        |
|---------------------------------------|-----------|----------------------------------------|--------|--------|
|                                       | of Period | (of month-end rates)<br>(¥ per \$1.00) | High   | Low    |
| 2003                                  | 118.07    | 121.10                                 | 133.40 | 115.71 |
| 2004                                  | 104.18    | 112.75                                 | 120.55 | 104.18 |
| 2005                                  | 107.22    | 107.28                                 | 114.30 | 102.26 |
| 2006                                  | 117.48    | 113.67                                 | 120.93 | 104.41 |
| 2007                                  | 117.56    | 116.55                                 | 121.81 | 110.07 |
| 2008 (through June 22, 2007)          | 124.09    | 121.76                                 | 124.09 | 117.69 |

| Month Ended       | High<br>(¥ per \$1.00) | Low    |
|-------------------|------------------------|--------|
| December 31, 2006 | 119.02                 | 114.98 |
| January 31, 2007  | 121.81                 | 118.49 |
| February 28, 2007 | 121.77                 | 118.33 |
| March 31, 2007    | 118.15                 | 116.01 |
| April 30, 2007    | 119.84                 | 117.69 |

May 31, 2007

121.79 119.77

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Fluctuations in the exchange rate between the Japanese yen and the U.S. dollar will affect the dollar equivalent of the price of the shares on the Japanese stock exchanges. As a result, exchange rate fluctuations are likely to affect the market price of the ADSs on the New York Stock Exchange ( NYSE ). Toyota will declare any cash dividends on shares in Japanese yen. Exchange rate fluctuations will also affect the U.S. dollar amounts received on conversion of cash dividends.

Exchange rate fluctuations can also materially affect Toyota's reported operating results. In particular, a strengthening of the Japanese yen against the U.S. dollar can have a material adverse effect on Toyota's reported operating results. For a further discussion of the effects of currency rate fluctuations on Toyota's operating results, please see Operating and Financial Review and Prospects Operating Results Overview Currency Fluctuations .

### **3.B CAPITALIZATION AND INDEBTEDNESS**

Not applicable.

### **3.C REASONS FOR THE OFFER AND USE OF PROCEEDS**

Not applicable.

### **3.D RISK FACTORS**

#### **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 condition 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 condition 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

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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, and production capacity. 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 could result in a lower market share and reduced sales volumes and margins, and may adversely affect Toyota's financial condition and results of operations.

*Toyota's ability to market and distribute effectively, and maintenance of its 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 tailored to the needs of 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 a positive brand image may result in decreased sales and market share and may adversely affect its financial condition 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. Poor performance in Toyota's financial services operations may adversely affect its financial condition 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 condition and results of operations. For a further discussion of currency and interest rate fluctuations and the use of derivative financial instruments, please see Operating and Financial Review and Prospects Operating Results Overview Currency Fluctuations, Quantitative and Qualitative Disclosures About Market Risk, and notes 20 and 21 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 laws and governmental regulations including those related to vehicle safety and environmental matters such as emission levels, fuel economy, noise and pollution.

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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 condition and results of operations. For a further discussion of government regulations, please see [Information on the Company Business Overview Governmental Regulation, Environmental and Safety Standards](#) and for legal proceedings, please see [Information on the Company Business Overview Legal Proceedings](#).

*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 condition and results of operations.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **4.A HISTORY AND DEVELOPMENT OF THE COMPANY**

Toyota Motor Corporation is a limited liability, joint-stock company incorporated under the Commercial Code and continues to exist under the Corporation Act. Toyota commenced operations in 1933 as the automobile division of Toyota Industries Corporation (formerly, Toyoda Automatic Loom Works, Ltd.). Toyota became a separate company on August 28, 1937. As of March 31, 2007 Toyota operated through 522 consolidated subsidiaries and 222 affiliated companies, of which 56 companies were accounted for through the equity method.

See [Business Overview Capital Expenditures and Divestitures](#) for a description of Toyota's principal capital expenditures and divestitures between April 1, 2004 and March 31, 2007 and information concerning Toyota's principal capital expenditures and divestitures currently in progress.

Toyota's principal executive offices are located at 1 Toyota-cho, Toyota City, Aichi Prefecture 471-8571, Japan. Toyota's telephone number in Japan is 81-565-28-2121.

### **4.B BUSINESS OVERVIEW**

#### **General**

Toyota primarily conducts business in the automotive industry. Toyota also conducts business in the finance and other industries. Toyota sold 8.52 million vehicles in fiscal 2007 on a consolidated basis. Toyota had net revenues of ¥23,948.0 billion and net income of ¥1,644.0 billion in fiscal 2007.

Toyota's business segments are automotive operations, financial services operations and all other operations. The following table sets forth Toyota's net revenues from external customers in each of its business segments for each of the past three fiscal years.

|                    | Yen in millions<br>Year Ended March 31, |              |              |
|--------------------|-----------------------------------------|--------------|--------------|
|                    | 2005                                    | 2006         | 2007         |
| Automotive         | ¥ 17,098,415                            | ¥ 19,325,616 | ¥ 21,914,168 |
| Financial Services | 760,664                                 | 977,416      | 1,277,994    |
| All Other          | 692,447                                 | 733,877      | 755,929      |

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Toyota's automotive operations include the design, manufacture, assembly and sale of passenger cars, minivans and trucks and related parts and accessories. Toyota's financial services business consists primarily of providing financing to dealers and their customers for the purchase or lease of Toyota vehicles. Toyota's financial services also provide retail leasing through the purchase of lease contracts originated by Toyota dealers. Related to Toyota's automotive operations is its development of intelligent transport systems (ITS). ITS are a variety of information technology-based systems encompassing car multimedia systems, on-board intelligent systems, advanced transportation systems and transportation infrastructure and logistics systems. These systems combine automotive, information and telecommunications technologies. An important element of Toyota's work in ITS is its research collaboration with telecommunication and information services providers. Toyota currently holds an 11.09% ownership interest in KDDI Corporation (KDDI), a full service telecommunications provider in Japan. Toyota's all other operations business segment includes the design and manufacture of prefabricated housing and information technology related businesses, including certain intelligent transport systems and an e-commerce marketplace called Gazoo.com.

Toyota sells its vehicles in more than 170 countries and regions. Toyota's primary markets for its automobiles are Japan, North America, Europe and Asia. The following table sets forth Toyota's net revenues from external customers in each of its geographical markets for each of the past three fiscal years.

|               | Yen in millions      |             |             |
|---------------|----------------------|-------------|-------------|
|               | Year 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   |

During fiscal 2007, 26.7% of Toyota's automobile unit sales on a consolidated basis were in Japan; 34.5% were in North America, 14.4% were in Europe and 9.3% were in Asia. The remaining 15.1% of unit sales were in other markets.

**The Worldwide Automotive Market**

Toyota estimates that annual worldwide vehicle sales totaled approximately 69 million units in 2006.

Automobile sales are affected by a number of factors including:

social, political and economic conditions,

introduction of new vehicles and technologies, and

costs incurred by customers of purchasing and operating automobiles.

These factors can cause consumer demand to vary substantially from year to year in different geographic markets and in individual categories of automobiles.

In 2006, North America, Europe, China and Japan were the world's largest automotive markets. Worldwide market share, based on total automobile sales on a retail basis in each market, was 29% for North America (27% excluding Mexico and Puerto Rico), 32% for Europe, 11% for China and 8% for Japan. In North America, new vehicle sales maintained a high level of approximately 20.0 million units. In Europe, new vehicle sales increased slightly from the previous year to approximately 21.8 million units. In China, new vehicle sales expanded at a high growth rate to approximately 7.5 million units, and in Japan, total new vehicle unit sales (including mini-vehicles) decreased slightly to approximately 5.7 million units. In Asia (including India but excluding Japan and China), new vehicle unit sales remained at approximately the same level as the previous year at approximately 5.1 million units.



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The worldwide automotive industry is affected significantly by government regulations aimed at reducing harmful effects on the environment, enhancing vehicle safety and improving fuel economy. These regulations have added to the cost of manufacturing vehicles. Many governments also mandate local procurement of components and impose tariffs and other trade barriers and price or exchange controls as a means of creating jobs, protecting domestic producers or influencing their balance of payments. Changes in regulatory requirements and other government-imposed restrictions can limit an automaker's operations. These regulations can also make it difficult to repatriate profits to an automaker's home country.

The development of the worldwide automotive market includes the continuing globalization of automotive operations. Manufacturers seek to achieve globalization by localizing the design and manufacture of automobiles and their components in the markets in which they are sold. By expanding production capabilities beyond their home markets, automotive manufacturers are able to reduce their exposure to fluctuations in foreign exchange rates as well as to trade restrictions and tariffs.

Since 2000, the global automotive industry has experienced various transactions which have promoted consolidation within the industry. There are various reasons behind these transactions including the need to respond to the global overcapacity in the production of automobiles, the need to reduce costs and create efficiencies by increasing the number of automobiles produced using common vehicle platforms and by sharing research and development expenses for environmental and other technology, the desire to expand a company's global presence through increased size and the desire to expand into particular segments or geographic markets. In recent years, however, there has been a trend towards reviewing and reconsidering some of the business consolidations.

Toyota believes that it has the resources, strategies and technologies in place to compete effectively in the industry as an independent company. In addition, Toyota believes that its research and development initiatives, particularly the development of environmentally friendly new vehicle technologies, vehicle safety and information technology, provide it with a strategic advantage as a global competitor.

Toyota's ability to compete in the global automotive industry will depend in part on Toyota's successful implementation of its business strategy. This is subject to a number of factors, some of which are not in Toyota's control. These factors are discussed in Operating and Financial Review and Prospects and elsewhere in this annual report.

### **Toyota's Strategy**

Toyota's corporate goal is to maintain its position as a market leader in the automotive industry and to continue its growth, while enhancing profitability and shareholder returns. In order to achieve this corporate goal, Toyota believes that it is strategically important to further improve upon its technology, production and marketing, supported through enhancement of quality control, strengthening of cost-competitiveness and personnel development.

Toyota's specific strategy in connection with the foregoing consists of the following elements:

#### ***Offer a Full Product Lineup and Distinguish Products through Hybrid Technology***

Toyota aims to increase unit sales by offering a full product lineup, including models directed at specific markets. Key elements of this strategy include models in the following categories:

**Premium Brand Models (Lexus).** Since the Lexus was first launched in 1989 in the United States, Lexus has been introduced in 65 countries around the world. At present, Toyota is taking action to strengthen the Lexus brand in each geographic region. The global unit sales of the Lexus is as follows:

|                  | 2003 | Year Ended March 31, |      |      |      |
|------------------|------|----------------------|------|------|------|
|                  |      | 2004                 | 2005 | 2006 | 2007 |
|                  |      | (in thousands)       |      |      |      |
| Total Unit Sales | 284  | 344                  | 354  | 416  | 498  |

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**Global Models (Such as IMV, Vitz/Yaris, Camry and Corolla).** Toyota has achieved significant growth of unit sales by offering global models, which accounted for over 30% of its global sales in fiscal 2007. Under the concept of Global Best, Local Best, Toyota hopes to develop, manufacture and distribute attractive products that satisfy regional characteristics while using common platforms and core components.

**Models Directed at Emerging Markets.** Toyota expects that the market for automobiles in the emerging markets, particularly Brazil, Russia, India and China, or the BRICs countries, will grow rapidly and presents it with significant opportunities. Toyota has therefore been striving to, and has been achieving success in, establishing the operational foundations for production and distribution in these markets. In order to capture these opportunities, in addition to its existing lineup, Toyota is considering the introduction of a low-cost compact model that takes into consideration the regional demands of the emerging markets.

With respect to the technical aspects, which serve as the basis for product development, Toyota is striving to improve the performance of the hybrid system and achieve further cost reductions.

### ***Localize Global Operations with Targeted Regional Strategies***

Toyota believes that a global automotive manufacturer needs to supply markets with products that are targeted carefully to local demand in order to be competitive in the worldwide automotive industry. Toyota also believes that a local sales, marketing and manufacturing presence is necessary to fully develop a market's potential. Localization better allows Toyota to design, manufacture and offer products within each market that respond to market changes and satisfy local tastes and preferences. A localized manufacturing presence also allows Toyota to make a social contribution to the communities in which it has a local presence. Finally, localization helps Toyota hedge against the effects of fluctuations in foreign exchange rates. Toyota's efficient production and sales network, together with its global model strategy and its efforts to design products that appeal to a particular regional preferences, allow it to offer a comprehensive lineup of products in each region in which it operates.

Toyota is pursuing the following targeted regional strategies in order to be a leader in each major market in which it competes:

**Maintaining Preeminence in Japan.** In Japan, Toyota aims to maintain steady profitability in the Japanese market, which is the center of its global operations, and to establish the global core base which leads and supports the operations in all other regions. Toyota believes that it is important to maintain and improve upon its high market share in Japan and is committed to maintaining its market leadership in Japan by consistently striving for a market share (excluding mini-vehicles) of over 40% every year. Toyota held a domestic market share (excluding mini-vehicles) on a retail basis of 44.5% in fiscal 2005, 44.3% in fiscal 2006 and 45.8% in fiscal 2007. Amid the continued market downturn and despite increased competition from its domestic competitors, Toyota maintained its market share of over 45% in fiscal 2007 due to the active introduction of new and remodeled car models such as the Corolla, Lexus LS, Auris and Blade. In the highly competitive Japanese market, Toyota is repositioning its retail channels under a new product and retail strategy in order to respond effectively to evolving consumer preferences and structural changes in the market. Under this new strategy, Toyota reorganized and strengthened its retail network in Japan to better cater to customer demand patterns. Specifically, Toyota combined the Netz and Vista sales channels into a new Netz channel in May 2004 and launched the Lexus brand in Japan in August 2005. In addition, from March 2006, Toyota commenced a new marketing effort, which further distinguishes the identities of the Toyota, Toyopet and Corolla sales channels through their visual appearances, in order to further pursue customer satisfaction in all sales channels including the Netz sales channel.

**Self-Reliant Growth in North America.** In North America, one of Toyota's most significant markets, Toyota aims to secure steady profits and to establish a self-reliant operational framework. Toyota continues to seek further growth, and in the past few years it has expanded its production capacity and improved its product lineup. Toyota's North American unit sales maintained strength in fiscal 2007,

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supported by consumer spending in the United States. Toyota's North American unit sales on a consolidated basis grew from 2.56 million units in fiscal 2006 to 2.94 million units in fiscal 2007. In fiscal 2007, Toyota's North American unit sales represented approximately 35% of its total global unit sales on a consolidated basis. Toyota believes its continuing success in the North American market is driven by the successful introduction of products such as Yaris, Camry HV, FJ Cruiser, Lexus GS and HV, and the fully remodeled Camry Sedan and Lexus ES. In addition, sales of Corolla, Sienna, RAV4 and Tacoma, which are Toyota's core models, the Prius and the xA, xB and tC of the Scion line-up, targeted at young drivers, continued to be strong. In February 2007, the new Tundra model was officially introduced in the full-sized pick-up truck market, which completed the lineup in North America. In 2006, light trucks accounted for approximately 43% of Toyota's vehicle unit sales in the United States, while passenger vehicles accounted for approximately 57%. Further, in 2006, Toyota brand vehicles accounted for approximately 80%, Lexus brand accounted for approximately 13% and Scion line-up vehicles accounted for approximately 7% of the vehicle unit sales in the United States, respectively. Toyota has increased its production capacity in North America and plans to continue to grow its North American business. Toyota commenced production of the Camry Hybrid in October 2006 in Kentucky and started to operate its new Texas plant (Toyota Motor Manufacturing, Texas, Inc.) in November 2006. Toyota also commenced production at Subaru's Indiana plant in April 2007. In addition, Toyota plans to commence production at the second plant in Canada in 2008 and at the eighth North American plant in Mississippi in 2010. As a result, the local production capacity is expected to reach 2.17 million units.

***Achieve Steady Growth in Europe.*** In the European market, Toyota aims to establish its presence and to develop Europe into a region generating high levels of profit, following Japan and North America. In 2006, while the overall European automotive market grew by 3%, Toyota's European unit sales grew to approximately 1.14 million units, an increase of approximately 13% compared to 2005. Toyota's European unit sales on a consolidated basis grew to approximately 1.22 million units in fiscal 2007, an increase of approximately 19.6% compared to fiscal 2006 levels. Toyota is committed to achieving further growth in Europe by enhancing cost competitiveness by increasing local production and procurement thereby reducing its exposure to currency fluctuations, as well as expanding its model lineup by providing more models with diesel engines and actively introducing hybrid models. Furthermore, during fiscal 2007, Toyota continued to strengthen its cost reduction efforts in production, development, and sales and marketing. The sales expansion of the Aygo, Yaris, Corolla and RAV4 has been a major factor behind Toyota's growth in the European market. As a result of the increased production capacity in Turkey, France, the United Kingdom plants and the Czech Republic plant, which is a joint venture with PSA Peugeot Citroën, the total annual production capacity in Europe increased from 775 thousand units in 2005 to 805 thousand units in 2006. In addition, Toyota built a new plant in Russia in order to meet the growing market in Russia. Starting December 2007, Toyota will produce 20 thousand units of Camry annually. In 2006, local production reached approximately 71% of Toyota vehicles sold in Europe.

***Developing Self-Reliance in Asia.*** In Asia, Toyota aims to build an operational framework that is efficient and self-reliant. Although the automobile market in Asia was momentarily depressed following the Asian currency crisis in 1997, the market has since made a strong recovery and continues its growth. Toyota believes that the market in Asia continues to offer substantial growth opportunities. Toyota believes one factor behind its success in the market is strong sales of core models such as the Hilux, Corolla and VIOS, a new subcompact car using the same platform as the Yaris/Echo. Toyota also made substantial investments in this market earlier than its major global competitors and developed relationships with local suppliers in the region. While competition in Asia is increasing, Toyota believes that its existing local presence in the market provides it with a competitive advantage and expects to benefit from its early entrance into the market as demand for vehicles in the region continues to grow. Toyota plans to further increase its competitiveness by improving product line-up offered in the region and increasing local procurement to decrease its exposure to foreign currency exchange fluctuations. For example, at its Thailand plant, Toyota commenced production of the VIOS at the end of 2002 and, in

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order to strengthen its product line-up, commenced production of the Wish at the end of 2003. Toyota's IMV Project, which was launched in 2004, further pursued Toyota's foregoing plans and aspires to produce an optimal production and supply network on a worldwide scale. The manufacture of vehicle models based on the IMV Project began in Thailand, Indonesia, India, Philippines and Malaysia in fiscal 2005 and in Vietnam in fiscal 2006. The IMV model has been introduced in over 140 countries and regions including Australia, Middle and Near East, Europe and Africa, in addition to the market in Asia. Furthermore, Toyota is actively expanding its business in India through local production and sales.

***Develop Business Foundations in China.*** Toyota is conducting its operations in China with the aim to establish a firm business foundation in the Chinese market and to implement its growth strategy. Through Toyota's joint ventures, it continues to establish its sales and service network, increase production capacity and expand its product lineup. Tianjin FAW Toyota Motor Co., Ltd., Toyota's joint venture with China FAW Group Corporation commenced sales of the VIOS in November 2002. In September 2003, the production of the Land Cruiser Prado started at Sichuan Toyota Motor Co., Ltd. with an annual production capacity of 5 thousand units in September 2003, followed by the start of production of Land Cruiser vehicles at the Changchun Plant of China FAW Group Corporation with an annual production capacity of 10 thousand units in October 2003. In February 2004, production of the Corolla was started at the first plant of Tianjin FAW Toyota Motor Co., Ltd. with an annual production capacity of 30 thousand units. The production of the Crown and REIZ started in March and October 2005 respectively at the second plant of Tianjin FAW Toyota Motor Co., Ltd. with a total annual production capacity of 100 thousand units. In May 2007, production of the Corolla was commenced at the third Tianjin plant with an annual production capacity of 200 thousand units. In April 2007, the Tianjin FAW Toyota Engine Co., Ltd., a joint venture established by Toyota and China FAW Group Corporation began production of ZR engines at the second plant with an annual production capacity of 220 thousand units. In March 2004, Toyota and China FAW Group Corporation established a joint venture, FAW Toyota Changchun Engine Co., Ltd., which plant commenced the production of V6 engines in December 2004 with an annual production capacity of 130 thousand units. In September 2004, Toyota and China FAW Group Corporation executed a basic agreement to cooperate in the promotion and development of hybrid vehicles in China and commenced the assembly of the Prius in China in December 2005. In February 2004, Toyota and Guangzhou Automobile Group Co., Ltd. established a joint venture, Guangqi Toyota Engine Co., Ltd., which plant commenced the production of engine parts and gasoline engines in 2005. Further in September 2004, Toyota and Guangzhou Automobile Group Co., Ltd. established a joint venture, Guangzhou Toyota Motor Co., Ltd., in which the plant commenced production of the Camry in May 2006 with an annual production capacity of 100 thousand units and also plans to expand its annual production capacity to 200 thousand units and commence production of the Yaris in mid 2008, with an expected annual production of 80 to 90 thousand units.

### ***Promote Key Initiatives Globally***

Toyota believes that the following key initiatives are essential for increasing its competitiveness in the global automotive market and for improving its profitability and prospects for continued growth:

***Maintain Leadership in Research and Development.*** Toyota believes that its long-term success will depend on being a leader in automotive research and development. To that end, Toyota is focusing its research and development on the promotion of environmentally sound technologies, product safety and information technologies. Toyota is committed to building environmentally friendly automobiles and is focusing its initiatives on the following areas:

contribute to the environment through increased promotion of and further improvement in hybrid technology (including efforts for cost reduction and enhanced performance),

the development of automobiles powered by fuel cells and other non-traditional fuel technologies,

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the reduction of emissions and improvement of fuel economy in conventional automobiles, and

the increased recycling of manufacturing materials.

An example of Toyota's leadership in environmental technologies was the introduction of the Prius to the Japanese market in December 1997. The Prius is the world's first mass-produced hybrid car that runs on a combination of gasoline and electric power. Toyota introduced a fully remodeled version of the Prius in September 2003 featuring Toyota's new-generation hybrid system, which combines decreased environmental impact with increased power and performance. Since the first generation of the Prius was introduced, Toyota has sold over 1 million hybrid vehicles as of May 2007. In March 2005, Toyota introduced the RX400h, which is the hybrid version of the Lexus brand sports-utility vehicle in North America and Europe and the Harrier Hybrid which is the hybrid version of the Harrier in Japan and the hybrid version of the Highlander sport-utility vehicle in North America and the Kluger Hybrid which is the hybrid version of the Kluger in Japan. Toyota introduced the GS450h, the hybrid version of the Lexus brand premium sedan, in North America, Europe and Japan starting from March 2006 and the hybrid version of the Camry in North America in May 2006. Toyota currently also sells hybrid versions of the Estima and Alphard minivans, the Crown sedan and the Dyna and the Toyoace trucks. In 2006, Toyota started to provide Hybrid Systems to Nissan. In addition, in December 2002 Toyota began limited sales of fuel cell hybrid vehicles that use fuel cells to generate the electricity that drives the motor, in Japan and the United States. After having certified the partially improved fuel cell hybrid vehicles in June 2005, leases were commenced in July 2005. Toyota also promotes the development of advanced technologies through alliances with other major manufacturers. For instance, Toyota is broadening its research and development efforts through an alliance with General Motors Corporation for the development of advanced technologies and an alliance with Exxon Mobil Corporation for the development of fuel compatible with future power sources. Toyota has also formed a collaborative relationship with Volkswagen in areas such as recycling and navigation technologies. In addition, Toyota has entered into an alliance with PSA Peugeot Citroën for the development and production of low-cost, fuel-efficient and environmentally friendly vehicles.

On November 7, 2006, Toyota entered into an agreement with Isuzu Motors Limited ( Isuzu ), to discuss a business alliance to generate synergies for both parties by mutually utilizing management resources and complementing each other's technology in the development and production of diesel engines and other areas. To facilitate the development of the business alliance, Toyota acquired 100 million shares of common stock of Isuzu, representing approximately 5.9% of the total issued shares of common stock of Isuzu on November 10, 2006, from shareholders of Isuzu. The aggregate cost of this investment in Isuzu does not have material effect on Toyota's financial condition.

**Improve Efficiency.** Toyota plans to improve returns and enhance operating efficiencies by continuing to pursue aggressive cost reduction programs, including:

improving product development and production efficiencies through the re-integration and improvement of vehicle platforms and power trains and through the development of electronic platforms which organize electronic devices of vehicles as a package and standardize electronic structure and infrastructure,

continuing collaborative research and development projects that help optimize use of capital and other resources,

applying advanced information technologies to improve efficiency throughout the product development and production processes,

increasing the focus on global purchasing opportunities, standardization and modularization to optimize purchasing from suppliers,

producing higher volumes of successful vehicle models and discontinuing vehicle models not producing sufficient sales volumes,

streamlining production systems,

firmly establishing production plants outside of Japan, and

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improving the efficiency of domestic and international distribution.

Toyota is improving production efficiency further by installing more versatile equipment and systems, modifying vehicle body designs to allow for a greater variety of models on each production line and sharing more parts among vehicles.

***Expand Finance Operations.*** Toyota's financial services 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. In July 2000, Toyota established a wholly-owned subsidiary, Toyota Financial Services Corporation, to oversee the management of Toyota's finance companies worldwide. Toyota believes that Toyota Financial Services Corporation helps strengthen the overall competitiveness of Toyota's financial business, improve risk management and streamline decision-making processes. Toyota plans to expand its network of financial services, in accordance with its strategy of developing auto-related financing businesses in significant markets. Currently, Toyota operates financial services companies in 31 countries and regions.

### ***Diversify into Automotive-Related Business Sectors***

It is one of Toyota's objectives to create automobiles and an automobile based society in which people can live in ease, safety and comfort in the coming age of a society that utilizes intelligent transport systems and an ubiquitous-network. Toyota is striving to realize this objective by simultaneously focusing on the two visions of Zeronize and Maximize at a high level. Zeronize symbolizes the vision and philosophy of Toyota's persistent efforts in minimizing the negative aspects vehicles have such as environmental impact, traffic congestion and traffic accidents.

Maximize symbolizes the vision and philosophy of Toyota's persistent efforts in maximizing the positive aspects vehicles have such as fun, delight, excitement and comfort. Toyota has commenced and is working towards realizing both of these visions. However, further advancement of Zeronize and Maximize requires the active deployment of the intelligent transport systems in coordination with roads and other infrastructure, in addition to the technology of the vehicle itself. Toyota is proceeding with the development and commercialization of the intelligent transport systems from two perspectives, which are, increasing vehicle functionality and enhancing transport systems.

### ***Maintain Financial Strength***

Toyota currently enjoys high credit ratings. These ratings reflect, among other factors, its strong financial position. In addition, Toyota currently maintains a substantial level of cash and liquid investments and a conservative debt-to-equity ratio. Toyota believes these factors will allow Toyota to maintain the resources necessary to fund its research and development expenditures, capital expenditures and financing operations even if it experiences short-term fluctuations in earnings.

### ***Focus on Shareholder Value***

Toyota has increasingly focused on the expectations of its shareholders in recent years and expects this to continue. As a result, Toyota has undertaken a share repurchase program and has increased cash dividends. Since instituting the first in a series of share repurchase plans in fiscal 1997, Toyota has repurchased approximately 673 million shares of its common stock at a total cost of approximately ¥2,479.0 billion. As a result, Toyota's total outstanding shares were reduced to 3,197,936,692 shares (excluding treasury stock) as of March 31, 2007. Moreover, Toyota subsequently repurchased, under the share repurchase program approved at its Ordinary General Shareholders' meeting on June 23, 2006, approximately 9 million shares of its common stock at a total cost of approximately ¥63.0 billion before its Ordinary General Shareholders' meeting on June 22, 2007. Toyota may repurchase its shares by resolution of its general shareholders' meeting or its board of directors, subject to certain limitations and restrictions. Pursuant to the resolutions of its Ordinary General Shareholders' meeting on June 22, 2007, during a one-year period following the shareholder's meeting, Toyota may repurchase up to 30 million shares or up to the number of shares equivalent to ¥250.0 billion in cost of repurchase. In addition,

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Toyota may repurchase additional shares by resolution of its board of directors pursuant to its articles of incorporation. The following table shows the number of shares repurchased and the cost of repurchase of those shares for each of the periods indicated:

|                                          | Year Ended March 31, |               |               |               |               |
|------------------------------------------|----------------------|---------------|---------------|---------------|---------------|
|                                          | 2003                 | 2004          | 2005          | 2006          | 2007          |
| Approximate number of shares repurchased | 155 million          | 121 million   | 63 million    | 28 million    | 45 million    |
| Approximate amount paid                  | ¥ 453 billion        | ¥ 399 billion | ¥ 266 billion | ¥ 134 billion | ¥ 300 billion |

The amount of any share repurchases are subject to the level of Toyota's future earnings, its financial condition and other factors. For further discussion, please see Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

**Automotive Operations**

Toyota's revenues from its automotive operations were ¥21.9 trillion in fiscal 2007, ¥19.3 trillion in fiscal 2006 and ¥17.1 trillion in fiscal 2005.

Toyota produces and sells passenger cars, minivans and commercial vehicles such as trucks. Toyota Motor Corporation's subsidiary, Daihatsu Motor Co., Ltd. (Daihatsu), produces and sells mini-vehicles and compact cars. Hino Motors, Ltd. (Hino), also a subsidiary of Toyota Motor Corporation, produces and sells commercial vehicles such as trucks and buses. Toyota also manufactures automotive parts, components and accessories for its own use and for sale to others.

**Vehicle Models**

Toyota's vehicles can be classified into two categories: conventional engine vehicles and hybrid vehicles. Toyota's product line-up includes subcompact and compact cars, mini-vehicles, mid-size, luxury, sports and specialty cars, recreational and sport-utility vehicles, pickup trucks, minivans, trucks and buses.

**Conventional Engine Vehicles****Subcompact and Compact**

Toyota's subcompact and compact cars include the four-door Corolla sedan, which is one of Toyota's best selling models. The Yaris, marketed as the Vitz in Japan, is a subcompact car designed to include features such as better performance and comfort compared to other compact cars available on the market, with good fuel economy and low emissions that are particularly attractive to European consumers. The Vitz which is currently available in Japan was remodeled in February 2005. This model launched in the United States in March 2006. Toyota also introduced the iQ and the WiLL Cypha compact cars to the Japanese market in May 2002 and October 2002, respectively. In early 2003, Toyota began introducing the VIOS to China and other Asian markets. Further, Toyota introduced a remodeled Raum in Japan in May 2003 and introduced the Scion xA and the Scion xB (marketed in Japan as the iQ and the bB, respectively) in the United States in June 2003. In June 2004, Toyota commenced the sale of the Passo (sold by Daihatsu as the Boon) in Japan, the smallest passenger vehicle under the Toyota brand, jointly developed with Daihatsu, a subsidiary of Toyota. Toyota introduced the Ractis and Belta in 2005 and Auris in 2006 in an effort to expand its market in Japan.

**Mini-Vehicles**

Mini-vehicles are manufactured and sold by Daihatsu. Daihatsu manufactures mini-vehicles, passenger vehicles, commercial vehicles and auto parts. Mini-vehicles are passenger cars, vans or trucks with engine displacements of 660 cubic centimeters or less. Toyota also sells under its name certain automobiles (excluding mini-vehicles) manufactured by Daihatsu. Daihatsu sold approximately 602 thousand mini-vehicles and 169 thousand automobiles on a consolidated basis during fiscal 2007. Daihatsu's largest market is Japan, which accounted for approximately 76% of Daihatsu's unit sales during fiscal 2007.

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### *Mid-Size*

Toyota's mid-size models include the Camry, which has been the best selling passenger car in the United States for nine of the past ten calendar years (From 1997 to 2006) and also for the last five consecutive years. The Camry was fully remodeled in January 2006. Camry models include the Camry Solara sport coupe, which was remodeled in 2003. Camry sales in the United States for 2006 was approximately 448 thousand units (including approximately 38 thousand Solaras approximately 31 thousand hybrid vehicles). Toyota's Japanese mid-size cars also include the Mark X, which succeeded the Mark II in November 2004, the Premio and the Allion and the Blade, newly introduced in December 2006. In March 2003, Toyota introduced in Europe a remodeled version of the Avensis, its flagship mid-size car for European markets, which was also subsequently introduced in Japan in October 2003.

### *Luxury*

In North America, Europe and Japan, Toyota's luxury line-up consists primarily of vehicles sold under the Lexus brand name. In the United States, Lexus has earned the title of best-selling luxury brand for the seventh consecutive year by selling approximately 322 thousand units in 2006. Lexus models include the full-size LS460 sedan which was remodeled in September 2006, the smaller GS300/350/430 sedans that were remodeled in January 2005, the ES350 which was remodeled in March 2006, the IS220d/250/350 mid-size sport sedans that were remodeled in August 2005. Lexus models also include luxury sport-utility vehicles such as the GX470 introduced in the US in February 2003, which is marketed in Japan as the Land Cruiser Prado, and the RX300/330/350 which was remodeled in March 2003, marketed in Japan as the Harrier, and the SC430 and LX470. Toyota commenced sales of its luxury automobiles in Japan under the Lexus brand in August 2005. As of May 31, 2007, the Lexus brand line-up in Japan includes the LS460, GS350/430, IS250/350 and SC430. Toyota's best-selling full-size luxury car in Japan is the Crown, which was last remodeled in December 2003. In Japan, Toyota also sells the Century limousine.

### *Sports and Specialty*

In Japan and other markets, Toyota sells the Lexus SC430 two-door sports coupe. In June 2004, Toyota introduced in the United States the Scion tC, a sport car model targeted to young drivers.

### *Recreational and Sport-Utility Vehicles and Pickup Trucks*

Toyota sells a variety of sport-utility vehicles and pickup trucks. Toyota sport-utility vehicles available in North America include the Sequoia, the 4Runner, marketed as the Hilux-Surf in Japan, the RAV4, the Highlander, marketed as the Kluger in Japan, the FJ Cruiser and the Land Cruiser. Pickup trucks available are the Tacoma and Tundra. The Tacoma, the Tundra and the Sequoia are manufactured in the United States. Toyota also offers sport-utility vehicles under the Lexus brand, including the LX470, the GX470 which was introduced in 2002, and the RX300/330/350. The LX470, the Land Cruiser, the Tundra, the Sequoia, the 4Runner, the Prado and the GX470 sold in the United States are equipped with V-8 engines. Local production in Canada of the RX330 began in September 2003. Toyota's pickup truck, the Hilux, has been the best selling model of all Toyota cars sold in Thailand. The RAV4 was remodeled in Japan in November 2005 and in North America in December 2005. The remodeled Tundra was introduced in North America in February 2007.

### *Minivans and Cabwagons*

Toyota offers several basic models for the global minivan market. Its largest minivan, the Alphard, was released in May 2002 in Japan. Toyota's other minivan models include the Sienna, which underwent a model change in March 2003 and is sold in North America, the Estima which was remodeled in January 2006, the Hiace and Regius Ace, both remodeled in August 2004, the Noah and the Voxy, both released in Japan in November 2001. Other models include the Wish, which was released in Japan in January 2003, the Sienta, which was released in Japan in September 2003 and the Isis, which was released in Japan in September 2004.

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### *Trucks and Buses*

Toyota's product line-up includes trucks (including vans) up to a load capacity of four tons and micro-buses, which are sold in Japan and in overseas markets. Trucks and buses are also manufactured and sold by Hino, a subsidiary of Toyota. Hino's product line-up includes large trucks with a load capacity of over 10 tons, medium trucks with a load capacity between four and eight tons, and small trucks with a load capacity of between two and four tons. Hino held the largest share of the Japanese large truck market in fiscal 2007. Hino's bus line-up includes large to medium buses used primarily as tour buses and public buses, small buses and micro-buses. Toyota and Hino maintain a large share of the small bus (including micro-buses) segment in Japan.

### *Hybrid Vehicles*

The Prius was the world's first mass-produced hybrid car. It runs on an efficient combination of gasoline and electric power. This system allows the Prius to travel more efficiently than conventional vehicles of comparable size and performance on the same amount of gasoline. The hybrid design of the Prius also results in the output of 75% less pollution than the maximum amount allowed by Japanese environmental regulations. Toyota views the Prius as the cornerstone of its emphasis on designing and producing environmentally friendly automobiles. In 2003, Toyota introduced in Japan, the United States, Europe and other markets, a fully remodeled Prius, which decreases negative environmental impact through higher fuel efficiency and ultra-low emissions while increasing power and performance. In March 2005, Toyota introduced the RX400h in North America and Europe and the Harrier Hybrid in Japan. Toyota also introduced the Highlander Hybrid in North America, and the Kluger Hybrid in Japan. Toyota introduced the Prius in China in November 2005 and the hybrid version of the Camry in North America in May 2006. Toyota introduced the GS450h, the hybrid version of the Lexus brand premium sedan, in North America, Europe and Japan by March 2006. In June 2006, Toyota introduced the remodeled Estima Hybrid. As of May 2007, Toyota has sold over 1 million hybrid vehicle units. Furthermore, in May 2007 Toyota introduced the LS600h Hybrid Sedan which Toyota believes to offer the highest quality of the Lexus brand to date.

Toyota also began limited sales of a fuel cell hybrid vehicle in Japan and the United States in December 2002. In June 2005, Toyota's new fuel cell hybrid passenger vehicle became the first in Japan to acquire vehicle type certification under the Road Vehicles Act, as amended, on March 31, 2005, by Japan's Ministry of Land, Infrastructure and Transport (MLIT). Leases for the vehicle began in July 2005.

Toyota aims to continue its efforts to offer a diverse line-up of hybrid vehicles, enhance engine power while improving fuel efficiency, and otherwise work towards increasing the sales of hybrid vehicles.

### *Product Development*

New cars introduced in Japan during fiscal 2007 include the Lexus LS, Auris and Blade and the remodeled Corolla and the Estima Hybrid. New cars introduced outside Japan during fiscal 2007 and thereafter include the Camry in China in June 2006 and the Aurion in Australia in December 2006. Remodeled cars sold outside of Japan during fiscal 2007 and thereafter include the ES in April 2006, LS in October 2006, the Tundra in February 2007 and the Scionxb in May 2007 in the United States and the Auris in Europe in February 2007. The IMV product lineup includes the Hilux Vigo released in Thailand in August 2004, and as of May 31, 2007, one or all of the Hilux, Fortuner and Innova are available in Asia, Europe, the Middle East, Africa, Central and South America and India.

**Table of Contents****Markets, Sales and Competition**

Toyota's primary markets are Japan, North America, Europe and Asia. The following table sets forth Toyota's consolidated vehicle unit sales by geographic market for the periods shown. The vehicle unit sales below reflect vehicle sales made by Toyota to unconsolidated entities (recognized as sales under Toyota's revenue recognition policy), including sales to unconsolidated distributors and dealers. Vehicles sold by Daihatsu and Hino are included in the vehicle unit sales figures set forth below. North America sales information includes sales in Mexico, Puerto Rico and Hawaii.

| Market        | 2003      |        | 2004      |        | Year Ended March 31,<br>2005 |        | 2006      |        | 2007      |        |
|---------------|-----------|--------|-----------|--------|------------------------------|--------|-----------|--------|-----------|--------|
|               | Units     | %      | Units     | %      | Units                        | %      | Units     | %      | Units     | %      |
| Japan         | 2,217,770 | 36.3%  | 2,303,078 | 34.3%  | 2,381,325                    | 32.1%  | 2,364,484 | 29.7%  | 2,273,152 | 26.7%  |
| North America | 1,981,912 | 32.4   | 2,102,681 | 31.3   | 2,271,139                    | 30.7   | 2,556,050 | 32.1   | 2,942,661 | 34.5   |
| Europe        | 775,952   | 12.7   | 898,201   | 13.4   | 978,963                      | 13.2   | 1,022,781 | 12.8   | 1,223,628 | 14.3   |
| Asia          | 461,924   | 7.6    | 557,465   | 8.3    | 833,507                      | 11.3   | 880,661   | 11.0   | 789,637   | 9.3    |
| Other         | 675,720   | 11.0   | 857,938   | 12.7   | 943,444                      | 12.7   | 1,150,587 | 14.4   | 1,295,581 | 15.2   |
| Total         | 6,113,278 | 100.0% | 6,719,363 | 100.0% | 7,408,378                    | 100.0% | 7,974,563 | 100.0% | 8,524,659 | 100.0% |

The following table sets forth Toyota's vehicle unit sales and market share in Japan, North America and Europe on a retail basis for the periods shown. Each market's total sales and Toyota's sales represent new vehicle registrations in the relevant year. All information on Japan exclude mini-vehicles. The sales information contained below excludes unit sales by Daihatsu and Hino, each a consolidated subsidiary of Toyota. North America sales information includes sales in Mexico, Puerto Rico and Hawaii.

|                                                      | (Thousands of Units)<br>Fiscal Year Ended March 31, |       |       |       |       |
|------------------------------------------------------|-----------------------------------------------------|-------|-------|-------|-------|
|                                                      | 2003                                                | 2004  | 2005  | 2006  | 2007  |
| <b>Japan:</b>                                        |                                                     |       |       |       |       |
| Total market sales (excluding mini-vehicles)         | 4,045                                               | 4,030 | 3,940 | 3,915 | 3,590 |
| Toyota sales (retail basis, excluding mini-vehicles) | 1,710                                               | 1,729 | 1,755 | 1,735 | 1,643 |
| Toyota market share                                  | 42.3%                                               | 42.9% | 44.5% | 44.3% | 45.8% |

|                                                      | (Thousands of Units)<br>Calendar Year Ended December 31, |        |        |        |        |
|------------------------------------------------------|----------------------------------------------------------|--------|--------|--------|--------|
|                                                      | 2002                                                     | 2003   | 2004   | 2005   | 2006   |
| <b>North America:</b>                                |                                                          |        |        |        |        |
| Total market sales                                   | 19,956                                                   | 19,695 | 20,108 | 20,353 | 19,979 |
| Toyota sales (retail basis, excluding mini-vehicles) | 1,941                                                    | 2,072  | 2,292  | 2,514  | 2,840  |
| Toyota market share                                  | 9.7%                                                     | 10.5%  | 11.4%  | 12.4%  | 14.2%  |

|                             |        |        |        |        |        |
|-----------------------------|--------|--------|--------|--------|--------|
| <b>Europe:</b>              |        |        |        |        |        |
| Total market sales          | 19,352 | 19,649 | 20,802 | 21,138 | 21,799 |
| Toyota sales (retail basis) | 779    | 866    | 962    | 1,013  | 1,144  |
| Toyota market share         | 4.0%   | 4.4%   | 4.6%   | 4.8%   | 5.2%   |

The automobile market in Japan has become saturated and its growth has become stagnant over the past several years. Despite this trend, Toyota believes that Japan continues to be the most important market for Toyota's automotive products. The Japanese automotive industry is highly competitive. It includes five major domestic manufacturers, five specialized domestic producers and a growing volume of imports from major United States and European manufacturers. The prolonged economic slump in the Japanese economy has also



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shifted consumer preference towards more affordable automobiles such as compact and subcompact vehicles and towards utility vehicles such as mini-vans. For more than 40 years, Toyota has maintained its position as the largest automobile manufacturer in Japan. Every year since fiscal 1999, Toyota, excluding Daihatsu and Hino, has achieved a market share (excluding mini-vehicles) of over 40%, reflecting in part the success of the introduction of new models for subcompact and compact cars, mini-vans and sedans. In fiscal 2007, Toyota's (excluding Daihatsu and Hino) share of the domestic market excluding mini-vehicles was 45.8%, and Toyota's (including Daihatsu and Hino) share of the market including mini-vehicles was 41.5%. In August 2005, Toyota launched the Lexus brand in Japan and recorded a market share of 17% in the luxury market in 2006 even without a complete lineup in the Lexus brand including SUVs and other models. Toyota aims to further distinguish the Lexus brand by continuing to attract new and affluent customers including customers that typically had purchased imported vehicles.

*North America*

Toyota's consolidated vehicle unit sales in North America was 2,942,661 in fiscal 2007. The United States is the largest portion of the North American market for Toyota, representing approximately 90% of its total retail unit sales in the region. In 2006, Toyota's retail unit sales in North America continued to show strength, achieving unit sales of over two million vehicles for the fourth consecutive year, despite the sluggish North American automobile market due to rising oil prices. This achievement was led by the success of new products including fully remodeled products such as the Camry, Yaris, FJ Cruiser, Lexus ES and Toyota's core products such as Corolla, Sienna, RAV4 and Tacoma. Toyota's market share in the United States was 15.4% in 2006, its largest share ever. Competition in North America, particularly the United States is intense. Toyota's principal competitors in North America are General Motors, Ford, DaimlerChrysler, Honda and Nissan.

*Europe*

Consolidated European sales of Toyota vehicles in fiscal 2007 was 1,223,628 vehicles, up 19.6% from fiscal 2006. In 2006, Toyota had a market share in Europe of 5.2% and achieved annual retail unit sales of approximately 1,144 thousand vehicles. The growth in European sales is largely attributable to the success of Aygo, which was launched in June 2005, Yaris, which was fully remodeled in January 2006 (marketed in Japan as the Vitz), RAV4, also fully remodeled in January 2006, and the Corolla sedan which was fully remodeled in January 2007 as well as Auris which was launched at around the same time. Toyota's principal European markets are Germany, the United Kingdom, Italy and France. In Russia, Toyota achieved sales over 100 thousand vehicles for the first time. Toyota's principal competitors in Europe are Volkswagen, Opel, Renault, Ford and Peugeot.

*East and Southeast Asia*

The market in the East and Southeast Asia region in 2006 (excluding China) decreased approximately 10% primarily in Indonesia and Taiwan, from 3.75 million units in 2005 to 3.33 million units. Toyota believes that the long-term potential of the East and Southeast Asian market is good and remains committed to its operations in the region.

The following table sets forth Toyota's sales figures in East and Southeast Asia for the periods shown. This information excludes unit sales by Daihatsu and Hino.

| <b>Toyota Sales (in thousands of units)(Calendar year)</b> | <b>Asia (excluding China)</b> | <b>China</b> |
|------------------------------------------------------------|-------------------------------|--------------|
| 2004                                                       | 644                           | 127          |
| 2005                                                       | 797                           | 194          |
| 2006                                                       | 701                           | 319          |

While competition in East and Southeast Asia is increasing, Toyota believes that its early entrance into the market gives it a competitive advantage. Toyota plans to further increase its competitiveness as it faces increased

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competition in the region by improving product line-up offerings in the region and increasing local procurement to decrease its exposure to foreign currency exchange fluctuations. Toyota's market share in Asia (excluding China) was, 18.6% in 2004, 21.2% in 2005 and 21.0% in 2006.

East and Southeast Asia (excluding China) accounted for 11.3% of Toyota's overseas unit sales in 2006 (not including unit sales by Daihatsu and Hino outside Japan), a decrease of 3.1% from 14.4% in 2005.

**Production**

Toyota and its affiliates produce automobiles and related components through more than 50 manufacturing companies in 26 countries and regions around the world. Toyota's major manufacturing facilities include plants in Japan, the United States, Canada, the United Kingdom, France, Turkey, Thailand, China, Taiwan, South Africa, Australia, Argentina and Brazil. Daihatsu brand vehicles are produced at 7 factories in Japan and 7 manufacturing companies in 7 other countries, including Indonesia and Malaysia. Hino commenced local production of medium trucks for the North American market in California in fiscal 2006 and in Ontario, Canada in fiscal 2007 to strengthen its business operations in North America. In the United States, Toyota and General Motors operate a joint venture for the assembly of passenger cars and trucks. For a listing of Toyota's principal production facilities, see [Information on the Company](#) [Property, Plants and Equipment](#).

In recent years Toyota has increased its production capacity outside Japan. This increase in overseas production capacity is integral to Toyota's strategy of globalizing operations through localization. In 2006, approximately 61% of Toyota automobiles sold in overseas markets were manufactured in overseas plants by Toyota and its unconsolidated affiliates. In 2006, approximately 55% of Toyota vehicles sold in North America were produced in North America. Of the vehicles sold in Europe in 2006, approximately 71% were produced in Europe. In fiscal 2007, Toyota produced on a consolidated basis approximately 5.1 million vehicles in Japan and approximately 3.1 million vehicles overseas, compared to approximately 4.7 million vehicles in Japan and 3.0 million vehicles overseas in fiscal 2006. In addition, in March 2006, Toyota entered into an agreement with Fuji Heavy Industries, Ltd. to manufacture, according to Toyota's production methods and system, approximately 100 thousand units of Camry for the North American market, at Fuji Heavy Industries Ltd.'s North American production center, Subaru of Indiana Automotive, Inc., and began production in April 2007. This will enable Toyota to achieve further localization and increase production capacity in North America.

After the cancellation of the joint venture agreement with the Bosch Group in December 2006, Toyota and its affiliate, AISIN AW acquired 33.4% and 16.6%, respectively, of the 50% of CVTEC's shares held by the Bosch Group (as a result, AISIN AW's shareholding reached 66.6% including 50.0% which was originally held). Toyota plans to transfer technology to CVTEC, in order for CVTEC to achieve stable production of CVT belt utilizing Toyota's innovative techniques.

The following table shows the worldwide vehicle unit production by Toyota for the periods shown. These production figures do not include vehicles produced by Toyota's unconsolidated affiliates. The sales unit information elsewhere in this annual report includes sales of vehicles produced by these affiliates. Vehicles produced by Daihatsu and Hino are included in vehicle production figures set forth below.

|                | Year Ended March 31, |           |           |           |           |
|----------------|----------------------|-----------|-----------|-----------|-----------|
|                | 2003                 | 2004      | 2005      | 2006      | 2007      |
| Units Produced | 5,850,203            | 6,513,791 | 7,231,976 | 7,711,647 | 8,180,951 |

Toyota closely monitors its actual units of sale, market share and units of production data and uses this information to allocate resources to existing manufacturing facilities and to plan for future expansions.

Please refer to [Capital Expenditures and Divestitures](#) for a description of Toyota's recent investments in completed plant constructions and for a description of Toyota's current investments in ongoing plant constructions.

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### *The Toyota Production System*

Toyota pioneered the internationally recognized production system known as the Toyota Production System. The Toyota Production System is based on Toyota's own concepts of efficient production and has the following two principal elements:

*Just-in-Time*, and

*Jidoka*.

*Just-in-Time* is a production method through which necessary parts and components are manufactured and delivered in just the right quantity in a timely manner just as they are needed. This allows Toyota to maintain low levels of inventory while maintaining operating efficiency.

*Jidoka* generally means automation in Japanese. Toyota combines automation with its ability to stop work immediately when problems arise in the production process to prevent manufacturing defective products. To achieve this, Toyota's equipment is designed to detect abnormalities and to stop whenever abnormalities occur. Toyota also authorizes its machine operators and other members of its production team to stop production whenever they note anything suspicious. This helps Toyota to build quality into the production process by avoiding defects and preventing the waste that would result from producing a series of defective items.

Toyota believes that the Toyota Production System allows it to achieve mass-production efficiencies even for small production volumes. This system gives Toyota the flexibility to respond to changing consumer demand without significantly increasing production costs. While the Toyota Production System remains the basis of Toyota's automobile production, the system has been expanded for use in Toyota's parts production, logistics and customer service activities.

In addition to the two principal elements described above, the Toyota Production System seeks to increase manufacturing efficiency and product quality internally through on-site identification and analysis of problems, improving transparency throughout the production process, and resolving problems at the source. As one means of realizing these goals, Toyota has introduced the use of sophisticated information technologies to improve each step of its vehicle development process, from product planning to commencement of mass-production. These technologies are intended to enhance flexibility, simplicity, quality, cost competitiveness, and speed. Specifically, detailed computer simulation of the assembly and test-run of a new vehicle or new vehicle production equipment or system is conducted before a prototype is made. An actual prototype is made only after defects and related issues have been identified and resolved by computer simulation, thereby minimizing the time required for rebuilding prototypes and significantly shortening the time required for production. Moreover, this system is used to prepare virtual factories and other visual aids in order to facilitate training and communication at overseas plants and enable the efficient transfer of necessary technology and skills.

In order to strengthen manufacturing and promote localization of overseas production, Toyota established the Global Production Center (GPC) in July 2003 as a development and training center for global human resources. The GPC is intended to introduce local managers to the Toyota methodology, allowing them to manage locally, and train their subordinates. GPC develops efficient training systems and formulaic, simplified and easy to understand methodology. One characteristic of the GPC is that managers, new hires and experienced workers can all receive common skill training. GPC's training system involves a pre-training phase where trainees learn basic skills and discover through image training the skills that they must acquire. This is followed by various steps of training, from basic skill training, elementary task training, and standard task training, thereby conducting through training. Reduced training time and higher levels of achievement enabled the training system to be significantly more efficient. Since its establishment, GPC had trained over 10,000 people in 4 years. Since January 2006, Toyota has opened regional GPCs in North America, Europe and Asia. In each region, Toyota commenced courses where trainees from each department are trained by local trainers to become trainers themselves.

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With the aim of enhancing its competitive edge in self-manufacturing, Toyota, since 2002, has been developing and implementing the Simple and user-friendly operation systems & facilities that can be handled by anyone, anywhere. Toyota is developing its innovative production system, facilities and processing technologies and is currently promoting it at a global level.

### *Cost Reduction*

Toyota continues to focus on reducing costs and improving efficiencies through various measures. One of these measures is the reduction in the number of platforms used in vehicle production. Platforms are the essential structures that form the base of different vehicle models. By using a common platform for the production of a greater number of models, Toyota believes that it will be able to decrease the substantial expenditures required to design and develop multiple platforms. In addition, Toyota believes that it will be able to achieve the scale benefits of producing larger volumes per platform, thereby reducing manufacturing cost per vehicle.

In addition to platform reduction, Toyota continues to focus on other methods of increasing the commonality of parts and components used in different models. These steps include reducing model variations and the number of parts used in each model. Toyota is seeking to increase the efficiency of procurement from outside suppliers by making use of a common global database to enable plants in different areas of the world to purchase parts and materials from the most competitive sources. In addition, Toyota is engaged in the Value Innovation (VI) activity which is focused on systems-based cost innovation, going one step beyond item-based innovation. Adopting a new approach to designing, Toyota aims to achieve comprehensive cost reductions by treating associated parts as integrated systems.

Toyota's ability to achieve these cost reductions is subject to a number of factors, some of which are not in Toyota's control. These factors include the successful implementation of the manufacturing processes described above, as well as the business and financial conditions of Toyota's suppliers and the general economic and political conditions in the markets in which these suppliers operate.

### *Distribution*

Toyota's automotive sales distribution network is the largest in Japan. As of March 31, 2007, this network consisted of 291 dealers employing approximately 40,000 sales personnel and operating more than 4,800 sales and service outlets. Toyota owns 19 of these dealers and the remainder are independent. In addition, at March 31, 2007, Daihatsu's sales distribution network consisted of 63 dealers employing approximately 5,400 sales personnel and operating approximately 800 sales and service outlets. Daihatsu owns 35 of these dealers and the remainder is independent.

Toyota believes that this extensive sales network has been an important factor in its success in the Japanese market. A large number of the cars sold in Japan are purchased from salespersons who visit customers in their homes or offices. In recent years, however, the traditional method of sales through home visits is being replaced by showroom sales and the percentage of automobile purchases through showrooms has been gradually increasing. Toyota expects this trend to continue, and accordingly plans to review all aspects of its sales activities, including its customer service at showrooms, with a view toward improving customer satisfaction and operational efficiency.

Sales of Toyota vehicles in Japan are conducted through four sales channels Toyota, Toyopet, Corolla and Netz. In response to continuing structural changes in the Japanese market that reflect evolving social environment and consumer preferences, Toyota is in the process of redesigning and restructuring its domestic sales network. Specifically, Toyota combined the Netz and Vista sales channels into an expanded Netz channel in May 2004 in order to cater to a growing number of customers with new values. In addition, Toyota introduced the Lexus brand to the Japanese market in August 2005, and currently distributes the Lexus brand

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vehicles through a network of approximately 160 sales outlets in order to enhance its competitiveness in the domestic luxury automobile market. The following table provides information for each channel as of March 31, 2007.

| Channel | Dealers |             |       | Market Focus                                                                        |
|---------|---------|-------------|-------|-------------------------------------------------------------------------------------|
|         | Toyota  | Independent | Total |                                                                                     |
| Toyota  | 6       | 42          | 49    | Luxury channel for Toyota brand name vehicles                                       |
| Toyopet | 5       | 47          | 52    | Leading channel for the medium market                                               |
| Corolla | 4       | 69          | 74    | Volume retail channel centering on compact models                                   |
| Netz    | 4       | 112         | 116   | Sales channel targeting customers with new values for the 21 <sup>st</sup> century. |

**Sales**

| Brand | Outlets | Market Focus  |
|-------|---------|---------------|
| Lexus | 161     | Premium Brand |

Outside Japan, Toyota vehicles are marketed through approximately 170 distributors in approximately 170 countries and regions. Toyota operates sales subsidiaries and maintains networks of dealers in each of its overseas markets, including North America, Europe and Asia. In Eastern Europe, Toyota has a wholly-owned sales subsidiary in Poland and participates in joint venture sales companies in Hungary. Toyota vehicles in China are sold through 3 distributors operating 409 sales outlets as of May 2007. Daihatsu vehicles are sold through approximately 130 dealers operating approximately 2,300 sales outlets in more than 130 countries and regions.

**Intelligent Transport Systems**

Toyota is striving to increase vehicle functionality that will increase the attractiveness of vehicles and the excitement of driving. Toyota is also working in various ways to comprehensively realize enhanced transport systems that are aimed to transport people and goods in a smooth and efficient manner and to build a safe transportation environment. ITS combines automotive technologies and information technologies in an effort to provide vehicle occupants with an array of information and enhanced safety features.

Features of ITS include:

**Increasing Vehicle Functionality Information service functions.** To Toyota, increasing vehicle functionality means advancing information service functions that integrate vehicles with telecommunication systems, and driving assistance functions that use communication technologies and sensing technologies to create vehicles with intelligent features. Information service functions can improve the convenience and enrich the driving experience by means of information communication technologies, which add new functions connected to the basic vehicle functions running, turning and stopping. Examples include the following:

Advanced car navigation system with functions such as displaying maps and detailed information about the car parking space and the VICS (Vehicle Information and Communication System) that provides real-time information about road traffic such as congestion, accidents, traffic restrictions and parking. These car navigation systems play an important role in providing drivers with various types of information on safety, smooth traveling, comfort and convenience.

G-BOOK is the latest information network service that merges the latest network technologies and car multimedia, prior to the arrival of the ubiquitous network society. G-BOOK provides various types of information useful for driving a car as well as the safety and security services that detect unusual conditions in the vehicle, which supports a lifestyle using automobiles anytime and anywhere through a network. In 2005, Toyota started G-BOOK ALPHA and G-Link that is a telematics service exclusive to Lexus, which added various features including the traffic congestion forecast service. In 2007, Toyota launched G-BOOK mX, which is matured as a comprehensive



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telematics service and built on the proven reliability and security of G-BOOK with the addition of services allowing drivers to use navigation systems more convenient such as Map-on-Demand the world's first technology for automatically updating map data and Probe Communication Traffic Information that provides drivers with highly precise information on traffic congestion.

HELPNET emergency call service is an emergency notification system that transmits necessary information such as the vehicle location either automatically or through the touch of a button in the event of a traffic accident or medical emergency and immediately contacts police and fire departments through the HELPNET Center. This system is integrated into G-BOOK and G-Link to improve the quality of services. HELPNET shortens the time taken to report after an emergency situation occurs, which contributes to decreasing the number of traffic accident fatalities and reducing the level of impact, preventing second disasters and easing traffic congestion.

***Increasing Vehicle Functionality Driving Assistance Functions.*** Toyota's driving assistance functions offer functions that assist drivers with a view to lessen the burden of driving, enhance safety and provide pleasure of driving to everyone. Toyota is proceeding with enhancements with the view to commercialize various functions that assist the driver in sensing external information, avoiding danger and making appropriate maneuvers, all in line with the driver's basic driving actions. These functions have started to be incorporated in some Toyota vehicles. Examples of driving assistance functions include the following:

VDIM (Vehicle Dynamics Integrated Management) is a system that constantly monitors the driver's operations and the vehicle's situation and centrally manages the engine, the steering mechanisms and the brakes. By starting control even before the vehicle's control limits are reached, the VDIM achieves a high level of active safety and improves driving performance namely running, turning and stopping.

Pre-crash Safety System is a system that perceives whether a crash is unavoidable and if it is determined to be unavoidable, proceeds to activate safety devices at an early stage to reduce any damage caused by collisions. The possibility of colliding into obstacles or the car in front is measured by millimeter-wave radar sensor that can precisely detect objects even in bad weather condition. Toyota is also developing an advanced system that determines unavoidable collision at an earlier stage due to combination of the front camera and the driver monitoring camera.

Adaptive Cruise Control (with all-speed tracking function) allows the vehicle to keep a constant distance between itself and the preceding vehicle within a range of speed from zero to a preset speed, automatically slowing down and stopping if necessary to avoid collision. When the car in front speeds up, it allows the driver to accelerate, resuming the system.

Lane Keeping Assist System is a system that uses a camera to detect the white or yellow lane markers on the road surface ahead while driving on the highway. The system assists the driver's operation of the steering wheel by warning a deviation from the lane and by controlling electric power steering, in order to help keep the vehicle traveling between the lane markers. This system does not automatically control the steering to maintain travel between lane markers, but requires the steering of the driver.

Intelligent Parking Assist is the world's first parking assistance system that enables the vehicle to be automatically steered by electronic steering when backing into a parking spot or when parallel-parking. The driver presets the parking position on the display monitor. Toyota is also developing a system that allows the driver to set the parking position more easily, using a spatial cognition feature that detects the parking space through ultrasonic sensors.

Night View is a system that supports the driver's vision at night. By utilizing infrared rays, pedestrians, vehicles and other objects within and beyond the range of the headlights are displayed clearly and the driver's range of vision is widened.

***Enhancing Transport Systems.*** Enhancing transport systems requires addressing various factors that are pertinent not only to cars but also roads, people and public transport systems in order to ensure the smooth



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and efficient movement of people and vehicles and to build a safe transportation environment. Although the scope of enhancing transport systems is wide, recent advances in information technology and ITS are making various systems that used to be merely concepts into a reality.

ETC, which is a system in which an on-board unit communicates with the gate to pay the toll by having it charged to a credit card when a vehicle passes through tollgates, thus eliminating the need for the vehicle to stop for payment. This has the effect of alleviating traffic congestion near the tollgate and will lead to lower emissions and reduced fuel consumption.

IMTS (Intelligent Multimode Transit System) is a system that combines the advantage of rail and bus transport to provide a new transportation system for medium level distances and loads. On main roads, the IMTS buses run in automated platoons on dedicated roads, while on ordinary roads, each bus is manually driven. At the Expo 2005 Aichi Japan, IMTS buses with cutting edge design were used as on site transportation.

Toyota is committed to developing new ITS products. Toyota believes that intelligent transport systems will become an integral part of its overall automotive operations and enhance the competitiveness of its vehicles. As familiarity with and demand for ITS products grows, Toyota expects an increasing number of ITS products to become commercially available and achieve general acceptance each year.

## **Financial Services**

Toyota's revenues from its financial services operations were ¥1,301 billion in fiscal 2007, ¥997 billion in fiscal 2006 and ¥781 billion in fiscal 2005. The market for automobile financing has grown as more consumers are financing and leasing their purchases, particularly in North America and Europe.

Toyota Financial Services Corporation is Toyota's wholly-owned subsidiary, established in July 2000, which oversees the management of Toyota's finance companies worldwide and the expansion into new automobile related product areas. Toyota plans to expand its network of financial services, which currently covers 31 countries and regions, in accordance with its strategy of further developing its auto-related financing businesses in significant markets.

Toyota Motor Credit Corporation is Toyota's principal financial services subsidiary in the United States. Toyota also provides financial services in 30 other countries and regions through various financial services subsidiaries, including:

Toyota Finance Corporation in Japan,

Toyota Credit Canada Inc. in Canada,

Toyota Finance Australia Ltd. in Australia,

Toyota Kreditbank GmbH in Germany, and

Toyota Financial Services (UK) PLC in the United Kingdom.

Toyota Motor Credit Corporation provides a wide range of financial services, including retail financing, retail leasing, wholesale financing and insurance. Toyota Finance Corporation also provides a range of financial services, including retail financing, retail leasing, credit cards and housing loans. Toyota's other finance subsidiaries provide retail financing, retail leasing and wholesale financing.

In fiscal 2006, Toyota established a financial services company in Indonesia through a joint venture with PT Astra International Tbk.

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Net finance receivables outstanding for all of Toyota's dealer and customer financing operations were approximately ¥9.7 trillion at March 31, 2007, representing an increase of approximately 16.9% as compared to the amount outstanding as of March 31, 2006. The majority of Toyota's financial services are provided in

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North America. As of March 31, 2007, approximately 64.5% of Toyota's finance receivables were derived from financing operations in North America, 13.1% from Japan, 10.2% from Europe, 3.6% from Asia and 8.6% from other areas.

Approximately 41% of Toyota's unit sales in the United States during fiscal year 2007 included a financing or lease arrangement with Toyota. Because a significant portion of Toyota's finance business relates to sales of Toyota vehicles, lower vehicle unit sales may result in a reduction in the level of Toyota's finance operations.

The worldwide financial services market is highly competitive. Toyota's competitors for retail financing and retail leasing include commercial banks, credit unions and other finance companies. Commercial banks and other captive automobile finance companies are competitors of Toyota's wholesale financing activities. Competition for Toyota's insurance operations is primarily from national and regional insurance companies.

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

|                                                 | Yen in millions<br>March 31, |             | US dollars<br>in millions<br>March 31, |
|-------------------------------------------------|------------------------------|-------------|----------------------------------------|
|                                                 | 2006                         | 2007        | 2007                                   |
| <b>Finance Receivables</b>                      |                              |             |                                        |
| 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                              |
| <b>Operating Leases</b>                         |                              |             |                                        |
| 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                              |

**Retail Financing**

Toyota's finance subsidiaries acquire new and used vehicle installment contracts primarily from Toyota dealers. For instance, in the United States, approximately half of the used vehicle contracts acquired are certified Toyota used vehicle contracts which relate to vehicles purchased by dealers, reconditioned and certified to meet specified Toyota standards. These vehicles are then sold with an extended warranty from Toyota. Installment contracts acquired must first meet specified credit standards. Thereafter, the finance company retains responsibility for contract collection and administration. Toyota's finance subsidiaries acquire security interests in the vehicles financed and can generally repossess vehicles if customers fail to meet their contractual obligations. Almost all retail financings are non-recourse, which relieves the dealers from financial responsibility in the event of repossession. In most cases, Toyota's finance subsidiaries require their retail financing customers to carry automobile insurance on financed vehicles covering the interests of both the finance company and the customer.



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Toyota has historically sponsored, and continues to sponsor, special lease and retail programs by subsidizing below market lease and retail contract rates.

### ***Retail Leasing***

In the area of retail leasing, Toyota's finance subsidiaries acquire new vehicle lease contracts originated primarily through Toyota dealers. Lease contracts acquired must first meet specified credit standards after which the finance company assumes ownership of the leased vehicle. The finance company is generally permitted to take possession of the vehicle upon a default by the lessee. Toyota's finance subsidiaries are responsible for contract collection and administration during the lease period. The residual value is normally estimated at the time the vehicle is first leased. Vehicles returned to the finance subsidiaries at the end of their leases are sold by auction. For example, in the United States, vehicles are sold through a network of auction sites as well as through the Internet. In most cases, Toyota's finance subsidiaries require lessees to carry automobile insurance on leased vehicles covering the interests of both the finance company and the lessee.

### ***Wholesale Financing***

Toyota's finance subsidiaries also provide wholesale financing primarily to qualified Toyota vehicle dealers to finance inventories of new Toyota vehicles and used vehicles of Toyota and others. The finance companies acquire security interests in vehicles financed at wholesale. In cases where additional security interests would be required, the finance companies take dealership assets or personal assets, or both, as additional security. If a dealer defaults, the finance companies have the right to liquidate any assets acquired and seek legal remedies.

Toyota's finance subsidiaries also make term loans to dealers for business acquisitions, facilities refurbishment, real estate purchases and working capital requirements. These loans are typically secured with liens on real estate, other dealership assets and/or personal assets of the dealers.

### ***Insurance***

Toyota provides insurance services in the United States through Toyota Motor Credit Corporation's wholly-owned subsidiary, Toyota Motor Insurance Services, Inc. (TMIS) and its wholly-owned insurance company subsidiaries. Their principal activities include marketing, underwriting and claims administration. TMIS also provides coverage related to vehicle service agreements and contractual liability agreements through Toyota dealers to customers. In addition, TMIS also provides coverage and related administrative services to affiliates of Toyota Motor Credit Corporation. Toyota dealerships in Japan and in other countries and regions also engage in vehicle insurance sales.

Toyota currently has voting power of approximately 34.6% in Aioi Insurance Co., Ltd, a leading insurance company in Japan. Toyota continues to use its strong relationship with Aioi to develop attractive consumer insurance products for Toyota's automotive customers.

### ***Other Financial Services***

Toyota Finance Corporation launched its credit card business in April 2001 and began issuing the Lexus credit cards in 2005 when the Lexus brand was introduced in Japan. As of March 31, 2007, Toyota Finance Corporation has over 6 million card holders of which approximately 25,000 are Lexus credit card holders. Toyota also established Toyota Financial Services Securities Corporation, a subsidiary of Toyota Financial Services Corporation, which commenced operations in April 2001 to coincide with the launch of the credit card business. Through Toyota Financial Services Securities Corporation, Toyota provides financial services primarily for its card holders in Japan, including sales of investment trusts and high grade corporate bonds.

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### **All Other Operations**

In addition to its automotive operations and financial services operations, Toyota is involved in a number of other non-automotive business activities. Net sales for these activities totaled ¥1,324 billion in fiscal 2007, ¥1,190 billion in fiscal 2006 and ¥1,030 billion in fiscal 2005. Sales to external customers of all other operations represented 3.2% of Toyota's net revenues for fiscal 2007. Substantially all of Toyota's revenues from other operations were derived in Japan.

#### ***Pre-fabricated Housing***

Toyota is also engaged in the manufacture and sale of prefabricated housing. Toyota has adapted the core production systems and methodologies used in its automotive operations to this business. In order to strengthen its product planning and sales of its prefabricated housing operations, Toyota spun-off its operations and established a subsidiary, Toyota Housing Corporation, in April 2003. In March 2005, Toyota, together with two institutional investors, agreed to jointly invest in Misawa Home Holdings, Inc. pursuant to their request to assist its rehabilitation. The investment takes the form of a subscription of equity shares in the total amount of ¥25.8 billion, of which ¥10.4 billion is subscribed by Toyota. Toyota is further coordinating with Misawa in the development, manufacture and sale of housing and to complement one another in terms of sales area and products. Through these activities, Toyota intends to cater to a wide variety of customer needs and to strengthen the housing business of both companies.

#### ***Information Technology***

Toyota is involved in developing information technology related products and services through joint efforts with certain telecommunication and information services providers. Its primary partner in these development efforts is KDDI Corporation, a domestic telecommunications service provider that offers integrated mobile, domestic and international fixed-line telecommunications services. Toyota and KDDI are further strengthening their business relationship in light of the increasing necessity for developing services that are better adapted to existing telecommunications infrastructure. Toyota currently holds an 11.09% of ownership interest in KDDI.

Toyota established Toyota InfoTechnology Center Co., Ltd., a joint venture among its affiliates and KDDI, in January 2001. Toyota InfoTechnology Center, U.S.A., Inc., a wholly-owned subsidiary of the joint venture, was established in April 2001. This joint venture focuses on research and development of advanced information technologies that address market needs. Toyota believes these technologies will be integral to the further development of information services businesses, including intelligent transport systems such as the infrastructure cooperative road safety system. Toyota holds a 65% interest in the joint venture. Toyota is making efforts to increase sales of on-board ETC units to promote ITS and KDDI's telecom-related products (particularly its mobile telephone services).

Toyota also operates a Japanese-language website, Gazoo.com. The name "Gazoo" originates from the Japanese word gazo meaning images. Gazoo was established as a membership Internet service linking Toyota, its national dealer network and Gazoo members, and provides information on new and used Toyota automobiles and related services as well as online shopping capabilities. Gazoo has been expanded to offer a wide range of products and services, including information on an increased number of vehicle types offered by Toyota and certain additional service to its credit card members. To further expand its motor vehicle information service, Toyota launched the G-BOOK telematics service in Japan in fall 2002 by applying information technology that was developed through Internet information communications services and in August 2005, G-Link that is a service exclusive to Lexus was introduced. Toyota also offers the theft detection service, the vehicle tracking service, the operator support service and so on as standard to enhance services aiming to provide safety, security and comfort for G-BOOK and G-Link users in their lifestyle using automobiles. With G-BOOK mX announced in April 2007, Toyota started offering services that allow drivers to use navigation systems more convenient such as Map-on-Demand—the world's first technology for automatically updating map data and is matured as a comprehensive telematics service. Toyota has also licensed its G-BOOK technology to certain other competitors in Japan.

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In March 2004, Toyota launched its state-of-the-art CRM (Customer Relationship Management) system called e-CRB (evolutionary Customer Relationship Building) in Thailand. e-CRB builds on Gazoo and G-BOOK and consists of a membership-based website and an operation system for dealers. e-CRB offers its customers a variety of services such as providing information of new vehicles, accepting requests for brochures and estimates and notifying customers when it is time for maintenance by keeping track of the vehicle's maintenance history and mileage. Toyota is currently implementing e-CRB in Thailand, Australia and China where steady progress has been made as the service-in rate (the number of vehicles being serviced in relation to a whole) has increased.

## **Governmental Regulation, Environmental and Safety Standards**

Toyota is subject to laws in various jurisdictions regulating the levels of pollutants generated by its plants. In addition, Toyota is subject to regulations relating to the emission levels, fuel economy, noise and safety of its products. Toyota has incurred significant costs in complying with these regulations and expects it to require significant compliance costs in the future. Toyota's management views leadership in environmental protection as an important competitive factor in the marketplace.

### ***Vehicle Emissions***

#### ***Japanese Standards***

The Air Pollution Law of Japan and the Road Transportation Vehicle Law regulate vehicle emissions in Japan. In addition, both the Noise Regulation Law and the Road Transportation Vehicle Law provide for noise reduction standards on automobiles in Japan. Toyota's vehicles manufactured for sale in Japan comply with all Japanese exhaust emission and noise level standards. In addition, pursuant to the Act Concerning the Rational Use of Energy, Toyota is progressing with efforts to attain certification as ultra low emission vehicles for the majority of its automobile models under the Ministry of Land, Infrastructure and Transport's Low Emission Vehicle Approval Standard.

#### ***U.S. Federal Standards***

The federal Clean Air Act directs the Environmental Protection Agency (EPA) to establish and enforce air quality standards, including emission control standards on passenger cars, light trucks and heavy vehicles. Under current standards applicable to passenger cars and light trucks produced in model years through 2003, manufacturers are obligated to recall vehicles that fail to meet these standards for ten years or 100,000 miles, whichever occurs first. Pursuant to the Clean Air Act, the EPA determined that it was necessary to tighten standards further and in February 2000 decided to adopt more stringent vehicle emission and fuel economy standards applicable to passenger cars and light trucks produced in model years 2004 and beyond. In the standards adopted for model years 2004 and beyond, manufacturers must guarantee that their vehicles meet the requirements for ten years or 120,000 miles, whichever occurs first. Manufacturers are not permitted to sell vehicles in the United States that do not meet the standards. In February 2007, the EPA adopted legislation that will further restrict emissions standards at low temperatures for vehicles produced in model years 2010 and beyond. Separate standards for heavy vehicles are also in effect, and are expected to become more stringent.

#### ***California Standards***

Under the federal Clean Air Act, the State of California is permitted to establish its own, more stringent than the U.S. federal standards, emission control standards. As a result, the California Air Resources Board has established its own emission standards, known as the Low Emission Vehicle Program and set standards that must be phased in beginning in the 2004 model year. Under these standards most light trucks are treated the same as passenger cars and require both types of vehicles to meet the same emissions standards. As part of the original Low Emission Vehicle Program, the California Air Resources Board also required that a specified percentage of a manufacturer's passenger cars and trucks sold in California for all model years 1998 and after be zero-emission vehicles (vehicles producing no emissions of regulated pollutants). The California Air Resources Board subsequently eliminated the zero-emission vehicles mandate for model years before 2005, and decided to

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adopt a zero-emission vehicles requirement for model years 2005 and beyond. This zero-emission vehicles requirement also sets forth certain requirements that advanced technology vehicles such as hybrid cars and alternative fuel vehicles must meet to be recognized as partial zero-emission vehicles. Toyota's battery-powered RAV4 EV compact sport-utility vehicle qualifies as a zero-emission vehicle. The 2004 model Prius which underwent a model change in 2003 and the 2007 Camry Hybrid qualify as partial zero-emission vehicles under the new zero-emission vehicles requirement adopted by the California Air Resources Board. Toyota intends to continue to develop additional advanced technologies and alternative fuel technologies which will allow other vehicles using such technologies to qualify as zero-emission vehicles or partial-zero-emission vehicles. In July 2002, the California legislature passed legislation that requires the California Air Resources Board to develop and adopt, by the end of 2004, regulations that achieve the maximum feasible reduction in greenhouse gas emissions. In September 2004, the California Air Resources Board adopted regulations that would require the reduction of greenhouse gas released from passenger vehicles, light trucks and other noncommercial vehicles from the 2009 model year onward by 20 to 30 percent by the 2016 model year and reported to the California state legislature at the beginning of 2005 that it will adopt and promulgate the regulations. In December 2004, the Alliance of Automobile Manufacturers and the Association of International Automobile Manufacturers, both of which Toyota Motor North America, Inc., a subsidiary of Toyota is a member, filed a lawsuit against the California Air Resources Board seeking injunction against the implementation of the regulation. The lawsuit contends that only the National Highway Traffic Safety Administration, and not states, including California, has the authority to regulate carbon dioxide emissions and fuel economy standards.

### *Other States*

Other states may adopt California's regulations, including its zero-emission vehicle mandates, by meeting the requirements under the federal Clean Air Act.

The states of Massachusetts, New York, Vermont and Maine have adopted California's Low Emission Vehicle Program, effective with model year 2001 or before. The states of Massachusetts, New York, Vermont and New Jersey have also decided to adopt California's zero-emission vehicle requirement in the future. The trend of adopting California's standards is spreading to other states as well.

### *Canadian and Mexican Standards*

Canada has established vehicle emission standards equivalent to the federal standards in the United States, including the heightened requirements that will be applicable to passenger cars and light trucks in model years 2004 and beyond. Mexico's emission control standards are similar to those applicable in the United States after the 1994 model year.

### *European Standards*

The European Union adopted a directive that establishes increasingly stringent emissions standards for passenger vehicles and light commercial vehicles in October 1998. Under this directive, the standards adopted beginning with year 2000 require manufacturers to recall any vehicles which fail to meet the standards for five years or 80,000 kilometers, whichever occurs first. Toyota introduced vehicles complying with this directive in 1999. Under the standards to be adopted beginning with model year 2005, manufacturers will be obligated to meet the more stringent standards for five years or 100,000 kilometers, whichever occurs first. In December 2005, a proposal was submitted by the European Commission to further tighten standards. Debates regarding this proposal is still ongoing in the European Parliament. Standards for heavy commercial vehicles have been adopted by the European Council and the European Parliament for model years 2005 and thereafter and for model years 2008 and thereafter.

Compliance with new emission control standards will present significant technological challenges to automobile manufacturers and will likely require significant expenditures. Examples of these challenges include the development of advanced technologies, such as high performance batteries and catalytic converters, as well

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as the development of alternative fuel technologies. Manufacturers that are unable to develop commercially viable technologies within the time frames set by the new standards will lose their market share and will be forced to decrease the number of types of vehicles and engines in their principal markets.

### ***Vehicle Fuel Economy***

#### ***Japanese Standards***

The Act Concerning the Rational Use of Energy (the Act) requires automobile manufacturers to improve their vehicles to meet specified fuel economy standards. Toyota has been in compliance with the Act. The Act requires that the actual average fuel economy of cargo vehicles 3.5 tons or more in vehicle weight and passenger vehicles with 11 seats or more and cargo vehicles over 2.5 tons and 3.5 tons or less in vehicle weight, which are designated in Article 75, Paragraph 1 of the Road Transportation Vehicle Law (Law No.185 of 1951) as type-designated vehicles, comply with the fuel economy standards established thereunder by fiscal 2015, and that the actual average fuel economy of gasoline-fueled passenger vehicles and gasoline-fueled cargo vehicles 2.5 tons or less in vehicle weight for each class based on vehicle weight proposed by each manufacturer complies with the fuel economy standards established thereunder by fiscal 2010. Toyota is promoting the improvement of its vehicles in order to achieve compliance with these standards. Furthermore, Japan has signed the United Nations Framework Convention on Climate Change and has agreed to take steps to restrain the emission of greenhouse gases. Japan ratified the Kyoto Protocol in June 2002, which became effective in February 2005. This protocol requires Japan to reduce its carbon dioxide emissions by 6% during the years 2008 to 2012 as measured from the 1990 base year.

#### ***U.S. Standards***

The Federal Motor Vehicle Information and Cost Savings Act requires automobile manufacturers to comply with Corporate Average Fuel Economy standards, commonly referred to as the CAFÉ standards. Under the CAFÉ standards, a manufacturer is subject to substantial penalties if, in any model year, its vehicles do not meet those standards. The current CAFÉ standards are 27.5 miles per gallon for passenger cars and 20.7 miles per gallon for light trucks for model year 2004, which will increase to 22.2 miles per gallon for model year 2007, including mini-vans and sport-utility vehicles. In April 2006, the National Highway Traffic Safety Administration established new CAFÉ standards that will be applicable to light trucks for model year 2008 and beyond. This new CAFÉ standard aims to shift the framework from one that used to be advantageous only to compact car manufacturers to one that is fair to full line manufacturers. The requirements will be changed so that the CAFÉ standard is determined by sales rate based on vehicle size (measured by the area of the wheel and wheel base) for each manufacturer. For the 2008, 2009 and 2010 models, manufacturers are permitted to comply with the former standard as a transitional measure and, in the event of such compliance, the CAFÉ standard will be 22.5 miles per gallon for 2008 models, 23.1 miles per gallon for 2009 models and 23.5 miles per gallon for 2010 models. Manufacturers that meet the CAFÉ standards earn credits determined by the difference between the average fuel economy figures of their vehicles and the CAFÉ standards. Credits earned for the three preceding model years and credits projected to be earned for the next three model years can be used to meet CAFÉ standards in the current model year. However, credits earned in respect to passenger cars may not be used for trucks and credits earned in respect to trucks may not be used for passenger cars. Passenger cars are further divided into the two categories Domestic and Import, and credits earned in one category may be not applied toward the other category.

Although Toyota has met the current CAFÉ standards for both passenger cars and light trucks, the enactment of a more stringent standard in 2006 could have a significant impact on Toyota automobiles sales in the United States.

Concern over the effect of carbon dioxide emissions on global warming has drawn attention to the need for reducing fossil energy use, in part by increasing vehicle fuel economy. In November 1998, the United States signed the Kyoto Protocol. This protocol calls for the United States to reduce its carbon dioxide emissions by 7% during the years 2008 to 2012, as measured from the 1990 base year. Although the United States government has

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not ratified the protocol, it has been considering ways to achieve the called-for reductions, including more stringent CAFÉ standards, higher fuel costs and restrictions on fuel usage. President George W. Bush, in his State of the Union Address delivered in January 2007, proposed to make the CAFÉ standards for both passenger cars (2010MY~) and light trucks (2012MY~) more stringent at a rate of 4% per annum. These policies would be costly for Toyota and may significantly limit the types of products it is able to offer in the United States.

In addition, the Energy Tax Act of 1978 imposes a gas guzzler tax on automobiles with a fuel economy rating below specified levels.

### *European Standards*

The European Union has signed the Kyoto Protocol and agreed to reduce carbon dioxide emissions by 8% during the years 2008 to 2012, as measured from the 1990 base year. In early 1999, the European Union entered into a voluntary engagement with the European Automotive Manufacturers Association which establishes an average emissions target of 140 grams of carbon dioxide per kilometer for new cars sold in the European Union in 2008. The Japan Automobile Manufacturers Association and the Korean Automobile Manufacturers Association have also entered into a voluntary engagement, similar to that entered into by the European Union, with the year 2009 as a target year. That target represents an average reduction in passenger vehicle fuel usage of 25%, measured from 1995 levels. Furthermore in February 2007, the European Union proposed regulating towards reducing the average carbon dioxide emissions from new passenger cars to 120 grams per kilometer by 2012, and is currently discussing the details of such regulation.

### *Vehicle Safety*

#### *Japanese Standards*

In March 2005, regulations applicable to compressed hydrogen gas powered fuel cell vehicles were introduced. The regulations involve technology standards such as those relating to collision, prevention of hydrogen leaks and protection from high-voltage.

Regulations relating to pedestrian protection are applicable to all new models manufactured after September 2005 with certain exceptions and vehicles manufactured after September 2010. Frontal offset collision will be required for all new passenger vehicle models manufactured after September 2007 and for all passenger vehicles manufactured after September 2009, and the installation of seat belt reminders is required for driver's seats of new models manufactured after September 2005 and for all vehicles manufactured after September 2008. In addition, for the purpose of harmonizing with the international standards, driving visibility standards, seatbelt anchorage and seatbelt standards are also expected to be combined with the Economic Commission for Europe (ECE) and all cars manufactured after July 2012 are required to meet these standards. All Toyota motor vehicles currently sold in Japan meet or exceed applicable Japanese safety standards.

#### *U.S. Standards*

The U.S. National Traffic and Motor Vehicle Safety Act of 1966, or Safety Act, requires vehicles and equipment sold in the United States to meet various safety standards issued by the National Highway Traffic Safety Administration. The Safety Act also authorizes the National Highway Traffic Safety Administration to investigate complaints relating to vehicle safety and to order manufacturers to recall and repair vehicles found to have safety-related defects. The cost of these recalls can be substantial depending on the nature of the repair and the number of vehicles affected.

The Transportation Recall Enhancement, Accountability and Documentation Act was enacted in the United States on November 1, 2000. This Act required the National Highway Traffic Safety Administration to upgrade federal motor vehicle safety standards relating to tires based on a dynamic vehicle test that takes into account the rollover propensity of vehicles. It also requires the National Highway Traffic Safety Administration to enhance its authority to gather information potentially relating to motor vehicle defects. This Act substantially increases the National Highway Traffic Safety Administration's authority to impose civil penalties for noncompliance with

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regulatory requirements and specifies possible criminal penalties for violations of the federal Fraud and False Statements Act. Under this Act, the National Highway Traffic Safety Administration expanded its New Car Assessment Program to implement consumer information programs for vehicle rollover resistance and child restraints and adopted extensive early warning defect reporting requirement in 2002, and strengthened regulations regarding tire-pressure monitoring systems in 2005.

In July 2005, a highway bill which requires the National Highway Traffic Safety Administration to enhance its safety standards was passed by the U.S. Congress. The bill requires the National Highway Traffic Safety Administration to propose standards for reduction of rollover accidents (by October 1, 2006), to complete the creation of standards for reduction of vehicle passenger release from cars at the time of rollover accidents (by October 1, 2009), to upgrade door lock standards (within 30 months after the passage of the bill), to upgrade roof crash standards (proposal should be made by December 31, 2005 and a final rule should be made by July 1, 2008), to issue a final rule on side impact for the improvement of protection performance of vehicle passengers in all seats location (by July 1, 2008), to review a seat belt wearing technology and to complete a study including proposal for improving the rate of seat belt usage (by July 1, 2008), to establish rules on requirements to display New Car Assessment Program rating to new cars label (applied on or after September 1, 2007), and to complete upgrading FMVSS118 (so that power windows will be closed by pulling up a switch) (by April 1, 2007). Some actions have already been taken in response to the above requirements. For example, standards for reduction of rollover accidents were proposed in September 2006, and a final rule was issued in April 2007. And final rules on requirements for displaying New Car Assessment Program rating to new cars label and upgrading of FMVSS118 were issued in September 2006 and June 2006, respectively.

Toyota actively invests in technology development designed to increase the safety of its vehicles. Toyota is developing technologies to increase the availability of existing safety systems to all types of its vehicles. These technologies include supplemental restraint system (SRS) airbags, anti-lock braking systems, side airbags, curtain shield airbags, vehicle stability control and other safety features.

### *European, Canadian and Other Standards*

In Europe, following the White Paper European transport policy for 2010: time to decide adopted in 2001, which declares targeting to halve the number of deaths caused by road accidents by 2010, various groups in different fields are currently conducting research and analyses. In addition, the Road Safety Action Programme adopted by the European Commission in 2003 envisions the reduction in deaths from road accidents by utilizing technological advancement relating to the improvement in vehicle safety. The White Paper and the Action Programme aim to promote the introduction of safety features such as automatic cruise control, speed alert system, intelligent speed limitation devices, alcohol lock, whiplash prevention, collision prevention, universal child restraints (CRS) and seat belt reminders. The European Commission and the ACEA have established CARS 21, High Level Group that aims to strengthen the competitiveness of the European automotive industry, and examined the recommendations with the legal framework of a decade later in mind. The CARS 21 final report issued at the end of 2005 contains recommendations relating to the simplification of legislation and road safety, among other issues, and indicates a Ten Year Roadmap. In addition, in February 2007, the European Commission issued a communication regarding the CARS 21 Final Report, in which concrete action plans for future legislation were announced. According to the action plans, in 2007, the WVTA (Whole Vehicle Type Approval) will directly refer to ECE Regulations. It is also expected that in 2008-2009, the self-test and virtual test systems will be introduced. The plans also call to make it mandatory for all passenger vehicles to be equipped with ISOFIX CRS by 2009. The plans further contemplate making it mandatory for cars to be equipped with Daytime Running Lights, Electric Stability Control, Seatbelt Reminder and Tire Pressure Monitoring System. And finally, the plans mention the need for further consideration of the regulation pertaining to roll-resistant tires, the revision of phase-two of the pedestrian protection and the technological feasibility of collision mitigation braking system.

Vehicle safety regulations in Canada are similar to those in the United States. Among the ASEAN countries, in 2006, Thailand and Malaysia acceded to the 1958 agreement of UN regarding safety regulations and both

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countries plan to develop a legal system in order to incorporate ECE Regulations into domestic laws. Vietnam, Singapore, Indonesia and the Philippines will soon follow suit by acceding to the 1958 agreement, thereby ASEAN countries will be required to comply with the ECE Regulations. Countries in South America and the Middle East have also adopted automobile safety regulations, with South America generally following standards set by the UN, ECE or the U.S., and the Middle East basing their domestic laws primarily on international regulations or legal standards.

### ***Environmental Matters***

#### ***Japanese Standards***

Toyota's automotive operations in Japan are subject to substantial environmental regulation under the Air Pollution Law, the Water Pollution Control Law, the Noise Regulation Law and the Vibration Control Law. Under these laws, if a business entity establishes or alters any facility that is regulated by these laws, the business entity is required to give prior notice to regulators, and if a business entity discharges or causes exhaust, wastewater, noise or vibration from such facility, the business entity is also required to comply with the applicable standards. Toyota is also subject to local regulations, which in some cases impose more stringent obligations than the Japanese central government requirements. Toyota has complied with these regulations. Under the Waste Disposal and Public Cleaning Law, producers of industrial waste must dispose of industrial waste in the manner prescribed in the Waste Disposal and Public Cleaning Law. Toyota has also complied with the Waste Disposal and Public Cleaning Law.

In February 2003, the Soil Contamination Countermeasures Law became effective in Japan. The Soil Contamination Countermeasures Law stipulates the contamination testing and removal measures that are required when property of former factory or place of business on which prohibited hazardous materials were used are converted to residential areas or other public use. In addition, the Law on Recycling of End-of-Life Vehicles was promulgated in July 2002. Under the Law on Recycling of End-of-Life Vehicles, vehicle manufacturers are required to take back and recycle certain materials of end-of-life vehicles and the provisions concerning such obligations of vehicle manufacturers became effective in January 2005. Toyota has coordinated with relevant parties to establish a vehicle take-back and recycle system throughout Japan. As a result, in fiscal 2007, Toyota achieved a recycling rate of 66% for Automobile Shredder Residue (the legal requirement being 30%) and 94% for air bags (the legal requirement being 85%) and reached the targets set forth in this law.

#### ***U.S. Standards***

Toyota's assembly, manufacturing and other operations in the United States are subject to a wide range of environmental regulation under the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, the Pollution Prevention Act of 1990 and the Toxic Substances Control Act. Toyota is also subject to a variety of state legislation that parallels, and in some cases imposes more stringent obligations than, federal requirements. These federal and state regulations impose severe restrictions on air- and water-borne discharges of pollution from Toyota facilities, the handling of hazardous materials at Toyota facilities and the disposal of wastes from Toyota operations. Toyota is subject to many similar requirements in its operations in Europe and Canada.

Moreover, the Environmental Protection Agency has promulgated more stringent National Ambient Air Quality Standards for Ozone and Particulate Matter, which define strategies needed to attain the new standards. Toyota expects growing pressure in the next several years to further reduce emissions from motor vehicles and manufacturing facilities.

#### ***European Standards***

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

automotive manufacturers shall bear all or a significant part of the costs for taking back end-of-life vehicles sold after July 1, 2002 and dismantling and recycling those vehicles. Beginning January 1, 2007, this requirement became applicable to vehicles sold before July 1, 2002 as well;

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automotive manufacturers may not use certain hazardous materials in vehicles sold after July 2003;

certified vehicles models sold 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 re-use as material or energy 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 respectively to 85% and 95% by 2015.

A law to implement the directive came into effect in all member states including Bulgaria and Romania which 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 automotive 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.

The European Union has also issued directives and made proposals relating to the following subjects on environmental matters:

emission standards that include a framework permitting member states to introduce fiscal incentives to promote early compliance;

reaffirmation of its goal of reducing carbon dioxide emissions; and

reform of rules governing automotive distribution and service. The block exemption on distribution has been amended so that dealers may engage in active sales cross border within the European Union and open additional facilities for sales and services. Additionally, dealers may no longer be required by manufacturers to operate side by side both sales and service facilities.

Toyota believes that its operations are materially in compliance with environmental regulatory requirements concerning its facilities and products in each of the markets in which it operates. Toyota continuously monitors these requirements and takes necessary operational measures to ensure that it remains in material compliance with all of these requirements.

Toyota believes that environmental regulatory requirements have not had a material adverse effect on its operations. However, compliance with environmental regulations and standards has increased costs and is expected to lead to higher costs in the future. Therefore, Toyota recognizes that effective environmental cost management will become increasingly important. Moreover, innovation and leadership in the area of environmental protection are becoming increasingly important to remain competitive in the market. As a result, Toyota has proceeded with the development and production of environmentally friendly technologies, such as hybrid vehicles, fuel-cell vehicles and high fuel efficiency, low emission engines.

In addressing environmental issues, based on an assessment of the environmental impact of its products through their life cycles, Toyota as a manufacturer strives to take all possible measures in each life stage of a product, from development through production and sales, and continues to work toward technological innovations to make efficient use of resources and to reduce the burden on the environment.

**Table of Contents****Research and Development**

Toyota's research and development activities focus on the environment, vehicle safety, information technology and product development. For a detailed discussion of the company's research and development policies for the last three years, see Operating and Financial Review and Prospects Research and Development, Patents and Licenses.

The following table provides information for Toyota's principal research and development facilities.

| <b>Facility</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <b>Principal Activity</b>                                                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <i>Japan</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                                                                                                                                                                                                                                                 |
| Toyota Technical Center                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Planning, design, vehicle evaluation, development of prototypes                                                                                                                                                                                 |
| Tokyo Design Research & Laboratory                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Design research and development of advanced styling designs                                                                                                                                                                                     |
| Higashi-Fuji Technical Center                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Research and advanced development on powertrains, materials, electronic parts and other matters                                                                                                                                                 |
| Shibetsu Proving Ground                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Vehicle testing and evaluation                                                                                                                                                                                                                  |
| Tokyo Development Center                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Advanced technology development of electronics                                                                                                                                                                                                  |
| <i>United States</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                 |
| Toyota Motor Engineering and Manufacturing North America, Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                          | Development of the upper body part for a portion of North American manufactured vehicles, adapting vehicles sold in North America to the market, advanced technology research, external affairs for legal and regulatory affairs, certification |
| Caltex Design Research, Inc.                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Design development, model production and design survey                                                                                                                                                                                          |
| <i>Europe</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                 |
| Toyota Motor Europe NV/SA                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Development of the upper body part for a portion of European manufactured vehicles, market tuning for vehicles sold in Europe, advanced technology research, external affairs for legal and regulatory affairs, certification                   |
| Toyota Europe Design Development S.A.R.L.                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Design development, model production and design survey                                                                                                                                                                                          |
| Toyota Motorsport GmbH                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Development of Formula One race cars                                                                                                                                                                                                            |
| <i>Asia Pacific</i>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                 |
| Toyota Motor Asia Pacific Engineering and Manufacturing Co. Ltd.                                                                                                                                                                                                                                                                                                                                                                                                                                        | Design of portions of vehicles that are tailored for vehicles sold in Australia and Asia, development, evaluation and production support                                                                                                        |
| Toyota Technical Center Asia Pacific Australia PTY, Ltd                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Design of portions of vehicles that are tailored for vehicles sold in Australia and Asia                                                                                                                                                        |
| The success of Toyota's research and development activities is a key element of Toyota's strategy. The effectiveness of Toyota's research and development activities is subject to a number of factors, some of which are not in Toyota's control. These factors include the introduction of innovations by Toyota's competitors that may reduce the value of Toyota's initiatives and Toyota's ability to convert its research and development into commercially successful technologies and products. |                                                                                                                                                                                                                                                 |



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### **Components and Parts, Raw Materials and Sources of Supply**

Toyota purchases parts, components, raw materials, equipment and other supplies from several competing suppliers located around the world. Toyota works closely with its suppliers to obtain the best supplies. Toyota believes that this policy encourages technological innovation, cost reduction and other competitive measures. No single supplier accounted for more than 5% of Toyota's consolidated purchases of raw materials, parts and equipment during fiscal 2007, except for Denso Corporation, an affiliate of Toyota, which supplied approximately 10% of Toyota's purchases during fiscal 2007. Toyota plans to continue purchases based on the same principle and does not anticipate any difficulty in obtaining supplies in the foreseeable future.

Toyota has seen a rapid increase in its level of production, with more than 50 overseas operations in 26 countries and regions as of the end of 2006. Consequently, the distribution network has become increasingly more complex, with procurement of components being carried out not only locally in the country of the production site but also from third-countries. In order to realize timely and efficient distribution at the same time as keeping total costs at a minimum, Toyota is promoting efforts to optimize each stage of the supply-chain. To this end, Toyota has developed a standardized system of global distribution and is supporting the operation of the system at each production base. The use of the global distribution system has enabled Toyota to strive to keep up with the rapid production growth, and to procure components to meet production of any type of models at changing levels of production in a timely manner. These varying efforts, combined together, have led to maximized customer satisfaction, as well as to building a good working relationship with Toyota's suppliers.

The recent market condition and market price of some raw materials such as steel has shown an upward tendency. In response to the increase, Toyota is making efforts, such as reduce the amount of materials used, in order to lower its costs.

Toyota's ability to continue to obtain supplies in an efficient manner is subject to a number of factors, some of which are not in Toyota's control. These factors include the ability of its suppliers to provide a continued source of supplies and the effect on Toyota of competition by other users in obtaining the supplies.

### **Intellectual Property**

Toyota holds numerous Japanese and foreign trademarks, patents, design patents and utility model registrations. It also has a number of applications pending for Japanese and foreign patents. A utility model registration is a right granted under the laws of certain countries to inventions of less patentability than those which qualify for patents. In general, the effective period for a utility model registration is shorter than that granted for a patent. While Toyota considers all of its intellectual property to be important, it does not consider any one or group of patents, trademarks or utility model registrations to be so important that their expiration or termination would materially affect Toyota's business.

### **Capital Expenditures and Divestitures**

Set forth below is a chart of Toyota's principal capital expenditures between April 1, 2004 and March 31, 2007, the approximate total costs of such activity, as well as the location and method of financing of such activity, presented on a subsidiary basis and as reported in Toyota's annual Japanese securities report filed with the director of the Kanto Local Finance Bureau.

| <b>Description of Activity</b>                                                                          | <b>Total Cost</b>        | <b>Location</b> | <b>Method of</b> |
|---------------------------------------------------------------------------------------------------------|--------------------------|-----------------|------------------|
|                                                                                                         | <b>(billions of yen)</b> |                 | <b>Financing</b> |
| Investment primarily in manufacturing facilities to undertake model changes by Toyota Motor Corporation | 1,153.6                  | Japan           | Internal funds   |
| Investment primarily in new technology and products by Daihatsu Motor Co., Ltd.                         | 146.5                    | Japan           | Internal funds   |
| Investment primarily in new technology and products by Toyota Motor Kyushu, Inc.                        | 137.7                    | Japan           | Internal funds   |

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| <b>Description of Activity</b>                                                        | <b>Total Cost<br/>(billions of yen)</b> | <b>Location</b> | <b>Method of<br/>Financing</b> |
|---------------------------------------------------------------------------------------|-----------------------------------------|-----------------|--------------------------------|
| Investment primarily in new technology and products by Hino Motors, Ltd.              | 103.9                                   | Japan           | Internal funds                 |
| Investment primarily in new technology and products by Toyota Auto Body Co., Ltd.     | 102.9                                   | Japan           | Internal funds                 |
| Investment primarily in new technology and products by Kanto Auto Works, Ltd.         | 98.2                                    | Japan           | Internal funds                 |
| Investment primarily in new technology and products by Toyota Motor Hokkaido, Inc.    | 64.0                                    | Japan           | Internal funds                 |
| Investment to promote localization by Toyota Motor Thailand Co., Ltd.                 | 169.2                                   | Thailand        | Internal funds                 |
| Investment to promote localization by Toyota Motor Manufacturing, Texas, Inc.         | 142.9                                   | United States   | Internal funds                 |
| Investment to promote localization by Toyota South Africa Motors (Pty) Ltd.           | 99.5                                    | South Africa    | Internal funds                 |
| Investment to promote localization by Toyota Motor Europe NV/SA                       | 97.0                                    | Belgium         | Internal funds                 |
| Investment to promote localization by Toyota Motor Manufacturing, Kentucky, Inc.      | 92.9                                    | United States   | Internal funds                 |
| Investment to promote localization by Toyota Motor Manufacturing (UK) Ltd.            | 69.7                                    | United Kingdom  | Internal funds                 |
| Investment to promote localization by Toyota Motor Corporation Australia Ltd.         | 66.5                                    | Australia       | Internal funds                 |
| Investment to promote localization by Toyota Motor Manufacturing, Indiana, Inc.       | 64.3                                    | United States   | Internal funds                 |
| Investment to promote localization by Toyota Motor Manufacturing, West Virginia, Inc. | 55.3                                    | United States   | Internal funds                 |
| Investment primarily in leased automobiles by Toyota Motor Credit Corporation         | 2,545.7                                 | United States   | Internal funds and borrowings  |

Set forth below is information with respect to Toyota's material plans to construct, expand or improve its facilities between April 2007 and March 2008, presented on a by subsidiary basis and as reported in Toyota's annual Japanese securities report filed with the director of the Kanto Local Finance Bureau.

| <b>Description of Activity</b>                                                                 | <b>Total Cost<br/>(billions of yen)</b> | <b>Location</b> | <b>Method of<br/>Financing</b> |
|------------------------------------------------------------------------------------------------|-----------------------------------------|-----------------|--------------------------------|
| Investment primarily in manufacturing facilities by Toyota Motor Corporation                   | 407.9                                   | Japan           | Internal funds                 |
| Investment primarily in manufacturing facilities by Toyota Motor Manufacturing Canada, Inc.    | 134.5                                   | Canada          | Internal funds                 |
| Investment primarily in manufacturing facilities by Toyota Motor Kyushu, Inc.                  | 71.2                                    | Japan           | Internal funds                 |
| Investment primarily in manufacturing facilities by Toyota Motor Manufacturing, Indiana, Inc.  | 42.4                                    | United States   | Internal funds                 |
| Investment primarily in manufacturing facilities by Toyota Motor Manufacturing, Kentucky, Inc. | 41.2                                    | United States   | Internal funds                 |
| Investment primarily in manufacturing facilities by Toyota Motor Thailand Co., Ltd.            | 41.0                                    | Thailand        | Internal funds                 |

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Set forth below is additional information with respect to Toyota's material plans to construct, expand or improve its facilities, presented on a by facility basis.

*Second Canada Plant.* Toyota is constructing a new plant in Woodstock, Ontario, with an annual production capacity of 150 thousand units. In order to meet the demand in the SUV market in North America, the plant is scheduled to produce RAV4 in 2008. The total cost of this plant is expected to be approximately \$1.1 billion Canadian dollars.

*Russia Plant.* In April 2005, Toyota announced the construction of its first manufacturing plant in Russia, pursuant to a basic agreement reached with the Russian government and the city of St. Petersburg. The construction of the plant commenced in June 2005. The plant is expected to have an initial annual production capacity of 20 thousand units and is scheduled to produce the Camry, which is the core Toyota model sold in Russia. The total cost of this plant is expected to be approximately 4 billion rubles.

*Mississippi Plant.* In February 2007, Toyota announced the construction of an automobile manufacturing plant in Mississippi, which will be its eighth plant in North America. The plant is expected to produce the Highlander SUV with an annual production capacity of 150 thousand units. The total cost of the plant is approximately \$1.3 billion and it is expected to commence production in 2010 with approximately 2,000 new employees.

Toyota does not collect information on the amount of expenditures already paid for each plant under construction because Toyota believes that it is difficult and it would require unreasonable effort to identify and categorize each expenditure item with reasonable accuracy as past and future expenditures. Toyota's construction projects consist of numerous expenditures, each of which is continuously being adjusted and incurred in variable and constantly changing amounts as part of the overall work-in-progress.

## **Seasonality**

Toyota has historically experienced slight seasonal fluctuations in unit sales. For each of the past three fiscal years, Toyota's unit sales levels have been highest in March of each year, with approximately 11% of annual unit sales generated during that month, and for each of the remaining months, its unit sales have generated approximately 7% to 9% of its annual unit sales.

## **Legal Proceedings**

### ***United States Antitrust Proceedings***

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

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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 complaint 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.

### ***Other Proceedings***

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.

**Table of Contents****4.C ORGANIZATIONAL STRUCTURE**

As of March 31, 2007, Toyota Motor Corporation had 289 Japanese subsidiaries and 233 overseas subsidiaries. The following table sets forth for each of Toyota Motor Corporation's principal subsidiaries, the country of incorporation and the percentage ownership and the voting interest held by Toyota Motor Corporation.

| Name of Subsidiary                                           | Country of     | Percentage Ownership | Percentage Voting |
|--------------------------------------------------------------|----------------|----------------------|-------------------|
|                                                              | Incorporation  | Interest             | Interest          |
| Toyota Financial Services Corporation                        | Japan          | 100.00               | 100.00            |
| Hino Motors, Ltd.                                            | Japan          | 50.20                | 50.45             |
| Toyota Motor Kyushu, Inc.                                    | Japan          | 100.00               | 100.00            |
| Daihatsu Motor Co., Ltd.                                     | Japan          | 51.32                | 51.61             |
| Toyota Finance Corporation                                   | Japan          | 100.00               | 100.00            |
| Toyota Auto Body Co., Ltd.                                   | Japan          | 56.08                | 57.02             |
| Kanto Auto Works, Ltd.                                       | Japan          | 50.46                | 50.64             |
| Toyota Motor Engineering & Manufacturing North America, Inc. | United States  | 100.00               | 100.00            |
| Toyota Motor Manufacturing, Kentucky, Inc.                   | United States  | 100.00               | 100.00            |
| Toyota Motor North America, Inc.                             | United States  | 100.00               | 100.00            |
| Toyota Motor Credit Corporation                              | United States  | 100.00               | 100.00            |
| Toyota Motor Manufacturing, Indiana, Inc.                    | United States  | 100.00               | 100.00            |
| Toyota Motor Sales, U.S.A., Inc.                             | United States  | 100.00               | 100.00            |
| Toyota Motor Manufacturing Canada, Inc.                      | Canada         | 100.00               | 100.00            |
| Toyota Credit Canada Inc.                                    | Canada         | 100.00               | 100.00            |
| Toyota Motor Europe NV/SA                                    | Belgium        | 100.00               | 100.00            |
| Toyota Motor Italia S.p.A.                                   | Italy          | 100.00               | 100.00            |
| Toyota Kreditbank G.m.b.H.                                   | Germany        | 100.00               | 100.00            |
| Toyota Deutschland G.m.b.H.                                  | Germany        | 100.00               | 100.00            |
| Toyota France S.A.                                           | France         | 100.00               | 100.00            |
| Toyota Motor Finance (Netherlands) B.V.                      | Netherlands    | 100.00               | 100.00            |
| Toyota Motor Manufacturing (UK) Ltd.                         | United Kingdom | 100.00               | 100.00            |
| Toyota (GB) PLC                                              | United Kingdom | 100.00               | 100.00            |
| Toyota Motor Manufacturing Russia LLC.                       | Russia         | 100.00               | 100.00            |
| Toyota Motor Manufacturing Turkey Inc.                       | Turkey         | 90.00                | 90.00             |
| Toyota Motor Corporation Australia Ltd.                      | Australia      | 100.00               | 100.00            |
| Toyota Finance Australia Ltd.                                | Australia      | 100.00               | 100.00            |
| Toyota Motor Asia Pacific Pte Ltd.                           | Singapore      | 100.00               | 100.00            |
| Toyota Motor Thailand Co., Ltd.                              | Thailand       | 86.43                | 86.43             |
| Toyota Leasing (Thailand) Co., Ltd.                          | Thailand       | 79.17                | 79.17             |
| Toyota do Brasil Ltda.                                       | Brazil         | 100.00               | 100.00            |
| Toyota South Africa Motors (Pty) Ltd.                        | South Africa   | 100.00               | 100.00            |

**4.D PROPERTY, PLANTS AND EQUIPMENT**

As of March 31, 2007, Toyota and its affiliates produce automobiles and related components through more than 50 manufacturing organizations in 26 countries and regions around the world. The facilities are located principally in Japan, the United States, Canada, the United Kingdom, France, Turkey, Thailand, China, Taiwan, South Africa, Australia, Argentina and Brazil.

In addition to its manufacturing facilities, Toyota's properties include sales offices and other sales facilities in major cities, repair service facilities, and research and development facilities.

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The following table sets forth information, as of March 31, 2007, with respect to Toyota's principal facilities and organizations, all of which are owned by Toyota Motor Corporation or its subsidiaries. However, small portions, all under approximately 20%, of some facilities are on leased premises.

| Facility or Subsidiary Name               | Location                           | Floor Space              | Principal Products or Functions |
|-------------------------------------------|------------------------------------|--------------------------|---------------------------------|
|                                           |                                    | (thousand square meters) |                                 |
| Japan                                     |                                    |                          |                                 |
| Toyota Head Office and Technical Center   | Toyota City, Aichi Pref.           | 1,300                    | Research and Development        |
| Tahara Plant                              | Tahara City, Aichi Pref.           | 1,170                    | Automobiles                     |
| Motomachi Plant                           | Toyota City, Aichi Pref.           | 880                      | Automobiles                     |
| Takaoka Plant                             | Toyota City, Aichi Pref.           | 710                      | Automobiles                     |
| Tsutsumi Plant                            | Toyota City, Aichi Pref.           | 620                      | Automobiles                     |
| Kamigo Plant                              | Toyota City, Aichi Pref.           | 570                      | Automobile parts                |
| Honsha Plant                              | Toyota City, Aichi Pref.           | 520                      | Automobiles                     |
| Kinu-ura Plant                            | Hekinan City, Aichi Pref.          | 380                      | Automobile parts                |
| Higashi-Fuji Technical Center             | Susono City, Shizuoka Pref.        | 300                      | Research and Development        |
| Nagoya Office                             | Nagoya City, Aichi Pref.           | 50                       | Office                          |
| Daihatsu Motors Co., Ltd.                 | Ikeda City, Osaka, etc.            | 1,030                    | Automobiles                     |
| Toyota Auto Body Co., Ltd.                | Kariya City, Aichi Pref., etc.     | 960                      | Automobiles                     |
| Hino Motors, Ltd.                         | Hino City, Tokyo, etc.             | 950                      | Automobiles                     |
| Toyota Motor Kyushu, Inc.                 | Miyawaka City, Fukuoka Pref., etc. | 570                      | Automobiles                     |
| Kanto Auto Works, Ltd.                    | Susono City, Shizuoka Pref., etc.  | 380                      | Automobiles                     |
| Outside Japan                             |                                    |                          |                                 |
| Toyota Motor Thailand Co., Ltd.           | Samut Prakan, Thailand             | 2,370                    | Automobiles                     |
| Toyota Motor Sales, U.S.A., Inc.          | California, U.S.A.                 | 850                      | Sales facilities                |
| Toyota Motor Manufacturing, Indiana, Inc. | Indiana, U.S.A.                    | 380                      | Automobiles                     |
| Toyota Motor Corporation Australia, Ltd.  | Victoria, Australia                | 220                      | Automobiles                     |
| Toyota Motor Manufacturing, Texas, Inc.   | Texas, U.S.A.                      | 200                      | Automobiles                     |

Toyota is constantly engaged in upgrading, modernizing and revamping the operations of its manufacturing facilities, based on its assessment of market needs and prospects. As market conditions and Toyota's business objectives evolve, Toyota adjusts its capacity and utilization by opening, closing, expanding or downsizing production facilities accordingly. As a result, Toyota believes it would require unreasonable effort to track the exact productive capacity and the extent of utilization of each of its manufacturing facilities with a reasonable degree of accuracy. Toyota believes that its manufacturing facilities are generally all operating within normal operating capacity and not substantially below capacity.

As of March 31, 2007, property, plant and equipment having a net book value of approximately ¥89,233 million was pledged as collateral securing indebtedness incurred by Toyota Motor Corporation's consolidated subsidiaries. Toyota believes that there does not exist any material environmental issues that may affect the company's utilization of its assets.

Toyota considers all its principal manufacturing facilities and other significant properties to be in good condition and adequate to meet the needs of its operations.

See Business Overview Capital Expenditures and Divestitures for a description of Toyota's material plans to construct, expand or improve facilities.

**Table of Contents****ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS****5.A OPERATING RESULTS**

*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 |

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.



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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.

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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

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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.

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<br>March 31, |             |
|-------------------------------------------------|------------------------------|-------------|
|                                                 | 2006                         | 2007        |
| <b>Finance Receivables</b>                      |                              |             |
| 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 |
| <b>Operating Leases</b>                         |                              |             |
| 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



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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.

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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

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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.

| 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.

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.

**Table of Contents*****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

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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.

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.

### ***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.

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.

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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 yen 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.

**Table of Contents*****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.

***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

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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

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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, 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 ¥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

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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.

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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 yen 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.

### ***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.

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### **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



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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

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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.

**Table of Contents*****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 assumptions 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.

**Table of Contents*****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<br>year<br>ending | Effect on PBO        |
|                                        | March<br>31, 2008         | 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.

**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 .



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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."

### **5.B 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 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.

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

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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 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.

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.

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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.

## **5.C RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES**

Toyota's research and development activities focus on the environment, vehicle safety, information technology and product development.

Toyota's environmental research and development activities focus on:

Developing light weight and more fuel-efficient engines and transmissions. These technologies include the direct injection four-stroke gasoline engine, the nitrous oxide storage reduction catalytic system, the common rail direct injection diesel engine and the diesel particulate and nitrous oxide reduction system.

Developing alternative fuel powering systems for commercial sale. This includes developing hybrid vehicles and fuel-cell vehicles. The second-generation Prius that Toyota introduced in September 2003 features a new hybrid system which decreases negative environmental impact while increasing power and performance. In June 2005, Toyota's new fuel cell hybrid passenger vehicle became the first vehicle in Japan to acquire vehicle type certification under the Road Vehicles Act, as amended on March 31, 2005, by Japan's Ministry of Land, Infrastructure and Transport (MLIT). Toyota is also working on the development of alternative fuels for vehicles fueled by compressed natural gas and liquid petroleum gas, as well as for flexible fuel vehicles which are recently drawing a lot of attention. Other Toyota efforts in this area include the development of vehicles fueled by compressed natural gas and other alternative fuel vehicles.

Recycling of vehicle parts through the development of recycling technologies. Work in this area includes developing uses for shredder residue, the recycling of nickel-metal hydride batteries and the development of vehicles constructed with a high proportion of recyclable parts.

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Toyota's work in the area of vehicle safety is focused on the development of technologies designed to prevent accidents in the first instance, as well as the development of technologies that protect passengers and reduce the damage on impact in the event of an accident. Safety technologies in development include:

research on protecting diverse passengers, including senior citizens,

autonomous driving support systems, including frontal crash-prevention support systems, and

data exchange driving-support systems using advanced communication technologies.

To expand the frontiers of safety technology in automobiles, Toyota completed in 1995 its first prototype Advanced Safety Vehicle, the ASV-1. In 2000, Toyota created a successor prototype, the ASV-2. The ASV-2 incorporates emerging technologies, such as an autonomous safety support system that uses CCD stereo cameras to recognize obstacles in traffic lanes and an infrastructure-harmonized safety support system to warn the driver of pedestrian crossings. In 2002, Toyota conducted road testing of the ASV-3, a prototype based on further improved infrastructure-harmonized system. With the February 2003 introduction of the Harrier models in Japan, Toyota became the first car manufacturer to implement a pre-crash safety system in its automobiles. This advanced system consists of pre-crash sensors that use millimeter wave radar to detect a possible collision, seat belts that tighten their hold on passengers when a collision is determined to be inevitable and a brake assist system that utilizes power-assisted braking to minimize the speed on impact. In February 2004, Toyota introduced the pre-collision safety system for the first time in the United States by equipping the LS430 with the above features and suspension control features that control nose dives when applying the brakes. Toyota plans to further continue its focus on developing practical applications for its advanced safety technologies. In September 2006, at the time of introduction of LS460 in Japan, Toyota established the world's first advanced pre-crash safety system by adding new functions to the existing pre-crash safety system. Toyota equipped the LS460 with such functions, enabling to detect pedestrians in front, to support driver steering, and to react to vehicles from behind.

Toyota's product development program uses a series of methods which are generally intended to promote timely and appropriate responses to changing market demand. These methods include:

optimizing and eliminating vehicle platforms,

sharing parts and components among multiple vehicles,

shortening the time for development and production preparation by the simultaneous study of design and production engineering processes, and

using computers for production design and evaluation.

In September 2002, Toyota and Nissan Motor Co. entered into an agreement setting forth the basic terms of technical cooperation and other long-term projects involving hybrid systems. This agreement calls for Toyota to supply state-of-the-art hybrid system components to Nissan for 5 years starting from 2006. In addition, with the aim of promoting technical cooperation, both companies agreed to exchange information on hybrid systems that both Toyota and Nissan are currently developing independently, and to discuss the joint development of related components. In March 2004, Toyota and Ford Motor Company announced that they have entered into licensing agreements for patents related to hybrid systems and emissions purification. Pursuant to the agreements, Toyota will license, to Ford Motor Company, patents related to hybrid system control technology. Further, both companies agreed to a cross-licensing arrangement of emission purification technology patents for lean-burn engines.

Toyota's research and development expenditures were approximately ¥891 billion in fiscal 2007, ¥813 billion in fiscal 2006 and ¥755 billion in fiscal 2005. Worldwide, approximately 33,000 employees are involved in Toyota's research and development activities.



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Toyota does not consider any one group of patents or licenses to be so important that their expiration or termination would materially affect Toyota's business. For a further discussion of Toyota's intellectual property, see [Information on the Company](#) [Business Overview](#) [Intellectual Property](#) .

### **5.D TREND INFORMATION**

For a discussion of the trends that affect Toyota's business and operating results, see [Operating Results](#) and [Liquidity and Capital Resources](#) .

### **5.E 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:

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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.

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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 holder's 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.

**Table of Contents****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.

**5.F TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS****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 |                        |              |             |
|----------------------------------------------------------------------------|--------------|-----------------|------------------------|--------------|-------------|
|                                                                            |              | Less than       | Payments Due by Period |              | 5 years and |
|                                                                            | Total        | 1 year          | 1 to 3 years           | 3 to 5 years | 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.

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

|                                                                                             | Total<br>Amounts<br>Committed | Yen in millions<br>Amount of Commitment Expiration |                 |                 |                      |
|---------------------------------------------------------------------------------------------|-------------------------------|----------------------------------------------------|-----------------|-----------------|----------------------|
|                                                                                             |                               | Less than<br>1 year                                | Per Period      |                 | 5 years and<br>after |
|                                                                                             |                               |                                                    | 1 to 3<br>years | 3 to 5<br>years |                      |
| 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             |

## 5.G SAFE HARBOR

All information that is not historical in nature disclosed under Item 5. Operating and Financial Review and Prospects Off-Balance Sheet Arrangements and Tabular Disclosure of Contractual Obligations is deemed to be a forward-looking statement. See Cautionary Statement with Respect to Forward-Looking Statements for additional information.

**Table of Contents****ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****6.A DIRECTORS AND SENIOR MANAGEMENT**

In June 2003, Toyota implemented a comprehensive reorganization of its senior management structure. As part of this reorganization, Toyota introduced a streamlined board of directors and established the new position of non-board managing officer. At the June 2007 Ordinary General Shareholders Meeting, 30 directors were appointed to serve on the board of directors. Senior Managing Directors not only serve as members of the board to participate in the management of Toyota but also serve as the highest authorities in their respective areas of supervision and oversee the daily operations of specific fields/divisions in conjunction with non-board managing officers. This allows Senior Managing Directors to serve as a conduit between management and daily operations. The 47 non-board managing officers generally have responsibility for Toyota's daily operations in specific fields/divisions and report to the designated Senior Managing Directors, and are appointed for one-year terms. Toyota believes that this management system has enhanced its global competitiveness by promoting timely, hands-on decision-making for day-to-day operational matters. Toyota has seven corporate auditors, four of whom are outside corporate auditors.

| Name               | Age | Title                                         | Date First Elected<br>to Board or as<br>Auditor |
|--------------------|-----|-----------------------------------------------|-------------------------------------------------|
| Fujio Cho          | 70  | Chairman of the Board                         | September 1988                                  |
| Katsuhiro Nakagawa | 65  | Vice Chairman of the Board                    | June 2001                                       |
| Katsuaki Watanabe  | 65  | President, Member of the Board                | September 1992                                  |
| Tokuichi Uranishi  | 65  | Executive Vice President, Member of the Board | June 1996                                       |
| Kazuo Okamoto      | 63  | Executive Vice President, Member of the Board | June 1996                                       |
| Kyoji Sasazu       | 63  | Executive Vice President, Member of the Board | June 1997                                       |
| Mitsuo Kinoshita   | 61  | Executive Vice President, Member of the Board | June 1997                                       |
| Takeshi Uchiyamada | 60  | Executive Vice President, Member of the Board | June 1998                                       |
| Masatami Takimoto  | 61  | Executive Vice President, Member of the Board | June 1999                                       |
| Akio Toyoda        | 51  | Executive Vice President, Member of the Board | June 2000                                       |
| Yukitoshi Funo     | 60  | Senior Managing Director, Member of the Board | June 2000                                       |
| Takeshi Suzuki     | 59  | Senior Managing Director, Member of the Board | June 2000                                       |
| Atsushi Niimi      | 59  | Senior Managing Director, Member of the Board | June 2000                                       |
| Hiroshi Takada     | 60  | Senior Managing Director, Member of the Board | June 2001                                       |
| Teiji Tachibana    | 60  | Senior Managing Director, Member of the Board | June 2001                                       |
| Shinichi Sasaki    | 60  | Senior Managing Director, Member of the Board | June 2001                                       |
| Akira Okabe        | 59  | Senior Managing Director, Member of the Board | June 2001                                       |
| Yoichiro Ichimaru  | 58  | Senior Managing Director, Member of the Board | June 2001                                       |
| Shoji Ikawa        | 57  | Senior Managing Director, Member of the Board | June 2001                                       |
| Koichi Ina         | 59  | Senior Managing Director, Member of the Board | June 2002                                       |
| Takeshi Yoshida    | 58  | Senior Managing Director, Member of the Board | June 2007                                       |
| Shinzo Kobuki      | 57  | Senior Managing Director, Member of the Board | June 2007                                       |
| Akira Sasaki       | 59  | Senior Managing Director, Member of the Board | June 2007                                       |
| Hiroshi Kawakami   | 58  | Senior Managing Director, Member of the Board | June 2007                                       |
| Tadashi Arashima   | 57  | Senior Managing Director, Member of the Board | June 2007                                       |
| Mamoru Furuhashi   | 57  | Senior Managing Director, Member of the Board | June 2007                                       |
| Satoshi Ozawa      | 57  | Senior Managing Director, Member of the Board | June 2007                                       |
| James E. Press     | 60  | Senior Managing Director, Member of the Board | June 2007                                       |
| Shoichiro Toyoda   | 82  | Honorary Chairman, Member of the Board        | July 1952                                       |
| Hiroshi Okuda      | 74  | Senior Advisor, Member of the Board           | July 1982                                       |
| Yoshikazu Amano    | 58  | Corporate Auditor                             | June 2007                                       |
| Chiaki Yamaguchi   | 57  | Corporate Auditor                             | June 2003                                       |
| Masaki Nakatsugawa | 54  | Corporate Auditor                             | June 2006                                       |
| Yoichi Kaya        | 73  | Corporate Auditor                             | June 2003                                       |
| Yoichi Morishita   | 73  | Corporate Auditor                             | June 2006                                       |
| Akishige Okada     | 69  | Corporate Auditor                             | June 2006                                       |

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Kunihiro Matsuo

64 Corporate Auditor

June 2007

The term of each director listed above expires in June 2008.

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### Biographies

**Fujio Cho** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1988 and has served as the Chairman of the Board since 2006. Mr. Cho served as the Vice Chairman of the Board from 2005 to 2006, the President, Member of the Board of Toyota from 1999 to 2005, an Executive Vice President, Member of the Board from 1998 to 1999, and as the President of Toyota Motor Manufacturing, U.S.A., Inc. from 1988 to 1994. Mr. Cho also serves as a Director of Central Japan Railway Company and Sony Corporation. Mr. Cho joined Toyota in 1960.

**Katsuhiro Nakagawa** was appointed as a Managing Director, Member of the Board of Toyota Motor Corporation in 2001 and has served as the Vice Chairman of the Board since 2004. Mr. Nakagawa served as an Executive Vice President, Member of the Board between 2003 and 2004. Mr. Nakagawa served as the Executive Advisor of The Tokio Marine and Fire Insurance Co., Ltd. between 1998 and 2001. Mr. Nakagawa was the Vice Minister for International Affairs at the former Japanese Ministry of International Trade and Industry before joining The Tokio Marine and Fire Insurance Co., Ltd. Mr. Nakagawa joined Toyota in 2001.

**Katsuaki Watanabe** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1992 and has served as the President, Member of the Board since 2005 and an Executive Vice President, Member of the Board from 2001 to 2005. Mr. Watanabe also serves as a Director of Mitsubishi UFJ Securities Co., Ltd. Mr. Watanabe joined Toyota in 1964.

**Tokuichi Uranishi** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1996 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Uranishi also serves as the Chairman of Toyota Motor Europe NV/SA. Mr. Uranishi joined Toyota in 1966.

**Kazuo Okamoto** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1996 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Okamoto also serves as a Director of Toyota Boshoku Corporation. Mr. Okamoto joined Toyota in 1967.

**Kyoji Sasazu** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1997 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Sasazu joined Toyota in 1967.

**Mitsuo Kinoshita** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1997 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Kinoshita also serves as a Director of Aioi Insurance Co., Ltd. and New United Motor Manufacturing, Inc. Mr. Kinoshita joined Toyota in 1968.

**Takeshi Uchiyamada** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1998 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Uchiyamada also serves as a Director of JTEKT Corporation. Mr. Uchiyamada also serves as the Chairman of Toyota Motor Technical Center (China) Co., Ltd. Mr. Uchiyamada joined Toyota in 1969.

**Masatami Takimoto** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 1999 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Takimoto joined Toyota in 1970.

**Akio Toyoda** was appointed as a Director, Member of the Board of Toyota Motor Corporation in 2000 and has served as an Executive Vice President, Member of the Board since 2005. Mr. Toyoda also serves as the Chairman of Toyota FAW (Tianjin) Dies Co., Ltd. and as a Director of New United Motor Manufacturing, Inc. Mr. Toyoda joined Toyota in 1984.

**Yukitoshi Funo** has served as a Senior Managing Director, Member of the Board since 2005. Mr. Funo has served as the Chief North America Operations Officer since 2007. Mr. Funo has also served as the Chairman of

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the Board of Toyota Motor Sales, U.S.A., Inc. since 2005 and as the President from 2003 to 2005. Mr. Funo served as a Director, Member of the Board from 2000 to 2003, as a Managing Officer from 2003 to 2004 and as a Director from 2004 to 2005. Mr. Funo joined Toyota in 1970.

**Takeshi Suzuki** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2004. Mr. Suzuki has also served as the Chief Accounting Officer since 2004 and as the Chief Business Development Officer since 2006. Mr. Suzuki served as a Director, Member of the Board from 2000 to 2003 and as a Managing Officer from 2003 to 2004. Mr. Suzuki joined Toyota in 1970.

**Atsushi Niimi** has served as a Senior Managing Director, Member of the Board since 2005. Mr. Niimi has served as the Chief Purchasing Officer since 2007. Mr. Niimi served as a Director, Member of the Board from 2000 to 2003, as a Managing Officer from 2003 to 2004 and as a Director from 2004 to 2005. Mr. Niimi joined Toyota in 1971.

**Hiroshi Takada** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Takada has also served as the Chief Global Planning Operations Officer since 2006. Mr. Takada served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Takada joined Toyota in 1969.

**Teiji Tachibana** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Tachibana has also served as the Chief Government & Public Affairs Officer since 2006 and as the Chief Housing Operations Officer since 2005. Mr. Tachibana served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Tachibana joined Toyota in 1969.

**Shinichi Sasaki** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Sasaki has also served as the Chief Quality Group Officer since 2006. Mr. Sasaki served as a Director, Member of the Board from 2000 to 2003 and as a Managing Officer from 2003 to 2004. Mr. Sasaki joined Toyota in 1970.

**Akira Okabe** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Okabe has also served as the Chief Asia, Oceania & Middle East Operations Officer since 2005. Mr. Okabe served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Okabe joined Toyota in 1971.

**Yoichiro Ichimaru** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Ichimaru has also served as the Chief Domestic Sales Operations Officer since 2005. Mr. Ichimaru served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Ichimaru joined Toyota in 1971.

**Shoji Ikawa** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2005. Mr. Ikawa has also served as the Chief Production Engineering Officer since 2005. Mr. Ikawa served as a Director, Member of the Board from 2001 to 2003 and as a Managing Officer from 2003 to 2005. Mr. Ikawa joined Toyota in 1975.

**Koichi Ina** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2007. Mr. Ina has also served as the Chief Strategic Production Planning Officer and the Chief Manufacturing Officer since 2007. Mr. Ina served as a Director, Member of the Board from 2002 to 2003 and as a Managing Officer from 2003 to 2007. Mr. Ina joined Toyota in 1973.

**Takeshi Yoshida** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2007. Mr. Yoshida has also served as the Chief Product Development Officer since 2007. Mr. Yoshida served as a Managing Officer from 2003 to 2007. Mr. Yoshida joined Toyota in 1974.

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**Shinzo Kobuki** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2007. Mr. Kobuki has also served as the Chief Power Train Development Officer since 2007. Mr. Kobuki served as a Managing Officer from 2003 to 2007. Mr. Kobuki joined Toyota in 1972.

**Akira Sasaki** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2007. Mr. Sasaki has also served as the Chief China Operations Officer since 2007. Mr. Sasaki has served as the Chairman of Toyota Motor (China), Investment Co., Ltd. Mr. Sasaki has served as a Managing Officer from 2003 to 2007. Mr. Sasaki joined Toyota in 1970.

**Hiroshi Kawakami** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2007. Mr. Kawakami has also served as the Chief Customer Service Operations Officer since 2007. Mr. Kawakami served as a Managing Officer from 2003 to 2007. Mr. Kawakami joined Toyota in 1972.

**Tadashi Arashima** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2007. Mr. Arashima has also served as the Chief Europe & Africa Operations Officer since 2007. Mr. Arashima has served as the President of Toyota Motor Europe NV/SA since 2006. Mr. Arashima served as a Managing Officer from 2003 to 2007. Mr. Arashima joined Toyota in 1973.

**Mamoru Furuhashi** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2007. Mr. Furuhashi has also served as the Deputy Chief Government & Public Affairs Officer since 2007. Mr. Furuhashi served as a Managing Officer from 2003 to 2007. Mr. Furuhashi joined Toyota in 1973.

**Satoshi Ozawa** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2007. Mr. Ozawa has also served as the Chief General Administration & Human Resources Officer since 2007. Mr. Ozawa served as a Managing Officer from 2003 to 2007. Mr. Ozawa joined Toyota in 1974.

**James E. Press** has served as a Senior Managing Director, Member of the Board of Toyota Motor Corporation since 2007. Mr. Press has also served as the President of Toyota Motor North America, Inc. since 2007. Mr. Press served as a Managing Officer from 2003 to 2007. Mr. Press joined Toyota in 1970.

**Shoichiro Toyoda** has served as a Director, Member of the Board of Toyota Motor Corporation since 1952. Dr. Toyoda is currently the Honorary Chairman of the Board of Toyota Motor Corporation. Dr. Toyoda joined Toyota in 1952.

**Hiroshi Okuda** has served as a Director, Member of the Board of Toyota Motor Corporation since 1982 and has served as the Senior Advisor, Member of the Board since 2006. Mr. Okuda served as the President, Member of the Board of Toyota from 1995 to 1999 and as Chairman of the Board from 1999 to 2006. Mr. Okuda also serves as a Director of KDDI Corporation. Mr. Okuda joined Toyota in 1955.

**Yoshikazu Amano** has served as a Corporate Auditor of Toyota Motor Corporation since 2007. Mr. Amano served as a Director, Member of the Board from 2002 to 2003 and as a Managing Officer from 2003 to 2007. Mr. Amano joined Toyota in 1972.

**Chiaki Yamaguchi** has served as a Corporate Auditor of Toyota Motor Corporation since 2003. Mr. Yamaguchi also served as the Senior Managing Director of Toyota Finance Corporation from 2001 to 2003. Mr. Yamaguchi joined Toyota in 1972.

**Masaki Nakatsugawa** has served as a Corporate Auditor of Toyota Motor Corporation since 2006. Mr. Nakatsugawa also served as the General Manager of Toyota's Accounting Division from 2004 to 2006. Mr. Nakatsugawa joined Toyota in 1976.

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**Yoichi Kaya** has served as a Corporate Auditor of Toyota Motor Corporation since 2003. Mr. Kaya is the Assistant Director of the Research Institute of Innovative Technology for the Earth.

**Yoichi Morishita** has served as a Corporate Auditor of Toyota Motor Corporation since 2006. Mr. Morishita is a Corporate Counsellor of Matsushita Electric Industrial Co., Ltd.

**Akishige Okada** has served as a Corporate Auditor of Toyota Motor Corporation since 2006. Mr. Okada is the Advisor of Sumitomo Mitsui Banking Corporation.

**Kunihiro Matsuo** has served as a Corporate Auditor of Toyota Motor Corporation since 2007. Mr. Matsuo served as the Prosecutor-General of the Supreme Public Prosecutors Office from 2004 to 2006. Mr. Matsuo registered as an Attorney in 2006.

Akio Toyoda is Shoichiro Toyoda's son. There are no other family relationships among directors and corporate auditors.

None of the persons listed above was selected as director, corporate auditor or member of senior management pursuant to an arrangement or understanding with Toyota's major shareholders, customers, suppliers or others.

## **6.B COMPENSATION**

The aggregate amount of remuneration, including bonuses but excluding stock options, paid to all directors and corporate auditors as a group by Toyota for services in all capacities during fiscal 2007 was approximately ¥2,492 million. Directors and corporate auditors of Toyota Motor Corporation receive year-end bonuses, the aggregate amount of the bonuses for directors and bonuses for corporate auditors are approved at Toyota Motor Corporation's Ordinary General Shareholders' Meeting and is based on Toyota Motor Corporation's financial performance for the fiscal year. The amounts of the bonuses paid to individual directors and corporate auditors are then determined based upon discussions at a meeting of Toyota Motor Corporation's board of directors and the meeting of corporate auditors.

Toyota Motor Corporation also granted to its directors 9,100 stock acquisition rights to purchase up to 910,000 shares of common stock during fiscal 2007 under its stock option plan. For a detailed description of the stock options and the stock option plan, see [Share Ownership](#).

In April 2006, the board of directors of Toyota Motor Corporation decided to abolish the retirement allowance payments for directors and proposed that decision to the Ordinary General Shareholders' Meeting. The proposal was subsequently resolved by the Ordinary General Shareholders' Meeting in June 2006. The last lump sum retirement allowance was approved at the Ordinary General Shareholders' Meeting in June 2006. At the same time, the amount of Directors' remuneration was revised from ¥130 million or less per month to ¥200 million or less per month by the resolution of the Ordinary General Shareholders' meeting in June 2006. During fiscal 2007, Toyota paid retirement allowances aggregating approximately ¥120 million to retiring directors and corporate auditors.

## **6.C BOARD PRACTICES**

Toyota's articles of incorporation provide for a board of directors of not more than 30 members and for not more than seven corporate auditors. Shareholders elect the directors and corporate auditors at the general shareholders' meeting. The normal term of office of a director is one year and of a corporate auditor is four years. Directors and corporate auditors may serve any number of consecutive terms.

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The board of directors may elect one Chairman of the Board, one President and one or more Vice Chairmen of the Board, Executive Vice Presidents and Senior Managing Directors. The board of directors elects, pursuant to its resolutions, one or more Representative Directors. Each Representative Director represents Toyota generally in the conduct of its affairs. The board of directors has the ultimate responsibility for the administration of Toyota's affairs. None of Toyota's directors is party to a service contract with Toyota or any of its subsidiaries that provides for benefits upon termination of employment.

Under the Corporation Act and Toyota's articles of incorporation, Toyota may, by a resolution of its board of directors, exempt Directors (including former Directors) from their liabilities to Toyota arising in connection with their failure to execute their duties within the limits stipulated by laws and regulations.

Under the Corporation Act, Toyota must have at least three corporate auditors. At least half of the corporate auditors will be required to be persons who have not been a Director, accounting counselor (or if an accounting counselor is a judicial person, a member of such judicial person), executive officer, general manager or employee of Toyota or any of its subsidiaries at any time during the past. The corporate auditors may not at the same time be directors, accounting counselor (in case that an accounting counselor is a judicial person, a member of such judicial person), executive officers, general managers or employees of Toyota or any of its subsidiaries. Together, these corporate auditors form a board of corporate auditors. The corporate auditors have the duty to examine the financial statements and business reports which are submitted by the board of directors to the general shareholders' meeting. The corporate auditors also supervise the administration of Toyota's affairs by the directors. Corporate auditors are not required to be, and Toyota's corporate auditors are not, certified public accountants. They are required to participate in meetings of the board of directors but are not entitled to vote.

Under the Corporation Act and Toyota's articles of incorporation, Toyota may, by a resolution of its board of directors, exempt corporate auditors (including former corporate auditors) from their liabilities to Toyota arising in connection with their failure to execute their duties within the limits stipulated by laws and regulations. In addition, Toyota may enter into a liability limitation agreement with each outside corporate auditor which limits the maximum amount of their liabilities owed to Toyota arising in connection with their failure to execute their duties to an amount equal to the minimum liability limit amount prescribed in the laws and regulations.

Toyota does not have a remuneration committee.

## **Significant Differences in Corporate Governance Practices between Toyota and U.S. Companies Listed on the NYSE**

Pursuant to home country practices exemptions granted by NYSE, Toyota is permitted to follow certain corporate governance practices complying with Japanese laws, regulations and stock exchange rules in lieu of NYSE's listing standards. The SEC approved changes to the NYSE's listing standards related to corporate governance practices of listed companies (the "NYSE Corporate Governance Rules") in November 2003, as further amended in November 2004. Toyota is exempt from the approved changes, except for requirements that (a) Toyota's board of corporate auditors satisfies the requirements of Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), (b) Toyota must disclose significant differences in its corporate governance practices as compared to those followed by domestic companies under the NYSE listing standards, (c) Toyota's principal executive officer must notify the NYSE of material non-compliance with (a) and (b), and (d) Toyota must submit annual and interim written affirmations to the NYSE. Toyota's corporate governance practices and those followed by domestic companies under the NYSE Corporate Governance Rules have the following significant differences:

**1. Directors.** Toyota currently does not have any directors who will be deemed as an "independent director" as required under the NYSE Corporate Governance Rules for U.S. listed companies. Unlike the NYSE Corporate Governance Rules, the Corporation Act does not require Japanese companies with a board of corporate auditors such as Toyota to have any independent directors on its board of directors. While the NYSE Corporate Governance Rules require that the non-management directors of each listed company meet at regularly scheduled

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executive sessions without management, Toyota currently has no non-management director on its board of directors. Unlike the NYSE Corporate Governance Rules, the Corporation Act does not require, and accordingly Toyota does not have, an internal corporate organ or committee comprised solely of independent directors.

**2. Committees.** Under the Corporation Act, Toyota has elected to structure its corporate governance system as a company with corporate auditors, who are under a statutory duty to monitor, review and report on the management of the affairs of Toyota. Toyota, as with other Japanese companies with a board of corporate auditors, but unlike U.S. listed companies subject to the NYSE Corporate Governance Rules, does not have specified committees, including those that are responsible for director nomination, corporate governance and executive compensation.

Pursuant to the Corporation Act, Toyota's board of directors nominates and submits a proposal for the appointment of directors for shareholder approval. The shareholders vote on such nomination at the general shareholders' meeting. The Corporation Act requires that the respective limits or calculation formula, and kind (in case that the remuneration, bonus and any other benefits in compensation for the execution of duties (remuneration, etc.) are to be paid in other than cash) of remuneration, etc. to be paid to directors, and limits of remuneration, etc. to be paid to corporate auditors, must be determined by a resolution of the general shareholders' meeting, unless their remuneration, etc. is provided for in the articles of incorporation. The distribution of remuneration, etc. among each director is broadly delegated to the board of directors and the distribution of remuneration among each corporate auditor is determined by consultation among the corporate auditors.

**3. Audit Committee.** Toyota avails itself of paragraph (c)(3) of Rule 10A-3 of the Exchange Act, which provides a general exemption from the audit committee requirements to a foreign private issuer with a board of corporate auditors, subject to certain requirements which continue to be applicable under Rule 10A-3.

Pursuant to the requirements of the Corporation Act, Toyota elects its corporate auditors through a resolution adopted at a general shareholders meeting. Toyota currently has seven corporate auditors, which exceeds the minimum number of corporate auditors required pursuant to the Corporation Act.

Unlike the NYSE Corporate Governance Rules, the Corporation Act, among others, do not require corporate auditors to establish an expertise in accounting nor are they required to present other special knowledge and experience. Under the Corporation Act, the board of corporate auditors may determine the auditing policies and methods of investigating the conditions of Toyota's business and assets, and may resolve other matters concerning the execution of the corporate auditor's duties. The board of corporate auditors also prepares auditors' reports and gives consent to proposals of the nomination of corporate auditors and accounting auditors.

Toyota currently has four outside corporate auditors under the Corporation Act. Under the Corporation Act, at least half of the corporate auditors of Toyota must be outside corporate auditors, which is such person who was not a director, accounting counselor (in case that an accounting counselor is a judicial person, a member of such judicial person), executive officer, manager, or employee of Toyota or its subsidiaries at any time during the past. Such qualifications for an outside corporate auditor are different from the audit committee independence requirement under the NYSE Corporate Governance Rules.

**4. Corporate Governance Guidelines.** Unlike the NYSE Corporate Governance Rules, Toyota is not required to adopt corporate governance guidelines under Japanese laws and regulations, including the Corporation Act and the Securities and Exchange Law of Japan or stock exchange rules. However, Toyota is required to resolve the matters at the board of directors concerning provision of the system to ensure the execution of duties of the directors to comply with the laws, regulations and the articles of incorporation, and any other systems to ensure the adequacy of the business required under the ordinance of the Ministry of Justice (internal control system or *naibu-tosei*), and to disclose such matters resolved, policies and the present status of its corporate governance in its business reports, annual securities report and certain other disclosure documents in accordance with the regulations under the Japanese Securities and Exchange Law and stock exchange rules in respect of timely disclosure.

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**5. Code of Business Conduct and Ethics.** Unlike the NYSE Corporate Governance Rules, under Japanese laws and regulations including the Corporation Act and the Securities and Exchange Law of Japan, or stock exchange rules, Toyota is not required to adopt a code of business conduct and ethics for directors, officers and employees. Accordingly, Toyota is not required to adopt and disclose waivers of the code of business conduct and ethics for these individuals. However, Toyota resolved the matters concerning provision of the system to ensure the execution of duties of the employees to comply with the laws, regulations and the articles of incorporation, etc. as internal control system or *naibu-tosei* pursuant to the Corporation Act, maintains guidelines and internal regulations such as Guiding Principles at Toyota, Toyota Code of Conduct and a code of ethics pursuant to Section 406 of the Sarbanes-Oxley Act. Please see Code of Ethics for additional information.

**6. Shareholder Approval of Equity Compensation Plans.** Unlike the NYSE Corporate Governance Rules, under which material revisions to equity-compensation plans of listed companies are subject to shareholder approval, pursuant to the Corporation Act, generally, the adoption of equity compensation plans for directors is required to be approved by a majority of shareholders at the general shareholders' meeting as the remuneration, etc. in other than cash. In addition to such approval, if Toyota desires to adopt an equity-compensation plan under which stock acquisition rights are granted on specially favorable terms to the recipient (except where such rights are granted to all of its shareholders on a pro-rata basis at the same time), then Toyota obtains approval by super-majority (as defined in the Corporation Act) at the Ordinary General Shareholders' Meeting. Such approval is applicable only to stock acquisition rights to be granted within one year from the date of the approval.

## 6.D EMPLOYEES

The total number of Toyota employees, on a consolidated basis, as reported in Toyota's annual Japanese securities report filed with the Director of the Kanto Local Finance Bureau was 299,394 at March 31, 2007, 285,977 at March 31, 2006, and 265,753 at March 31, 2005. The following tables set forth a breakdown of persons employed by business segment and by geographic location at March 31, 2007.

| Segment            | Number of |               | Number of |
|--------------------|-----------|---------------|-----------|
|                    | Employees | Location      | Employees |
| Automotive         | 262,319   | Japan         | 185,427   |
| Financial services | 7,384     | North America | 36,643    |
| All other          | 24,172    | Europe        | 21,297    |
| Unallocated        | 5,519     | Asia          | 33,539    |
|                    |           | Other         | 22,488    |
| Total company      | 299,394   | Total company | 299,394   |

As a result of Toyota's business plan to further localize its global operations, the number of Toyota's employees in the countries in which Toyota operates has generally been growing over the last several years.

Most regular employees of Toyota Motor Corporation and its consolidated subsidiaries in Japan, other than management, are required to become members of the labor unions that comprise the FEDERATION OF ALL TOYOTA WORKERS' UNIONS. Approximately 88% of Toyota Motor Corporation's regular employees in Japan are members of this union.

In Japan, basic wages and other working conditions are negotiated annually. In addition, in accordance with Japanese national custom, each employee is also paid a semiannual bonus. Bonuses are negotiated at the time of wage negotiations and are based on Toyota's financial results, prospects and other factors. The average wage increases per employee, excluding bonuses, in Japan have been approximately 2.0% per year for the past five fiscal years.

In general, Toyota considers its labor relations with all of its workers to be good. However, Toyota is currently a party to, and otherwise from time to time experiences, labor disputes in some of the countries in

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which it operates. Toyota does not expect any disputes to which it is currently a party to materially affect Toyota's consolidated financial position.

Toyota's average number of temporary employees on a consolidated basis was 81,906 during fiscal 2007.

**6.E SHARE OWNERSHIP**

The following table sets forth information with respect to the number of shares of Toyota's common stock held by each director and corporate auditor as of June 2007.

| Name               | Number of<br>Shares |
|--------------------|---------------------|
| Fujio Cho          | 36,905              |
| Katsuhiro Nakagawa | 26,800              |
| Katsuaki Watanabe  | 28,871              |
| Tokuichi Uranishi  | 24,633              |
| Kazuo Okamoto      | 17,564              |
| Kyoji Sasazu       | 24,892              |
| Mitsuo Kinoshita   | 24,070              |
| Takeshi Uchiyamada | 24,464              |
| Masatami Takimoto  | 25,700              |
| Akio Toyoda        | 4,560,891           |
| Yukitoshi Funo     | 19,248              |
| Takeshi Suzuki     | 12,076              |
| Atsushi Niimi      | 20,938              |
| Hiroshi Takada     | 8,850               |
| Teiji Tachibana    | 10,900              |
| Shinichi Sasaki    | 8,010               |
| Akira Okabe        | 20,000              |
| Yoichiro Ichimaru  | 17,468              |
| Shoji Ikawa        | 24,136              |
| Koichi Ina         | 20,900              |
| Takeshi Yoshida    | 14,133              |
| Shinzo Kobuki      | 21,300              |
| Akira Sasaki       | 6,600               |
| Hiroshi Kawakami   | 13,200              |
| Tadashi Arashima   | 20,781              |
| Mamoru Furuhashi   | 10,000              |
| Satoshi Ozawa      | 15,200              |
| James E. Press     |                     |
| Shoichiro Toyoda   | 11,172,193          |
| Hiroshi Okuda      | 64,963              |
| Yoshikazu Amano    | 17,268              |
| Chiaki Yamaguchi   | 5,000               |
| Masaki Nakatsugawa | 5,800               |
| Yoichi Kaya        |                     |
| Yoichi Morishita   |                     |
| Akishige Okada     |                     |
| Kunihiro Matsuo    |                     |
| Total              | 16,323,754          |

Each of the persons listed above owns less than one percent of the issued and outstanding shares of common stock of Toyota. The shares listed above do not include options that are exercisable for shares of Toyota's common stock. For a description of these options, see [Stock Options](#) below.

None of Toyota's shares of common stock entitles the holder to any preferential voting rights.

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Toyota has enacted stock option plans in each of the past six years. The plans for which stock options or stock acquisition rights are currently exercisable or will become exercisable in the future were approved by Toyota's shareholders in June of 2002, 2003, 2004, 2005 and 2006. Under the plan enacted in 2002, Toyota issued stock acquisition rights, which are rights introduced as of April 2002 pursuant to the amendment to the Commercial Code, to purchase up to 1,876,000 shares of common stock to its directors and 496 officers and employees, including directors, officers and employees of its subsidiaries and one Toyota affiliate. Under the 2003 plan, Toyota issued stock acquisition rights to purchase up to 1,958,000 shares of common stock to its directors and 565 officers and employees, including directors, officers and employees of its subsidiaries and one Toyota affiliate. Under the 2004 plan, Toyota issued stock acquisition rights to purchase up to 2,021,000 shares of common stock to its directors and 582 officers and employees, including directors, officers and employees of its subsidiaries and one Toyota affiliate. Under the 2005 plan, Toyota issued stock acquisition rights to purchase up to 2,104,000 shares of common stock to its directors and 596 officers and employees of its subsidiaries and one Toyota affiliate. Under the 2006 plan, Toyota issued stock acquisition rights to purchase up to 3,176,000 shares of common stock to its directors and 580 officers and employees, including directors, officers and employees of its subsidiaries and one Toyota affiliate. Under the 2007 plan, Toyota is authorized to issue stock acquisition rights to purchase up to 3,264,000 shares of common stock to its directors and 579 officers and employees, including directors, officers and employees of its subsidiaries and one Toyota affiliate.

Pursuant to the provisions of the 2002, 2003, 2004 and 2005 plans, stock acquisition rights may be exercised during a four-year period that starts two years from the date first granted. Pursuant to the provisions of the 2006 and 2007 plans, stock acquisition rights may be exercised during a six year period that starts two years from the date of grant. The exercise price of each stock acquisition right is 1.025 times the closing price of Toyota's common stock on the Tokyo Stock Exchange on the date of grant. The 2002 plan provides that each director will be granted no more than 200 and no less than 100 stock acquisition rights, and each eligible officer or employee will be granted no more than 100 and no less than 20 stock acquisition rights. Each of the 2003, 2004 and 2005 plans provides that each director will be granted no more than 200 and no less than 150 stock acquisition rights, and each eligible officer or employee will be granted no more than 100 and no less than 20 stock acquisition rights. The 2006 and 2007 plans provide that each director will be granted no more than 400 and no less than 300 stock acquisition rights, and each eligible officer or employee will be granted no more than 200 and no less than 20 stock acquisition rights. For each of the 2002, 2003, 2004, 2005, 2006 and 2007 plans, one hundred shares will be issued or delivered upon the exercise of each stock acquisition right. The options are granted as of August 1 of each year for each plan, except for the 2004 plan, which options were granted as of August 2, 2004.

The 2002 plan further provides that an option holder who retires while one's options are still exercisable retains the right to exercise one's options until the earlier of: (i) six months after one's retirement, or (ii) six years after the date the options were first granted. The 2006 and 2007 plans further provide that an option holder who retires while one's options are still exercisable retains the right to exercise one's options until the earlier of: (i) two years after one's retirement, or (ii) eight years after the date the options were first granted. Under the 2003, 2004 and 2005 plans, an option holder who retires while one's options are still exercisable retains the right to exercise his shares until six years after the date the options were first granted. An option holder's right to purchase common stock under each plan lapses automatically upon one's death.

The following table summarizes information for options and the incentive plan outstanding and exercisable at March 31, 2007:

|                      |       |           | Outstanding |           |           | Exercisable |           |           |
|----------------------|-------|-----------|-------------|-----------|-----------|-------------|-----------|-----------|
|                      |       |           | Weighted-   | Weighted- | Weighted- | Weighted-   | Weighted- |           |
|                      |       |           | average     | average   | average   | average     | average   |           |
|                      |       |           | Number of   | exercise  | exercise  | remaining   | Number of | exercise  |
| Exercise price range |       | shares    | price       | price     | life      | shares      | price     | 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     |

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Toyota also has an employee stock ownership association in Japan for employees and full time and part time company advisors. Members of the employee stock ownership association set aside certain amounts from their monthly salary and bonuses to purchase Toyota's common stock through the employee stock ownership association. As of March 31, 2007, the employee stock ownership association held 13,414,457 shares of Toyota's common stock.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****7.A MAJOR SHAREHOLDERS**

As of March 31, 2007, 3,609,997,492 shares (including 412,060,800 shares of treasury stock) of Toyota's common stock were outstanding. Beneficial ownership of Toyota's common stock in the table below was prepared from publicly available records of the filings made by Toyota's shareholders regarding their ownership of Toyota's common stock under the Securities and Exchange Law of Japan.

Under the Securities and Exchange Law of Japan, any person who becomes, beneficially and solely or jointly, a holder, including, but not limited to, a deemed holder who manages shares for another holder pursuant to a discretionary investment agreement, of more than 5% of the shares with voting rights of a company listed on a Japanese stock exchange (including ADSs representing such shares) must file a report concerning the shareholding with the Director of the relevant local finance bureau. A similar report must be filed, with certain exceptions, if the percentage of shares held by a holder, solely or jointly, of more than 5% of the total issued shares of a company increases or decreases by 1% or more, or if any change to a material matter set forth in any previously filed reports occurs.

Based on publicly available information, the following table sets forth the beneficial ownership of holders of more than 5% of Toyota's common stock as of the dates indicated in the reports described below.

| Name of Beneficial Owner      | Percentage  |             |
|-------------------------------|-------------|-------------|
|                               | Number of   | of Shares   |
|                               | Shares      | Outstanding |
| Toyota Industries Corporation | 187,115,312 | 5.18        |

The number of shares owned by Toyota Industries Corporation (formerly, Toyoda Automatic Loom Works, Ltd.) is based on a report filed under the Securities and Exchange Law of Japan stating that Toyota Industries Corporation held or was deemed to hold beneficially, as of November 13, 1995, 187,115,312 shares of Toyota's common stock.

According to The Bank of New York, depositary for Toyota's ADSs, as of March 31, 2007, 142,558,886 shares of Toyota's common stock were held in the form of ADRs and there were 2,528 ADR holders of record in the United States. According to Toyota's register of shareholders, as of March 31, 2007, there were 408,504 holders of common stock of record worldwide. As of March 31, 2007, there were 321 record holders of Toyota's common stock with addresses in the United States, whose shareholdings represented approximately 12.8% of the issued common stock on that date. Because some of these shares were held by brokers or other nominees, the number of record holders with addresses in the United States might not fully show the number of beneficial owners in the United States.

None of Toyota's shares of common stock entitles the holder to any preferential voting rights.

To the extent known to Toyota, Toyota is not owned or controlled, directly or indirectly, by another corporation, any foreign government or any natural or legal person.

Toyota knows of no arrangements the operation of which may at a later time result in a change of control.

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### **7.B RELATED PARTY TRANSACTIONS**

#### **Business Relationships**

Toyota purchases materials, supplies and services from numerous suppliers throughout the world in the ordinary course of business, including Toyota's equity-method affiliates and those firms with which certain members of Toyota's board of directors are affiliated. Toyota purchased materials, supplies and services from these affiliated entities in the amount of ¥4,028.3 billion in fiscal 2007. Toyota also sells its products and services to Toyota's equity-method affiliates and firms with which certain members of Toyota's board of directors are affiliated. Toyota sold products and services to these affiliated entities in the amount of ¥1,475.2 billion in fiscal 2007. Toyota believes all of these purchase and sale transactions were arm's-length transactions. See note 12 of Toyota's consolidated financial statements for additional information regarding Toyota's investments in and transactions with affiliated companies.

#### **Loans**

Toyota regularly has trade accounts and other receivables by, and accounts payable to, Toyota's equity-method affiliates and firms with which certain members of Toyota's board of directors are affiliated. Toyota had outstanding trade accounts and other receivables by these affiliated entities in the amount of ¥256.8 billion as of March 31, 2007. Toyota had accounts payable to these affiliated entities in the amount of ¥605.6 billion as of March 31, 2007.

Toyota, from time to time, provides short- to medium-term loans to its affiliates, as well as loans under a loan program established by certain subsidiaries to assist their executives and directors with the purchase of homes. As of March 31, 2007, an aggregate amount of ¥30.6 billion in loans was outstanding to its equity-method affiliates. As of March 31, 2007, an aggregate amount of ¥32.2 billion in loans was outstanding to those of its affiliates not accounted for under the equity method, which are 20% to 50% owned by Toyota. As of March 31, 2007, the largest loan outstanding to any such equity-method affiliate was a loan of ¥27.5 billion at a fixed rate. Toyota believes that each of these loans was entered into in the ordinary course of business.

### **7.C INTERESTS OF EXPERTS AND COUNSEL**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **8.A CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION**

- 1-3. Consolidated Financial Statements. Toyota's audited consolidated financial statements are included under Item 18 Financial Statements . Except for Toyota's consolidated financial statements included under Item 18, no other information in this annual report has been audited by Toyota's auditors.
4. Not applicable.
5. Not applicable.
6. Export Sales. See Operating and Financial Review and Prospects Operating Results Overview Geographical Breakdown .
7. Legal and Arbitration Proceedings. See Information on the Company Business Overview Legal Proceedings .

8. Dividend Policy. See Selected Financial Data Dividends .

**8.B SIGNIFICANT CHANGES**

Except as disclosed in this annual report, there have been no significant changes since the date of Toyota's latest annual financial statements.

**Table of Contents****ITEM 9. THE OFFER AND LISTING****9.A LISTING DETAILS**

The following table sets forth for the periods shown the reported high and low sales prices of the common stock on the Tokyo Stock Exchange and the ADSs on the New York Stock Exchange.

|                                           | Tokyo Stock                         |         | New York Stock                    |          |
|-------------------------------------------|-------------------------------------|---------|-----------------------------------|----------|
|                                           | Exchange<br>Price per Share<br>High | Low     | Exchange<br>Price per ADS<br>High | Low      |
| <b><u>Fiscal Year Ended March 31,</u></b> |                                     |         |                                   |          |
| 2003                                      | ¥ 3,790                             | ¥ 2,625 | \$ 57.45                          | \$ 44.40 |
| 2004                                      | 3,990                               | 2,455   | 75.88                             | 41.17    |
| 2005                                      | 4,520                               | 3,730   | 82.94                             | 65.65    |
| 2006                                      | 6,560                               | 3,790   | 110.28                            | 70.95    |
| 2007                                      | 8,350                               | 5,430   | 138.00                            | 94.52    |
| <b><u>Financial Quarter Ended:</u></b>    |                                     |         |                                   |          |
| June 30, 2005                             | 4,150                               | 3,790   | 76.81                             | 70.95    |
| September 30, 2005                        | 5,330                               | 3,970   | 94.33                             | 71.93    |
| December 31, 2005                         | 6,180                               | 4,950   | 104.90                            | 86.04    |
| March 31, 2006                            | 6,560                               | 5,600   | 110.28                            | 99.93    |
| June 30, 2006                             | 6,950                               | 5,430   | 124.00                            | 95.20    |
| September 30, 2006                        | 6,520                               | 5,570   | 113.45                            | 94.52    |
| December 31, 2006                         | 8,000                               | 6,430   | 135.09                            | 109.67   |
| March 31, 2007                            | 8,350                               | 7,440   | 138.00                            | 127.77   |
| <b><u>Month Ended:</u></b>                |                                     |         |                                   |          |
| December 31, 2006                         | 8,000                               | 6,860   | 135.09                            | 119.24   |
| January 31, 2007                          | 8,220                               | 7,630   | 137.97                            | 127.81   |
| February 28, 2007                         | 8,350                               | 7,790   | 138.00                            | 130.00   |
| March 31, 2007                            | 7,990                               | 7,440   | 135.63                            | 127.77   |
| April 30, 2007                            | 7,640                               | 7,080   | 128.50                            | 120.81   |
| May 31, 2007                              | 7,420                               | 7,010   | 123.00                            | 116.24   |

**9.B PLAN OF DISTRIBUTION**

Not applicable.

**9.C MARKETS**

The primary trading market for Toyota's common stock is the Tokyo Stock Exchange. The common stock is also listed on the Nagoya Stock Exchange and three other regional stock exchanges in Japan.

Since September 29, 1999, American Depositary Shares, each equal to two shares of Toyota's common stock and evidenced by American Depositary Receipts, have been traded and listed on the New York Stock Exchange through a sponsored ADR facility operated by The Bank of New York, as depositary. Prior to that time, Toyota's ADSs were listed on the Nasdaq SmallCap Market through five unsponsored ADR facilities.

Toyota's common stock is also listed on the London Stock Exchange.

**9.D SELLING SHAREHOLDERS**

Not applicable.



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### **9.E DILUTION**

Not applicable.

### **9.F EXPENSES OF THE ISSUE**

Not applicable.

## **ITEM 10. ADDITIONAL INFORMATION**

### **10.A SHARE CAPITAL**

Not applicable.

### **10.B MEMORANDUM AND ARTICLES OF ASSOCIATION**

Except as otherwise stated, set forth below is information relating to Toyota's common stock, including brief summaries of the relevant provisions of Toyota's articles of incorporation and share handling regulations, as currently in effect, and of the Corporation Act and related legislation.

#### **General**

Toyota's authorized number of shares as of March 31, 2007 is 10,000,000,000, of which 3,609,997,492 shares were issued. Under the Corporation Act and Toyota's articles of incorporation, shares must be registered and are transferable generally by delivery of share certificates. In order to assert shareholders' rights against Toyota, a shareholder must have its name and address registered on Toyota's register of shareholders, in accordance with Toyota's share handling regulations. The registered beneficial holder of deposited shares underlying the ADSs is the depository for the ADSs. Accordingly, holders of ADSs will not be able directly to assert shareholders' rights.

A holder of shares may choose, at its discretion, to participate in the central clearing system for share certificates under the Law Concerning Central Clearing of Share Certificates and Other Securities of Japan. Participating shareholders must deposit certificates representing all of the shares to be included in this clearing system with Japan Securities Depository Center, Inc. If a holder is not a participating institution in the Securities Center, it must participate through a participating institution, such as a securities company or bank having a clearing account with the Securities Center. All shares deposited with the Securities Center will be registered in the name of the Securities Center on Toyota's register of shareholders. Each participating shareholder will in turn be registered on Toyota's register of beneficial shareholders and be treated in the same way as shareholders registered on Toyota's register of shareholders. For the purpose of transferring deposited shares, delivery of share certificates is not required. Entry of the share transfer in the books maintained by the Securities Center for participating institutions, or in the book maintained by a participating institution for its customers, has the same effect as delivery of share certificates. The registered beneficial owners may exercise the rights attached to the shares, such as voting rights, and will receive dividends (if any) and notices to shareholders directly from Toyota. The shares held by a person as a registered shareholder and those held by the same person as a registered beneficial owner are aggregated for these purposes. Beneficial owners may at any time withdraw their shares from deposit and receive share certificates.

A new law to establish a new central clearing system for shares of listed companies and to eliminate the issuance and use of certificates for such shares was promulgated in June 2004 and the relevant part of the law will come into effect within five years of the date of the promulgation. On the effective date, a new central clearing system will be established and the shares of all Japanese companies listed on any Japanese stock exchange, including the shares of Common Stock of Toyota, will be subject to the new central clearing system. On the same day, all existing share certificates will become null and void and the companies are not required to withdraw those share certificates from shareholders. The transfer of such shares will be effected through entry in the books maintained under the new central clearing system.

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### **Objects and Purposes**

Article 2 of Toyota's articles of incorporation states that its purpose is to engage in the following businesses:

the manufacture, sale, leasing and repair of:

motor vehicles, industrial vehicles, ships, aircraft, other transportation machinery and apparatus, spacecraft and space machinery and apparatus, and parts thereof;

industrial machinery and apparatus, other general machinery and apparatus, and parts thereof;

electrical machinery and apparatus, and parts thereof; and

measuring machinery and apparatus, medical machinery and apparatus, and parts thereof;

the manufacture and sale of ceramics and products of synthetic resins, and materials thereof;

the manufacture, sale and repair of construction materials and equipment, furnishings and fixtures for residential buildings;

the planning, designing, supervision, execution and undertaking of construction works, civil engineering works, land development, urban development and regional development;

the sale, purchase, leasing, brokerage and management of real estate;

the service of information processing, information communications and information supply and the development, sale and leasing of software;

the design and development of product sales systems that utilize networks such as the Internet;

the sale, leasing and maintenance of computers included within such systems, and sales of products by utilizing such systems;

the inland transportation, marine transportation, air transportation, stevedoring, warehousing and tourism businesses;

the printing, publishing, advertising and publicity, general leasing, security and workers dispatch businesses;

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the credit card operations, purchase and sale of securities, investment consulting, investment trust operation, and other financial services;

the operation and management of such facilities as parking lots, showrooms, educational facilities, medical care facilities, sports facilities, marinas, airfields, food and drink stands and restaurants, lodging facilities, retail stores and others;

the non-life insurance agency business and the life insurance agency business;

the production and processing by using biotechnology of agricultural products including trees, and the sale of such products;

the sale of goods related to each of the preceding items and mineral oil; and

the conducting of engineering, invention and research relating to each of the preceding items and the utilization of such invention and research, and any businesses incidental to or related to any of the preceding items.

### **Dividends**

#### **Dividends    General**

Toyota's board of directors recommends the dividend to be paid to shareholders and pledgees of record as of March 31 each year. This recommended dividend must then be approved by shareholders at the general shareholders' meeting. Toyota pays the dividend immediately following approval of the dividend at the

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shareholders' meeting, normally around the end of June each year. In addition to these year-end dividends, Toyota may pay interim dividends in the form of cash distributions from its distributable surplus to shareholders and pledgees of record as of September 30 in each year by resolution of its board of directors and without shareholder approval.

In addition, under the Corporation Act, dividends may be paid to shareholders and pledgees of record as of any record date, other than those specified above, as set forth by Toyota's articles of incorporation or as determined by its board of directors from time to time. Such dividends may be distributed by a resolution of any general shareholders' meeting. Toyota's articles of incorporation also permit it to pay dividends, in addition to interim dividends mentioned in the preceding paragraph, by a resolution of its board of directors. Toyota has incorporated such a provision into its articles of incorporation in order to secure a flexible capital policy. Under the Corporation Act, dividends may be distributed in cash or (except in the case of interim dividends mentioned in the preceding paragraph) in kind, subject to limitations on distributable surplus and to certain other conditions.

### **Dividends    Distributable amount**

Under the Corporation Act, Toyota is permitted to make distribution of surplus to the extent that the aggregate book value of the assets to be distributed to shareholders does not exceed the distributable amount provided for by the Corporation Act and the ordinance of the Ministry of Justice as at the effective date of such distribution of surplus.

The amount of surplus at any given time shall be the amount of Toyota's assets and the book value of Toyota's treasury stock after subtracting and adding the amounts of the items provided for by the Corporation Act and the ordinance of the Ministry of Justice.

### **Dividends    Ex-dividend date and prescription**

Under its articles of incorporation, Toyota is not obligated to pay any dividends in cash which are left unclaimed for a period of three years after the date on which they first became payable.

### **Capital Accounts**

The amount of the cash or assets paid or contributed by subscribers for new shares (with certain exceptions) is required to be accounted for as stated capital, although Toyota may account for an amount not exceeding one-half of such cash or assets as additional paid-in capital.

Under the Corporation Act, Toyota may reduce its additional paid-in capital and legal reserve without limitation on the amount to be reduced, generally, by a resolution of a general shareholders' meeting and if so decided by the same resolution, may account for the whole or any part of the amount of the reduction of additional paid-in capital as stated capital.

The whole or any part of surplus which may be distributed as dividends may also be transferred to stated capital by a resolution of a general shareholders' meeting.

### **Stock Splits**

Toyota may at any time split the outstanding shares into a greater number of shares by a resolution of the board of directors. Toyota must give public notice of the stock split, specifying a record date for the stock split, not less than two weeks prior to the record date.

### **Consolidation of Shares**

Toyota may at any time consolidate shares in issue into a smaller number of shares by a special shareholders resolution (as defined in "Voting Rights"). When a consolidation of shares is to be made, Toyota must give

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public notice and notice to each shareholder that, within a period of not less than one month specified in the notice, share certificates must be submitted to Toyota for exchange. Toyota must disclose the reason for the consolidation of shares at a General Shareholders Meeting.

### **Japanese Unit Share System**

**General.** Consistent with the requirements of the Corporation Act, Toyota's articles of incorporation provide that 100 shares constitute one unit. Although the number of shares constituting a unit is included in the articles of incorporation, any amendment to the articles of incorporation reducing (but not increasing) the number of shares constituting a unit or eliminating the provisions for the unit of shares may be made by a resolution of the board of directors rather than by a special shareholders resolution, which is otherwise required for amending the articles of incorporation. The number of shares constituting one unit, however, cannot exceed 1,000 shares.

**Voting Rights under the Unit Share System.** Under the unit share system, shareholders have one voting right for each unit of shares that they hold. Any number of shares less than a full unit will carry no voting rights.

**Share Certificate for Less Than a Full Unit of Shares.** Toyota's articles of incorporation provide that Toyota may choose not to issue share certificate for any number of shares less than a unit. As the transfer of shares normally requires delivery of share certificates, any fraction of a unit for which share certificates are not issued will not be transferable.

**Repurchase by Toyota of Shares Constituting Less Than a Unit.** A holder of shares constituting less than a full unit may require Toyota to purchase those shares at their market value in accordance with the provisions of Toyota's share handling regulations.

**Surrender of American Depositary Shares.** As a result of the unit share system, ADR holders will only be permitted to surrender ADRs and withdraw underlying shares constituting whole units. If a holder surrenders an ADR representing shares that do not constitute an integral number of whole units, the depositary will deliver to that holder only those shares which constitute a whole unit. The depositary will then issue to the holder a new ADR representing the remaining shares. Holders of an ADR that represents less than a whole unit of underlying shares will be unable to withdraw the underlying shares. As a result, those holders will be unable to require Toyota to purchase their underlying shares to the extent those shares constitute less than one whole unit.

### **Voting Rights**

Toyota holds its Ordinary General Shareholders Meeting each year. In addition, Toyota may hold an extraordinary general shareholders meeting whenever necessary by giving at least two weeks advance notice. Under the Corporation Act, notice of any shareholders meeting must be given to each shareholder having voting rights or, in the case of a non-resident shareholder, to his resident proxy or mailing address in Japan in accordance with Toyota's share handling regulations, at least two weeks prior to the date of the meeting.

A holder of shares constituting one or more whole units is generally entitled to one vote per unit of shares subject to the limitations on voting rights set forth in this paragraph. In general, under the Corporation Act, a resolution can be adopted at a general shareholders meeting by a majority of the shares having voting rights represented at the meeting. The Corporation Act and Toyota's articles of incorporation require a quorum for the election of directors and corporate auditors of not less than one-third of the total number of outstanding shares having voting rights. Toyota's shareholders are not entitled to cumulative voting in the election of directors. A corporate shareholder the management of which is substantially under Toyota's control through the holding of voting rights or for any other reason, as further provided in an ordinance of the Ministry of Justice does not have voting rights.

Shareholders may exercise their voting rights through proxies, provided that those proxies are also shareholders who have voting rights. Toyota may refuse a shareholder having two (2) or more proxies attend a general shareholders meeting.

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The Corporation Act provides that a quorum of at least one-third of outstanding shares with voting rights must be present at a shareholders meeting to approve any material corporate actions such as:

- (1) any amendment of the articles of incorporation with certain exceptions in which a shareholders resolution is not required;
- (2) acquisition of its own shares from a specific party;
- (3) consolidation of shares;
- (4) any issue or transfer of its shares at a specially favorable price (or any issue of stock acquisition rights or bonds with stock acquisition rights at specially favorable conditions by Toyota) to any persons other than shareholders;
- (5) the removal of a corporate auditor;
- (6) the exemption of liability of a director or corporate auditor with certain exceptions;
- (7) a reduction of stated capital which meets certain requirements with certain exceptions;
- (8) a distribution of in-kind dividends which meets certain requirements;
- (9) dissolution, merger, or consolidation with certain exceptions in which a shareholders resolution is not required;
- (10) the transfer of the whole or a material part of the business;
- (11) the taking over of the whole of the business of any other corporation with certain exceptions in which a shareholders resolution is not required;
- (12) share exchange or share transfer for the purpose of establishing 100% parent-subsidary relationships with certain exceptions in which a shareholders resolution is not required; or
- (13) separating of the corporation with certain exceptions in which a shareholders resolution is not required.

At least two-thirds of the shares having voting rights represented at the meeting must approve these actions.

The voting rights of holders of ADSs are exercised by the depositary based on instructions from those holders.

## **Rights to be Allotted Shares**

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Holders of shares have no preemptive rights under Toyota's articles of incorporation. Under the Corporation Act, the board of directors may, however, determine that shareholders shall be given rights to be allotted shares or stock acquisition rights on request, respectively, in connection with a particular issue or transfer of shares, or issue of stock acquisition rights. In this case, such rights must be given on uniform terms to all shareholders as of a specified record date by at least two weeks' prior public notice to shareholders of the record date.

Rights to be allotted shares are nontransferable. However, a shareholder may be allotted stock acquisition rights without consideration thereto, and transfer such rights.

### **Liquidation Rights**

In the event of a liquidation of Toyota, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed among the shareholders in proportion to the respective number of shares they own.

### **Liability to Further Calls or Assessments**

All of Toyota's currently outstanding shares, including shares represented by the ADSs, are fully paid and nonassessable.

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### **Transfer Agent**

Mitsubishi UFJ Trust and Banking Corporation is the transfer agent for the shares. Mitsubishi UFJ Trust and Banking Corporation's office is located at 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo, 100-8212 Japan. Mitsubishi UFJ Trust and Banking Corporation maintains Toyota's register of shareholders and records transfers of record ownership upon presentation of share certificates.

### **Record Date**

The close of business on March 31 is the record date for Toyota's year-end dividends, if paid. A holder of shares constituting one or more whole units who is registered as a holder on Toyota's register of shareholders or register of beneficial ownership at the close of business as of March 31 is also entitled to exercise shareholders' voting rights at the Ordinary General Shareholders' Meeting with respect to the business year ending on March 31. The close of business on September 30 of each year is the record date for interim dividends, if paid. In addition, Toyota may set a record date for determining the shareholders entitled to other rights and for other purposes by giving at least two weeks' public notice.

The shares generally trade ex-dividend or ex-rights in the Japanese stock exchanges on the third business day before a record date (or if the record date is not a business day, the fourth business day prior thereto), for the purpose of dividends or rights offerings.

### **Acquisition by Toyota of Shares**

Toyota may acquire its own shares (i) through a stock exchange on which such shares are listed or by way of tender offer (pursuant to an ordinary resolution of a general shareholders' meeting or a resolution of the board of directors), (ii) by purchase from a specific party (pursuant to a special resolution of a General Shareholders' Meeting) or (iii) from a subsidiary of Toyota (pursuant to a resolution of the board of directors).

When such acquisition is made by Toyota from a specific party other than a subsidiary of Toyota, any other shareholder may make a demand to a representative director, more than five calendar days prior to the relevant shareholders' meeting, that Toyota also purchase the shares held by such shareholder. However, the acquisition of its own shares at a price not exceeding the then market price to be provided under an ordinance of the Ministry of Justice will not trigger the right of any shareholder to include him/her as the seller of his/her shares in such proposed purchase.

Any such acquisition of shares must satisfy certain requirements that the total amount of the acquisition price may not exceed the amount of the distributable dividends. See Dividends.

Shares acquired by Toyota may be held by it for any period or may be cancelled by resolution of the board of directors. Toyota may also transfer to any person the shares held by it, subject to a resolution of the board of directors, and subject also to other requirements those applicable to the issuance of new shares. Toyota may also utilize its treasury stock for the purpose of transfer to any person upon exercise of stock acquisition rights or for the purpose of acquiring another company by way of merger, share exchange or corporate split through exchange of treasury stock for shares or assets of the acquired company.

The Corporation Act generally prohibits any subsidiary of Toyota from acquiring shares of Toyota.

### **Acquisition or Disposition of Shares or ADS**

Under the Foreign Exchange and Foreign Trade Law and the cabinet orders and ministerial ordinances thereunder (collectively, the Foreign Exchange Regulations), all aspects of regulations on foreign exchange and foreign trade transactions are, with minor exceptions relating to inward direct investments (which are not

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generally applicable to Toyota's shares), only subject to post transaction reporting requirements. Acquisitions and dispositions of shares of common stock or ADS by non-residents of Japan (including foreign corporations not resident in Japan) are generally not subject to this reporting requirement. However, the Minister of Finance has the power to impose a licensing requirement for transactions in limited circumstances.

### **Report of Substantial Shareholdings**

The Securities and Exchange Law of Japan and regulations under the Law require any person who has become a holder (together with its related persons) of more than 5% of the total issued shares of a company listed on any Japanese stock exchange (including ADSs representing such shares) to file with the Director of a competent Local Finance Bureau, within five business days, a report concerning those shareholdings. A similar report must also be filed to reflect any change of 1% or more in any shareholding or any change in material matters set out in reports previously filed. Any such report shall be filed with the Director of a competent Local Finance Bureau through the Electronic Disclosure for Investor's Network (EDINET) system. Copies of any report must also be furnished to the company. For this purpose, shares issuable to a 5% or greater shareholder upon exercise of stock acquisition rights are taken into account in determining both the number of shares held by that holder and the company's total issued share capital.

### **10.C MATERIAL CONTRACTS**

All contracts concluded by Toyota during the two years preceding this filing were entered into in the ordinary course of business.

### **10.D EXCHANGE CONTROLS**

The Foreign Exchange and Foreign Trade Law of Japan and its related cabinet orders and ministerial ordinances (the Foreign Exchange Regulations) govern the acquisition and holding of shares of capital stock of Toyota by exchange non-residents and by foreign investors. The Foreign Exchange Regulations currently in effect do not, however, affect transactions between exchange non-residents to purchase or sell shares outside Japan using currencies other than Japanese yen.

Exchange non-residents are:

individuals who do not reside in Japan; and

corporations whose principal offices are located outside Japan.

Generally, branches and other offices of non-resident corporations that are located within Japan are regarded as residents of Japan. Conversely, branches and other offices of Japanese corporations located outside Japan are regarded as exchange non-residents.

Foreign investors are:

individuals who are exchange non-residents;

corporations that are organized under the laws of foreign countries or whose principal offices are located outside of Japan; and

corporations (1) of which 50% or more of their voting rights are held by individuals who are exchange non-residents and/or corporations (a) that are organized under the laws of foreign countries or (b) whose principal offices are located outside of Japan or (2) a majority of whose officers, or officers having the power of representation, are individuals who are exchange non-residents.

In general, the acquisition of shares of a Japanese company (such as the shares of capital stock of Toyota) by an exchange non-resident from a resident of Japan is not subject to any prior filing requirements. In certain limited circumstances, however, the Minister of Finance may require prior approval of an acquisition of this type.



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While prior approval, as described above, is not required, in the case where a resident of Japan transfers shares of a Japanese company (such as the shares of capital stock of Toyota) for consideration exceeding ¥100 million to an exchange non-resident, the resident of Japan who transfers the shares is required to report the transfer to the Minister of Finance within 20 days from the date of the transfer, unless the transfer was made through a bank, securities company or financial futures trader licensed under Japanese law.

If a foreign investor acquires shares of a Japanese company that is listed on a Japanese stock exchange (such as the shares of capital stock of Toyota) and, as a result of the acquisition, the foreign investor, in combination with any existing holdings, directly or indirectly holds 10% or more of the issued shares of the relevant company, the foreign investor must file a report of the acquisition with the Minister of Finance and any other competent Ministers having jurisdiction over that Japanese company within 15 days from and including the date of the acquisition, except where the offering of the company's shares was made overseas. In limited circumstances, such as where the foreign investor is in a country that is not listed on an exemption schedule in the Foreign Exchange Regulations, a prior notification of the acquisition must be filed with the Minister of Finance and any other competent Ministers, who may then modify or prohibit the proposed acquisition.

Under the Foreign Exchange Regulations, dividends paid on, and the proceeds of sales in Japan of, shares held by non-residents of Japan may in general be converted into any foreign currency and repatriated abroad. Under the terms of the deposit agreement pursuant to which Toyota's ADSs are issued, the Depositary is required, to the extent that in its judgment it can convert yen on a reasonable basis into dollars and transfer the resulting dollars to the United States, to convert all cash dividends that it receives in respect of deposited shares into dollars and to distribute the amount received (after deduction of applicable withholding taxes) to the holder of ADSs.

## **10.E TAXATION**

The following discussion is a general summary of the principal U.S. federal income and Japanese national tax consequences of the acquisition, ownership and disposition of shares of common stock or ADSs. This summary does not purport to address all material tax consequences that may be relevant to holders of shares of common stock or ADSs, and does not take into account the specific circumstances of any particular investors, some of which (such as tax-exempt entities, banks, insurance companies, broker-dealers, traders in securities that elect to use a mark-to-market method of accounting for their securities holdings, regulated investment companies, real estate investment trusts, partnerships and other pass-through entities, investors liable for the U.S. alternative minimum tax, investors that own or are treated as owning 10% or more of Toyota's voting stock, investors that hold shares of common stock or ADSs as part of a straddle, hedge, conversion transaction or other integrated transaction and U.S. Holders (as defined below) whose functional currency is not the U.S. dollar) may be subject to special tax rules. This summary is based on the tax laws and regulations of the United States and Japan, judicial decisions, published rulings and administrative pronouncements all as in effect on the date hereof, as well as on the current income tax convention between the United States and Japan (the Treaty), as described below, all of which are subject to change (possibly with retroactive effect), and to differing interpretations.

For purposes of this discussion, a "U.S. Holder" is any beneficial owner of shares of common stock or ADSs that, for U.S. federal income tax purposes, is:

1. an individual who is a citizen or resident of the United States,
2. a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States, any state thereof, or the District of Columbia,
3. an estate the income of which is subject to U.S. federal income tax without regard to its source, or
4. a trust that is subject to the primary supervision of a U.S. court and the control of one or more U.S. persons, or that has a valid election in effect under applicable Treasury regulations to be treated as a U.S. person.

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An Eligible U.S. Holder is a U.S. Holder that:

1. is a resident of the United States for purposes of the Treaty,
2. does not maintain a permanent establishment in Japan (a) with which the Shares or ADSs are effectively connected and through which the U.S. holder carries on or has carried on business, or (b) of which the Shares or ADSs form part of the business property, and
3. is eligible for benefits under the Treaty with respect to income and gain derived in connection with the shares of common stock or ADSs.

This summary does not address any aspects of U.S. federal tax law other than income taxation, and does not discuss any aspects of Japanese tax law other than such income taxation, as limited to national taxes, inheritance and gift taxation. This summary also does not cover any state or local, or non-U.S., non-Japanese tax considerations. Investors are urged to consult their tax advisors regarding the U.S. federal, state and local and Japanese and other tax consequences of acquiring, owning and disposing of shares of common stock or ADSs. In particular, where relevant, investors are urged to confirm their status as Eligible U.S. Holders with their tax advisors and to discuss with their tax advisors any possible consequences of their failure to qualify as Eligible U.S. Holders. In addition, this summary is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement, and in any related agreement, will be performed in accordance with its terms.

In general, for purposes of the Treaty and for U.S. federal income and Japanese income tax purposes, owners of ADRs evidencing ADSs will be treated as the owners of the shares of common stock represented by those ADSs, and exchanges of shares of common stock for ADSs, and exchanges of ADSs for shares of common stock, will not be subject to U.S. federal income or Japanese income tax.

*The discussion below is intended for general information only and does not constitute a complete analysis of all tax consequences relating to ownership of shares of common stock or ADSs. Prospective purchasers of shares of common stock or ADSs should consult their own tax advisors concerning the tax consequences of their particular situations.*

### **Japanese Taxation**

The following is a summary of the principal Japanese tax consequences (limited to national taxes) to holders of shares of common stock and of ADSs who are either individuals who are non residents of Japan or non-Japanese corporations, without a permanent establishment in Japan ( non-resident Holders ).

Generally, a non-resident of Japan or a non-Japanese corporation is subject to Japanese withholding tax on dividends paid by Japanese corporations. Stock splits are, in general, not a taxable event.

In the absence of an applicable tax treaty, convention or agreement reducing the maximum rate of Japanese withholding tax or allowing exemption from Japanese withholding tax, the rate of Japanese withholding tax applicable to dividends paid by Japanese corporations to non-residents of Japan or non-Japanese corporations is generally 20 percent, provided, with respect to dividends paid on listed shares issued by a Japanese corporation (such as the shares of common stock of Toyota) to any corporate or individual shareholders (including those shareholders who are non-Japanese corporations or non-residents of Japan, such as non-resident Holders), other than any individual shareholder who holds 5 percent or more of the total issued shares issued by the relevant Japanese corporation, the aforementioned 20 percent withholding tax rate is reduced to (i) 7 percent for dividends due and payable on or before March 31, 2009, and (ii) 15 percent for dividends due and payable on or after April 1, 2009. At the date of this annual report, Japan has income tax treaties, conventions or agreements whereby the above-mentioned withholding tax rate is reduced, in most cases to 15 percent or 10 percent for portfolio investors (15 percent under the income tax treaties with, among other countries, Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Luxembourg, the Netherlands, New Zealand, Norway, Singapore, Spain, Sweden, Switzerland and 10 percent under the income tax treaties with the U.K. and the United States).

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Under the Treaty, the maximum rate of Japanese withholding tax which may be imposed on dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a portfolio investor is generally reduced to 10 percent of the gross amount actually distributed, and Japanese withholding tax with respect to dividends paid by a Japanese corporation to an Eligible U.S. Holder that is a pension fund is exempt from Japanese taxation by way of withholding or otherwise unless such dividends are derived from the carrying on of a business, directly or indirectly, by such pension fund.

If the maximum tax rate provided for in the income tax treaty applicable to dividends paid by Toyota to any particular non-resident Holder is lower than the withholding tax rate otherwise applicable under Japanese tax law or any particular non-resident Holder is exempt from Japanese income tax with respect to such dividends under the income tax treaty applicable to such particular non-resident Holder, such non-resident Holder who is entitled to a reduced rate of or exemption from Japanese withholding tax on payment of dividends on shares of common stock by Toyota is required to submit an Application Form for Income Tax Convention Regarding Relief from Japanese Income Tax on Dividends (together with any other required forms and documents) in advance through Toyota to the relevant tax authority before the payment of dividends. A standing proxy for non-resident Holders of a Japanese corporation may provide this application service. With respect to ADSs, this reduced rate or exemption is applicable if the Depositary or its agent submits two Application Forms (one before payment of dividends, the other within eight months after Toyota's fiscal year-end or semi-fiscal year-end). To claim this reduced rate or exemption, any relevant non-resident Holder of ADSs will be required to file a proof of taxpayer status, residence and beneficial ownership (as applicable) and to provide other information or documents as may be required by the Depositary. A non-resident Holder who is entitled, under an applicable income tax treaty, to a reduced treaty rate lower than the withholding tax rate otherwise applicable under Japanese tax law or an exemption from the withholding tax, but failed to submit the required application in advance will be entitled to claim the refund of withholding taxes withheld in excess of the rate under an applicable tax treaty (if such non-resident Holder is entitled to a reduced treaty rate under the applicable income tax treaty) or the whole of the withholding tax withheld (if such non-resident Holder is entitled to an exemption under the applicable income tax treaty) from the relevant Japanese tax authority.

Gains derived from the sale of shares of common stock or ADSs outside Japan by a non-resident Holder holding such shares of common stock or ADSs as portfolio investors are, in general, not subject to Japanese income tax or corporation tax. Eligible U.S. Holders are not subject to Japanese income or corporation tax with respect to such gains under the Treaty.

Japanese inheritance and gift taxes at progressive rates may be payable by an individual who has acquired shares of common stock or ADSs as a legatee, heir or donee even though neither the individual nor the deceased nor donor is a Japanese resident.

Holders of shares of common stock or ADSs should consult their tax advisors regarding the effect of these taxes and, in the case of U.S. Holders, the possible application of the Estate and Gift Tax Treaty between the U.S. and Japan.

## **U.S. Federal Income Taxation**

### ***U.S. Holders***

The following discussion is a summary of the principal U.S. federal income tax consequences to holders of shares of common stock of Toyota and of ADSs that are U.S. Holders and that hold those shares of common stock or ADSs as capital assets (generally, for investment purposes).

### ***Taxation of Dividends***

Subject to the passive foreign investment company rules discussed below, the gross amount of any distribution made by Toyota in respect of shares of common stock or ADSs (without reduction for Japanese withholding taxes) will constitute a taxable dividend to the extent paid out of current or accumulated earnings

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and profits, as determined under U.S. federal income tax principles. The U.S. dollar amount of such a dividend generally will be included in the gross income of a U.S. Holder, as ordinary income, when actually or constructively received by the U.S. Holder, in the case of shares of common stock, or by the depository, in the case of ADSs. Dividends paid by us will not be eligible for the dividends-received deduction generally allowed to U.S. corporations in respect of dividends received from other U.S. corporations.

Subject to certain exceptions for short-term and hedged positions, and provided that we are not a passive foreign investment company (as discussed below), dividends received by certain U.S. Holders (including individuals) with respect to the common stock or ADSs will be subject to U.S. federal income taxation at a maximum rate of 15%. However, the U.S. Treasury Department has announced its intention to promulgate rules in proposed form pursuant to which shareholders (and intermediaries) will be permitted to rely on certifications from issuers to establish that dividends qualify for the reduced rate of U.S. federal income taxation. Because such proposed certification procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. Holders of ADSs or common stock should consult their own tax advisors regarding the availability of the reduced rate in the light of their own particular circumstances.

The U.S. dollar amount of a dividend paid in Japanese yen will be determined based on the Japanese yen/U.S. dollar exchange rate in effect on the date that the dividend is included in the gross income of the U.S. Holder, regardless of whether the payment is converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend payment is included in the gross income of a U.S. Holder through the date that payment is converted into U.S. dollars (or otherwise disposed of) will be treated as U.S. source ordinary income or loss. U.S. Holders should consult their own tax advisors regarding the calculation and U.S. federal income tax treatment of foreign currency gain or loss.

To the extent, if any, that the amount of any distribution received by a U.S. Holder in respect of shares of common stock or ADSs exceeds Toyota's current and accumulated earnings and profits, as determined under U.S. federal income tax principles, the distribution first will be treated as a tax-free return of capital to the extent of the U.S. Holder's adjusted tax basis in those shares or ADSs, and thereafter will be treated as U.S. source capital gain.

Distributions of additional shares of common stock that are made to U.S. Holders with respect to their shares of common stock or ADSs, and that are part of a pro rata distribution to all of Toyota's shareholders, generally will not be subject to U.S. federal income tax.

For U.S. foreign tax credit purposes, dividends included in gross income by a U.S. Holder in respect of shares of common stock or ADSs will constitute income from sources outside the United States, and will be subject to various classifications and other limitations. Subject to generally applicable limitations under U.S. federal income tax law and the Treaty, any Japanese withholding tax imposed in respect of a Toyota dividend may be claimed as a credit against the U.S. federal income tax liability of a U.S. Holder, or alternatively as a deduction in the computation of such U.S. Holder's taxable income, if the U.S. Holder does not elect to claim a credit for any foreign taxes paid or accrued for the taxable year. Special rules generally will apply to the calculation of foreign tax credits in respect of dividend income that qualifies for preferential U.S. federal income tax rates. Additionally, special rules apply to individuals whose foreign source income during the taxable year consists entirely of qualified passive income and whose creditable foreign taxes paid or accrued during the taxable year do not exceed \$300 (\$600 in the case of a joint return). Further, under some circumstances, a U.S. Holder that:

(i) has held shares of common stock or ADSs for less than a specified minimum period, or

(ii) is obligated to make payments related to Toyota dividends,

will not be allowed a foreign tax credit for Japanese taxes imposed on Toyota dividends.

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U.S. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances. The Internal Revenue Service (the "IRS") has expressed concern that parties to whom ADSs are released may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. Holders of ADSs. Accordingly, U.S. Holders should be aware that the discussion above regarding the creditability of Japanese withholding tax on dividends could be affected by future actions that may be taken by the IRS.

### ***Taxation of Capital Gains and Losses***

In general, upon a sale or other taxable disposition of shares of common stock or ADSs, a U.S. Holder will recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other taxable disposition and the U.S. Holder's adjusted tax basis in those shares of common stock or ADSs. A U.S. Holder generally will have an adjusted tax basis in a share of common stock or an ADS equal to its U.S. dollar cost. Subject to the passive investment company rules discussed below, gain or loss recognized on the sale or other taxable disposition of shares of common stock or ADSs generally will be capital gain or loss and, if the U.S. Holder's holding period for those shares or ADSs exceeds one year, will be long-term capital gain or loss. Certain U.S. Holders, including individuals, are eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. Under U.S. federal income tax law, the deduction of capital losses is subject to limitations. Any gain or loss recognized by a U.S. Holder in respect of the sale or other disposition of shares of common stock or ADSs generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes.

Deposits and withdrawals of common stock in exchange for ADSs will not result in the realization of gain or loss for U.S. federal income tax purposes.

### ***Passive Foreign Investment Companies***

A non-U.S. corporation generally will be classified as a passive foreign investment company (a "PFIC") for U.S. federal income tax purposes in any taxable year in which, after applying look-through rules, either (1) at least 75% of its gross income is passive income, or (2) on average at least 50% of the gross value of its assets is attributable to assets that produce passive income or are held for the production of passive income. Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions. The PFIC determination is made annually and generally is based on the value of a non-U.S. corporation's assets (including goodwill) and composition of its income.

Toyota does not believe that it is a PFIC for U.S. federal income tax purposes, and intends to continue its operations in such a manner that it will not become a PFIC in the future. Because the application of the PFIC rules to a corporation such as Toyota (which among other things is engaged in leasing and financing through several subsidiaries) is not entirely clear, no assurances can be made regarding determination of its PFIC status in the current or any future taxable year. If Toyota is determined to be a PFIC, U.S. Holders could be subject to additional U.S. federal income taxes on gain recognized with respect to the shares of common stock or ADSs and on certain distributions. In addition, an interest charge may apply to the portion of the U.S. federal income tax liability on such gains or distributions treated under the PFIC rules as having been deferred by the U.S. Holder. Moreover, dividends that a U.S. Holder receives from us will not be eligible for the reduced U.S. federal income tax rates described above on dividends if we are a PFIC either in the taxable year of the dividend or the preceding taxable year (and instead will be taxable at rates applicable to ordinary income). Toyota will inform U.S. Holders if it believes that it will be classified as a PFIC in any taxable year.

Prospective investors should consult their own tax advisors regarding the potential application of the PFIC rules to shares of common stock or ADSs.

### ***Non-U.S. Holders***

The following discussion is a summary of the principal U.S. federal income tax consequences to beneficial holders of shares of common stock or ADSs that are neither U.S. Holders nor partnerships for U.S. federal income tax purposes ("Non-U.S. Holders").

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Subject to the discussion below under **Backup Withholding and Information Reporting**, a Non-U.S. Holder generally will not be subject to any U.S. federal income or withholding tax on distributions received in respect of shares of common stock or ADSs unless the distributions are effectively connected with the conduct by the Non-U.S. Holder of a trade or business within the United States (and, if an applicable tax treaty requires, is attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder).

Subject to the discussion below under **Backup Withholding and Information Reporting**, a Non-U.S. Holder generally will not be subject to U.S. federal income tax in respect of gain recognized on a sale or other disposition of shares of common stock or ADSs, unless:

(i) the gain is effectively connected with a trade or business conducted by the Non-U.S. Holder within the United States (and, if an applicable tax treaty requires, is attributable to a U.S. permanent establishment or fixed base of such Non-U.S. Holder), or

(ii) the Non-U.S. Holder is an individual who was present in the United States for 183 or more days in the taxable year of the disposition and other conditions are met.

Income that is effectively connected with a U.S. trade or business of a Non-U.S. Holder, and, if an income tax treaty applies and so requires, is attributable to a U.S. permanent establishment or fixed base of the Non-U.S. Holder, generally will be taxed in the same manner as the income of a U.S. Holder. In addition, under certain circumstances, any effectively connected earnings and profits that is realized by a corporate Non-U.S. Holder may be subject to an additional **branch profits tax** at the rate of 30% or at a lower rate that may be prescribed by an applicable income tax treaty.

### ***Backup Withholding and Information Reporting***

In general, information reporting requirements will apply to dividends paid to a U.S. Holder in respect of shares of common stock or ADSs, and to the proceeds received upon the sale, exchange or redemption of the shares of common stock or ADSs within the United States by U.S. Holders. Furthermore, a backup withholding tax may apply to those amounts (currently at a 28% rate) if a U.S. Holder fails to provide an accurate tax identification number, to certify that such U.S. Holder is not subject to backup withholding or to otherwise comply with the applicable requirements of the backup withholding requirements.

Dividends paid to a Non-U.S. Holder in respect of shares of common stock or ADSs, and proceeds received in the sale, exchange or redemption of shares of common stock or ADSs by a Non-U.S. Holder, generally are exempt from information reporting and backup withholding under current U.S. federal income tax law. However, a Non-U.S. Holder may be required to provide certification of non-U.S. status in order to obtain that exemption.

Persons required to establish their exempt status generally must provide such certification under penalty of perjury on IRS Form W-9, entitled **Request for Taxpayer Identification Number and Certification**, in the case of U.S. persons, and on IRS Form W-8BEN, entitled **Certificate of Foreign Status** (or other appropriate IRS Form W-8), in the case of non-U.S. persons. Backup withholding is not an additional tax. The amount of backup withholding imposed on a payment generally may be claimed as a credit against the holder's U.S. federal income tax liability provided that the required information is properly furnished to the IRS.

THE SUMMARY OF U.S. FEDERAL INCOME AND JAPANESE NATIONAL TAX CONSEQUENCES SET OUT ABOVE IS INTENDED FOR GENERAL INFORMATION PURPOSES ONLY. PROSPECTIVE PURCHASERS OF COMMON STOCK OR ADSs ARE URGED TO CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF OWNING OR DISPOSING OF COMMON STOCK OR ADSs, BASED ON THEIR PARTICULAR CIRCUMSTANCES.

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### **10.F DIVIDENDS AND PAYING AGENTS**

Not applicable.

### **10.G STATEMENT BY EXPERTS**

Not applicable.

### **10.H DOCUMENTS ON DISPLAY**

Toyota files annual reports on Form 20-F and reports on Form 6-K with the SEC. You may read and copy this information at the SEC's Public Reference Room at 100F Street, N.E., Room 1580, Washington, D.C. 20549 or by accessing the SEC's home page (<http://www.sec.gov>). You can also request copies of the documents, upon payment of a duplicating fee, by writing to the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. In addition, Toyota's reports, proxy statements and other information may be inspected at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005. Copies of the documents referred to herein may also be inspected at Toyota's offices by contacting Toyota at 1 Toyota-cho, Toyota City, Aichi Prefecture 471-8571, Japan, attention: Financial Reporting Department, Accounting Division, telephone number: 81-565-28-2121.

### **10.I SUBSIDIARY INFORMATION**

Not applicable.

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **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.

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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.

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

Not applicable.

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**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF  
PROCEEDS**

None.

**ITEM 15. CONTROLS AND PROCEDURES**

**(a) DISCLOSURES CONTROLS AND PROCEDURES**

Toyota performed an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the fiscal 2007. Disclosure controls and procedures are designed to ensure that the material financial and non-financial information required to be disclosed in the Form 20-F that Toyota files under the Exchange Act is accumulated and communicated to its management including the chief executive officer and the principal accounting and financial officer as appropriate to allow timely decisions regarding disclosure. The disclosure controls and procedures also ensures that the Form 20-F that it files under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. The evaluation was performed under the supervision of Fujio Cho, Toyota's Chairman of the Board and Mitsuo Kinoshita, Toyota's Executive Vice President, Member of the Board. Toyota's disclosures controls and procedures are designed to provide reasonable assurance of achieving its objectives. Managerial judgment was necessary to evaluate the cost-benefit relationship of possible controls and procedures. Mr. Cho and Mr. Kinoshita have concluded that Toyota's disclosure controls and procedures are effective at the reasonable assurance level.

**(b) 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.

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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.

**(c) ATTESTATION REPORT OF THE REGISTERED PUBLIC ACCOUNTING FIRM**

Toyota's independent registered public accounting firm, PricewaterhouseCoopers Aarata, has issued an audit report on management's assessment of internal control over financial reporting. This report appears in Item 18.

**(d) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING**

There have been no changes in Toyota's internal control over financial reporting during fiscal 2007 that have materially affected, or are reasonably likely to materially affect, Toyota's internal control over financial reporting.

**ITEM 16. [RESERVED]**

**ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Toyota maintains a corporate auditor system, in accordance with the Corporation Act. Toyota's board of corporate auditors is comprised of seven corporate auditors, four of whom are outside corporate auditors. Each corporate auditor has been appointed at Toyota's shareholders' meetings and has certain statutory powers independently, including auditing the business affairs and accounts of Toyota.

Toyota's board of corporate auditors has determined that it does not have an audit committee financial expert serving on the board of corporate auditors. The qualifications for, and powers of, the corporate auditor delineated in the Corporation Act is different from those anticipated for any audit committee financial expert. Corporate auditors have the authority to be given reports from a certified public accountant or an accounting firm concerning audits, including technical accounting matters. At the same time, each corporate auditor has the authority to consult internal and external experts on accounting matters. Each corporate auditor must fulfill the requirements under Japanese laws and regulations and otherwise follow Japanese corporate governance practices and, accordingly, Toyota's board of corporate auditors has confirmed that it is not necessarily in Toyota's best interest to nominate as corporate auditor a person who meets the definition of audit committee financial experts. Although Toyota does not have an audit committee financial expert on its board of corporate auditors, Toyota believes that Toyota's current corporate governance system, taken as a whole, including the corporate auditors' ability to consult internal and external experts, is fully equivalent to a system having an audit committee financial expert on its board of corporate auditors.

**ITEM 16B. CODE OF ETHICS**

Toyota has adopted a code of ethics that applies to its directors and managing officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A copy of Toyota's code of ethics is incorporated by reference as an exhibit to this annual report on Form 20-F.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

PricewaterhouseCoopers Aarata has audited the financial statements of Toyota included in this annual report on Form 20-F.

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The following table presents the aggregate fees for professional services and other services rendered by PricewaterhouseCoopers Aarata and the various network and member firms of PricewaterhouseCoopers to Toyota in fiscal 2007 and fiscal 2006.

|                        | <b>Yen in millions</b> |              |
|------------------------|------------------------|--------------|
|                        | <b>2006</b>            | <b>2007</b>  |
| Audit Fees (1)         | 2,025                  | 3,779        |
| Audit-related Fees (2) | 604                    | 180          |
| Tax Fees (3)           | 896                    | 679          |
| All Other Fees (4)     | 81                     | 98           |
| <b>Total</b>           | <b>3,606</b>           | <b>4,736</b> |

- (1) Audit Fees consist of fees billed for the annual audit services engagement and other audit services, which are those services that only the external auditor reasonably can provide, and include the services of annual audit, quarter reviews, semi-annual reviews and assessment and reviews of the effectiveness of internal controls over financial reporting of Toyota and its subsidiaries and affiliates; the services associated with SEC registration statements or other documents issued in connection with securities offerings such as comfort letters and consents; consultations as to the accounting or disclosure treatment of transactions or events.
- (2) Audit-related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of its financial statements or that are traditionally performed by the external auditor, and mainly include the services such as due diligence; agreed-upon or expanded audit procedures; internal control reviews and assistance; review of the effectiveness of the internal audit function; assistance with implementation of the requirements of SEC rules pursuant to the Sarbanes-Oxley Act; financial statement audits of employee benefit plans.
- (3) Tax Fees include fees billed for tax compliance services, including the services such as tax planning, advice and compliance of federal, state, local and international tax; the review of tax returns; assistance with tax audits and appeals; tax only valuation services including transfer pricing and cost segregation studies; expatriate tax assistance and compliance.
- (4) All Other Fees mainly include fees billed for risk management advisory services of assessment and testing of security infrastructure controls; advisory services relating to accounting manual and accounting control; advisory services relating to establishment of a new subsidiary; assistance with continuing education and training; services providing information related to automotive market conditions and sales networks and advisory services on information systems related to dealer controls.

**Policies and Procedures of the Board of Corporate Auditors**

Below is a summary of the current policies and procedures of the board of corporate auditors for the pre-approval of audit and permissible non-audit services performed by Toyota's independent public accountants.

Under the policy, the Representative Directors submit a request for general pre-approval of audit and permissible non-audit services for the following fiscal year, which shall include details of the specific services and estimated fees for the services, to the board of corporate auditors, which reviews and determines whether or not to grant the request by the end of March of the fiscal year. Upon the general pre-approval of the board of corporate auditors, the Representative Directors are not required to obtain any specific pre-approval for audit and permissible non-audit services so long as those services fall within the scope of the general pre-approval provided.

The board of corporate auditors makes further determination of whether or not to grant a request to revise the general pre-approval for the applicable fiscal year if such request is submitted by the Representative Directors or the Managing Officer authorized by the Representative Director. Such request may include (i) adding any audit or permissible non-audit services other than the ones listed in the general pre-approval and (ii) obtaining

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services, which are listed in the general pre-approval but of which the total fee amount exceeds the amount affirmed by the general pre-approval. The determination of whether or not to grant a request to revise the general pre-approval noted in the foregoing may alternatively be made by an Executive Corporate Auditor, who is designated in advance by a resolution of the board of corporate auditors, in which case such Executive Corporate Auditor shall report such decision at the next meeting of the board of corporate auditors. The performance of audit and permissible non-audit services and the payment of fees are subject to review by the board of corporate auditors at least once every fiscal half year.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Toyota does not have an audit committee. Toyota is relying on the general exemption contained in Rule 10A-3(c)(3) under the Exchange Act, which provides an exemption from the NYSE's listing standards relating to audit committees for foreign companies like Toyota that have a board of corporate auditors. Toyota's reliance on Rule 10A-3(c)(3) does not, in its opinion, materially adversely affect the ability of its board of corporate auditors to act independently and to satisfy the other requirements of Rule 10A-3.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

The following table sets forth purchases of Toyota's common stock by Toyota and its affiliated purchasers during fiscal 2007:

|                   |                    | (c) Total Number of<br>Shares Purchased as<br>Part of Publicly<br>Announced Plans<br>or Programs <sup>2</sup> |                                              | (d) Maximum Number<br>of Shares that<br>May Yet Be<br>Purchased Under the<br>Plans or Programs <sup>2</sup> |
|-------------------|--------------------|---------------------------------------------------------------------------------------------------------------|----------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Period            |                    | (a) Total Number of<br>Shares Purchased <sup>1</sup>                                                          | (b) Average Price<br>Paid per Share<br>(Yen) |                                                                                                             |
| April 1, 2006     | April 30, 2006     | 5,377                                                                                                         | ¥ 6,667.65                                   | 0                                                                                                           |
| May 1, 2006       | May 31, 2006       | 26,003,457                                                                                                    | 6,250.02                                     | 26,000,000                                                                                                  |
| June 1, 2006      | June 30, 2006      | 3,710                                                                                                         | 5,882.60                                     | 0                                                                                                           |
| July 1, 2006      | July 31, 2006      | 8,787                                                                                                         | 5,865.95                                     | 0                                                                                                           |
| August 1, 2006    | August 31, 2006    | 10,083                                                                                                        | 6,205.99                                     | 0                                                                                                           |
| September 1, 2006 | September 30, 2006 | 178,103                                                                                                       | 6,329.52                                     | 0                                                                                                           |
| October 1, 2006   | October 31, 2006   | 12,227                                                                                                        | 6,792.39                                     | 0                                                                                                           |
| November 1, 2006  | November 30, 2006  | 18,960,227                                                                                                    | 7,229.92                                     | 18,950,100                                                                                                  |
| December 1, 2006  | December 31, 2006  | 14,448                                                                                                        | 7,317.82                                     | 0                                                                                                           |
| January 1, 2007   | January 31, 2007   | 11,236                                                                                                        | 7,942.21                                     | 0                                                                                                           |
| February 1, 2007  | February 28, 2007  | 9,601                                                                                                         | 8,084.32                                     | 0                                                                                                           |
| March 1, 2007     | March 31, 2007     | 6,619                                                                                                         | 7,873.69                                     | 0                                                                                                           |
| Total             |                    | 45,223,875                                                                                                    |                                              | 44,950,100                                                                                                  |

<sup>1</sup> All purchases other than purchases publicly announced and other than 170,000 shares purchased in September 2006 in open-market transactions, were made as a result of holders of shares constituting less than one unit, which is 100 shares of common stock, requesting Toyota to purchase shares that are a fraction of a unit, in accordance with Toyota's share handling regulations. Toyota is required to comply with such requests pursuant to the Corporation Act. See Memorandum and Articles of Association Japanese Unit Share System.

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<sup>2</sup> On June 23, 2005, share repurchases were approved at the Ordinary General Shareholders Meeting pursuant to which Toyota may purchase during a one-year period until the next Ordinary General Shareholders Meeting up to the lesser of 65,000,000 shares of common stock or the number of shares equivalent to ¥250.0 billion in cost of repurchase. This share repurchase program expired on June 23, 2006.

For a discussion of past and current share repurchases, see Business Overview Toyota's Strategy Focus on Shareholder Value.

On June 23, 2006, share repurchases were approved at the Ordinary General Shareholders Meeting pursuant to which Toyota may purchase during a one-year period until the next Ordinary General Shareholders Meeting up to the lesser of 30,000,000 shares of common stock or the number of shares equivalent to ¥200.0 billion in cost of repurchase. This share repurchase program expired on June 22, 2007.

In addition, Toyota may repurchase its own shares through a stock exchange on which such shares are listed or by way of tender offer pursuant to a resolution of the board of directors under Toyota's articles of incorporation. However, Toyota has never repurchased its own shares under such provision.

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**PART III**

**ITEM 17. FINANCIAL STATEMENTS**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS**

The following financial statements are filed as part of this annual report on Form 20-F.

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**TOYOTA MOTOR CORPORATION**

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| <u>Consolidated balance sheets at March 31, 2006 and 2007</u>                                                                                                        | F - 4       |
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| <u>Consolidated statements of cash flows for the years ended<br/>March 31, 2005, 2006 and 2007</u>                                                                   | F - 9       |
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| All financial statement schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto. |             |

Financial statements of 50% or less owned persons accounted for by the equity method have been omitted because the registrant's proportionate share of the income from continuing operations before income taxes is less than 20% of consolidated income from continuing operations before income taxes and the investment in and advances to each company is less than 20% of consolidated total assets.

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**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 consolidated financial statements listed in the accompanying index 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 Management's Annual Report on Internal Control Over Financial Reporting appearing under Item 15(b), 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

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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.

/s/ PricewaterhouseCoopers Aarata

Nagoya, Japan

June 22, 2007

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**TOYOTA MOTOR CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

**ASSETS**

|                                                                                                                                                     | Yen in millions<br>March 31, |                     | U.S. dollars<br>in millions<br>March 31, |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|---------------------|------------------------------------------|
|                                                                                                                                                     | 2006                         | 2007                | 2007                                     |
| <b>Current assets</b>                                                                                                                               |                              |                     |                                          |
| 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<br>¥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                                    |
| <b>Total current assets</b>                                                                                                                         | <b>10,735,222</b>            | <b>11,784,123</b>   | <b>99,823</b>                            |
| <b>Noncurrent finance receivables, net</b>                                                                                                          | <b>4,830,216</b>             | <b>5,694,733</b>    | <b>48,240</b>                            |
| <b>Investments and other assets</b>                                                                                                                 |                              |                     |                                          |
| 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                                    |
| <b>Total investments and other assets</b>                                                                                                           | <b>6,099,529</b>             | <b>7,035,404</b>    | <b>59,597</b>                            |
| <b>Property, plant and equipment</b>                                                                                                                |                              |                     |                                          |
| 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)                                 |
| <b>Property, plant and equipment, net</b>                                                                                                           | <b>7,066,628</b>             | <b>8,060,519</b>    | <b>68,281</b>                            |
| <b>Total assets</b>                                                                                                                                 | <b>¥ 28,731,595</b>          | <b>¥ 32,574,779</b> | <b>\$ 275,941</b>                        |

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

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**TOYOTA MOTOR CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
**LIABILITIES AND SHAREHOLDERS' EQUITY**

|                                                                                    | Yen in millions<br>March 31, |                     | U.S. dollars<br>in millions<br>March 31, |
|------------------------------------------------------------------------------------|------------------------------|---------------------|------------------------------------------|
|                                                                                    | 2006                         | 2007                | 2007                                     |
| <b>Current liabilities</b>                                                         |                              |                     |                                          |
| 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                                    |
| <b>Total current liabilities</b>                                                   | <b>10,028,735</b>            | <b>11,767,170</b>   | <b>99,680</b>                            |
| <b>Long-term liabilities</b>                                                       |                              |                     |                                          |
| 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                                    |
| <b>Total long-term liabilities</b>                                                 | <b>7,552,831</b>             | <b>8,343,273</b>    | <b>70,676</b>                            |
| <b>Minority interest in consolidated subsidiaries</b>                              | <b>589,580</b>               | <b>628,244</b>      | <b>5,322</b>                             |
| <b>Shareholders' equity</b>                                                        |                              |                     |                                          |
| Common stock, no par value,                                                        |                              |                     |                                          |
| authorized: 9,740,185,400 shares in 2006 and<br>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)                                 |
| <b>Total shareholders' equity</b>                                                  | <b>10,560,449</b>            | <b>11,836,092</b>   | <b>100,263</b>                           |
| Commitments and contingencies                                                      |                              |                     |                                          |
| <b>Total liabilities and shareholders' equity</b>                                  | <b>¥ 28,731,595</b>          | <b>¥ 32,574,779</b> | <b>\$ 275,941</b>                        |

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

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**TOYOTA MOTOR CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

|                                                                                              | Yen in millions               |              |              | U.S. dollars<br>in millions        |
|----------------------------------------------------------------------------------------------|-------------------------------|--------------|--------------|------------------------------------|
|                                                                                              | For the years ended March 31, |              |              | For the year<br>ended<br>March 31, |
|                                                                                              | 2005                          | 2006         | 2007         | 2007                               |
| <b>Net revenues</b>                                                                          |                               |              |              |                                    |
| 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                            |
| <b>Costs and expenses</b>                                                                    |                               |              |              |                                    |
| 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                             |
| <b>Other income (expense)</b>                                                                |                               |              |              |                                    |
| 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                       |
| <b>Net income per share</b>                                                                  |                               |              |              |                                    |
| - Basic                                                                                      | ¥ 355.35                      | ¥ 421.76     | ¥ 512.09     | \$ 4.34                            |
| - Diluted                                                                                    | ¥ 355.28                      | ¥ 421.62     | ¥ 511.80     | \$ 4.34                            |
| <b>Cash dividends per share</b>                                                              | ¥ 65.00                       | ¥ 90.00      | ¥ 120.00     | \$ 1.02                            |

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

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**Table of Contents****TOYOTA MOTOR CORPORATION****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

|                                                                     | Yen in millions |                                  |                      |                                                        |                               |                                 |
|---------------------------------------------------------------------|-----------------|----------------------------------|----------------------|--------------------------------------------------------|-------------------------------|---------------------------------|
|                                                                     | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Treasury<br>stock,<br>at cost | Total<br>shareholders<br>equity |
| <b>Balances at March 31, 2004</b>                                   | ¥ 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                           |
| <b>Total comprehensive income</b>                                   |                 |                                  |                      |                                                        |                               | 1,295,192                       |
| Dividends paid                                                      |                 |                                  | (165,299)            |                                                        |                               | (165,299)                       |
| Purchase and reissuance of common stock                             |                 |                                  |                      |                                                        | (264,038)                     | (264,038)                       |
| <b>Balances at March 31, 2005</b>                                   | 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                           |
| <b>Total comprehensive income</b>                                   |                 |                                  |                      |                                                        |                               | 1,890,156                       |
| Dividends paid                                                      |                 |                                  | (244,568)            |                                                        |                               | (244,568)                       |
| Purchase and reissuance of common stock                             |                 |                                  |                      |                                                        | (129,632)                     | (129,632)                       |
| <b>Balances at March 31, 2006</b>                                   | 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                           |
| <b>Total comprehensive income</b>                                   |                 |                                  |                      |                                                        |                               | 1,817,077                       |

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|                                           |           |           |              |           |         |               |              |
|-------------------------------------------|-----------|-----------|--------------|-----------|---------|---------------|--------------|
| 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)    |
| <b>Balances at March 31, 2007</b>         | ¥ 397,050 | ¥ 497,593 | ¥ 11,764,713 | ¥         | 701,390 | ¥ (1,524,654) | ¥ 11,836,092 |

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

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## TOYOTA MOTOR CORPORATION

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY (CONTINUED)

|                                                                        | U.S. dollars in millions |                                  |                      |                                                        |                               |                                 |
|------------------------------------------------------------------------|--------------------------|----------------------------------|----------------------|--------------------------------------------------------|-------------------------------|---------------------------------|
|                                                                        | Common<br>stock          | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income (loss) | Treasury<br>stock,<br>at cost | Total<br>shareholders<br>equity |
| <b>Balances at March 31, 2006</b>                                      | \$ 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<br>of reclassification adjustments |                          |                                  |                      | 329                                                    |                               | 329                             |
| Minimum pension liability adjustments                                  |                          |                                  |                      | 29                                                     |                               | 29                              |
| <b>Total comprehensive income</b>                                      |                          |                                  |                      |                                                        |                               | <b>15,392</b>                   |
| 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)                         |
| <b>Balances at March 31, 2007</b>                                      | \$ 3,363                 | \$ 4,215                         | \$ 99,659            | \$ 5,941                                               | \$ (12,915)                   | \$ 100,263                      |

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

**Table of Contents****TOYOTA MOTOR CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS**

|                                                                                  | Yen in millions               |               |               | U.S. dollars<br>in millions<br>For the year<br>ended<br>March 31,<br>2007 |
|----------------------------------------------------------------------------------|-------------------------------|---------------|---------------|---------------------------------------------------------------------------|
|                                                                                  | For the years ended March 31, |               |               |                                                                           |
|                                                                                  | 2005                          | 2006          | 2007          |                                                                           |
| <b>Cash flows from operating activities</b>                                      |                               |               |               |                                                                           |
| 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                                                                    |
| <b>Cash flows from investing activities</b>                                      |                               |               |               |                                                                           |
| 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)                                                               |

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

**Table of Contents****TOYOTA MOTOR CORPORATION****CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

|                                                              | Yen in millions               |             |             | U.S. dollars<br>in millions<br>For the year<br>ended<br>March 31,<br>2007 |
|--------------------------------------------------------------|-------------------------------|-------------|-------------|---------------------------------------------------------------------------|
|                                                              | For the years ended March 31, |             |             |                                                                           |
|                                                              | 2005                          | 2006        | 2007        |                                                                           |
| <b>Cash flows from financing activities</b>                  |                               |             |             |                                                                           |
| 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.

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### **TOYOTA MOTOR CORPORATION**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

##### **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.

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**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**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

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**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

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**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**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

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**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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.

|                                                                                                                                     | <b>Yen in millions</b>     |             |
|-------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------|
|                                                                                                                                     | <b>For the years ended</b> |             |
|                                                                                                                                     | <b>March 31,</b>           |             |
|                                                                                                                                     | <b>2005</b>                | <b>2006</b> |
| <b>Net income</b>                                                                                                                   |                            |             |
| 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 |
| <b>Net income per share</b>                                                                                                         |                            |             |
| - 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      |
| <b>Other comprehensive income -</b>                                                                                                 |                            |             |

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



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**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 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.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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<br>March 31, 2006 |                               | Fair        |
|----------------------------------------------------|-------------|-----------------------------------|-------------------------------|-------------|
|                                                    | Cost        | Gross<br>unrealized<br>gains      | Gross<br>unrealized<br>losses | 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<br>March 31, 2007 |                               | Fair        |
|--------------------|-------------|-----------------------------------|-------------------------------|-------------|
|                    | Cost        | Gross<br>unrealized<br>gains      | Gross<br>unrealized<br>losses | 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 |

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                                                           |           | U.S. dollars in millions<br>March 31, 2007 |                               | Fair      |
|-----------------------------------------------------------|-----------|--------------------------------------------|-------------------------------|-----------|
|                                                           | Cost      | Gross<br>unrealized<br>gains               | Gross<br>unrealized<br>losses | value     |
| <b>Available-for-sale</b>                                 |           |                                            |                               |           |
| 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 |
| <b>Securities not practicable to determine fair value</b> |           |                                            |                               |           |
| 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.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****7. Finance receivables:**

Finance receivables consist of the following:

|                                     | <b>Yen in millions</b> |             | <b>U.S. dollars</b> |
|-------------------------------------|------------------------|-------------|---------------------|
|                                     | <b>March 31,</b>       |             | <b>in millions</b>  |
|                                     | <b>2006</b>            | <b>2007</b> | <b>March 31,</b>    |
|                                     |                        |             | <b>2007</b>         |
| 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           |

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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:

| Years ending March 31, | Yen in millions |               |                                  | U.S. dollars in millions |               |                                  |
|------------------------|-----------------|---------------|----------------------------------|--------------------------|---------------|----------------------------------|
|                        | 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   |
|----------------------------------------|-----------------|----------------|----------------|
|                                        | March 31, 2006  | March 31, 2007 | March 31, 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 (QSPEs), 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.



**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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<br>in millions<br>For the year<br>ended<br>March 31,<br>2007 |
|-----------------------------------------------------------------------------|---------------------------------------|----------|----------|---------------------------------------------------------------------------|
|                                                                             | For the years ended March 31,<br>2005 | 2006     | 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.

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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<br>March 31, 2007 | U.S. dollars<br>in millions<br>March 31, 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<br>March 31, |             | U.S. dollars<br>in millions<br>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 manufactures and is reimbursed for the related purchases.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****9. Inventories:**

Inventories consist of the following:

|                    | Yen in millions<br>March 31, |             | U.S. dollars<br>in millions<br>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<br>March 31, |             | U.S. dollars<br>in millions<br>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:

| Years ending March 31, | Yen in<br>millions | U.S. dollars<br>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.

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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<br>in millions        |
|------------------------------------------------------|-------------------------------|----------|----------|------------------------------------|
|                                                      | For the years ended March 31, |          |          | For the year<br>ended<br>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<br>in millions        |
|--------------------------------------------------|-------------------------------|-----------|-----------|------------------------------------|
|                                                  | For the years ended March 31, |           |           | For the year<br>ended<br>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.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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<br>March 31, |              | U.S. dollars<br>in millions<br>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<br>in millions<br>For the year<br>ended |
|--------------|-------------------------------|--------------|--------------|------------------------------------------------------|
|              | For the years ended March 31, |              |              | 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.

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Account balances and transactions with affiliated companies are presented below:

|                                                            | Yen in millions |           | U.S. dollars      |
|------------------------------------------------------------|-----------------|-----------|-------------------|
|                                                            | March 31,       |           | in millions       |
|                                                            | 2006            | 2007      | March 31,<br>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             |

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                                                                                                                                                                                                                   | Yen in millions                       |             |             | U.S. dollars<br>in millions<br>For the year<br>ended |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-------------|-------------|------------------------------------------------------|
|                                                                                                                                                                                                                   | For the years ended March 31,<br>2005 | 2006        | 2007        | March 31,<br>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<br>March 31,<br>2006 |             | U.S. dollars<br>in millions<br>March 31,<br>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.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

|                                                                                                                                                                                                                               | <b>Yen in millions</b><br><b>March 31,</b> |             | <b>U.S. dollars</b><br><b>in millions</b><br><b>March 31,</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-------------|---------------------------------------------------------------|
|                                                                                                                                                                                                                               | <b>2006</b>                                | <b>2007</b> | <b>2007</b>                                                   |
| 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:

| <b>Years ending March 31,</b> | <b>Yen in millions</b> | <b>U.S. dollars</b><br><b>in millions</b> |
|-------------------------------|------------------------|-------------------------------------------|
| 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                                     |



**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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<br>in millions        |
|---------------------------------------------------------|-------------------------------|-----------|-----------|------------------------------------|
|                                                         | For the years ended March 31, |           |           | For the year<br>ended<br>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.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16. Income taxes:**

The components of income before income taxes comprise the following:

|                                          | Yen in millions               |             |             | U.S. dollars<br>in millions |
|------------------------------------------|-------------------------------|-------------|-------------|-----------------------------|
|                                          | For the years ended March 31, |             |             | For the year<br>ended       |
|                                          | 2005                          | 2006        | 2007        | March 31,<br>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<br>in millions |
|------------------------------------------|-------------------------------|-----------|-----------|-----------------------------|
|                                          | For the years ended March 31, |           |           | For the year<br>ended       |
|                                          | 2005                          | 2006      | 2007      | March 31,<br>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% |

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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% |

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

|                                                                                                  | Yen in millions |             | U.S. dollars      |
|--------------------------------------------------------------------------------------------------|-----------------|-------------|-------------------|
|                                                                                                  | March 31,       |             | in millions       |
|                                                                                                  | 2006            | 2007        | March 31,<br>2007 |
| <b>Deferred tax assets</b>                                                                       |                 |             |                   |
| 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             |
| <b>Deferred tax liabilities</b>                                                                  |                 |             |                   |
| 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                               |
|------------------------------------------|-------------------------------|-----------|----------|--------------------------------------------|
|                                          | For the years ended March 31, |           |          | in millions                                |
|                                          | 2005                          | 2006      | 2007     | For the year<br>ended<br>March 31,<br>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)                                      |

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|                                    |           |          |          |        |
|------------------------------------|-----------|----------|----------|--------|
| 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.

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

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

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:

|                               | <b>For the years ended March 31,</b> |                      |                      |
|-------------------------------|--------------------------------------|----------------------|----------------------|
|                               | <b>2005</b>                          | <b>2006</b>          | <b>2007</b>          |
| <b>Common stock issued</b>    |                                      |                      |                      |
| Balance at beginning of year  | 3,609,997,492                        | 3,609,997,492        | 3,609,997,492        |
| Issuance during the year      |                                      |                      |                      |
| Purchase and retirement       |                                      |                      |                      |
| <b>Balance at end of year</b> | <b>3,609,997,492</b>                 | <b>3,609,997,492</b> | <b>3,609,997,492</b> |

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.

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**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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:

|                                       | Foreign<br>currency<br>translation<br>adjustments | Unrealized<br>gains on<br>securities | Yen in millions<br>Minimum<br>pension<br>liability<br>adjustments | Pension<br>liability<br>adjustments | Accumulated<br>other<br>comprehensive<br>income (loss) |
|---------------------------------------|---------------------------------------------------|--------------------------------------|-------------------------------------------------------------------|-------------------------------------|--------------------------------------------------------|
| <b>Balances at March 31, 2004</b>     | ¥ (515,030)                                       | ¥ 336,924                            | ¥ (26,486)                                                        | ¥                                   | ¥ (204,592)                                            |
| Other comprehensive income            | 75,697                                            | 38,455                               | 9,780                                                             |                                     | 123,932                                                |
| <b>Balances at March 31, 2005</b>     | (439,333)                                         | 375,379                              | (16,706)                                                          |                                     | (80,660)                                               |
| Other comprehensive income            | 268,410                                           | 244,629                              | 4,937                                                             |                                     | 517,976                                                |
| <b>Balances at March 31, 2006</b>     | (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                                                 |
| <b>Balances at March 31, 2007</b>     | ¥ (40,177)                                        | ¥ 658,808                            | ¥                                                                 | ¥ 82,759                            | ¥ 701,390                                              |

|                                       | Foreign<br>currency<br>translation<br>adjustments | Unrealized<br>gains on<br>securities | U.S. dollars in millions<br>Minimum<br>pension<br>liability<br>adjustments | Pension<br>liability<br>adjustments | Accumulated<br>other<br>comprehensive<br>income (loss) |
|---------------------------------------|---------------------------------------------------|--------------------------------------|----------------------------------------------------------------------------|-------------------------------------|--------------------------------------------------------|
| <b>Balances at March 31, 2006</b>     | \$ (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                                                    |
| <b>Balances at March 31, 2007</b>     | \$ (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:

|                                                                     | Pre-tax<br>amount | Yen in millions<br>Tax<br>expense<br>(benefit) | Net-of-tax<br>amount |
|---------------------------------------------------------------------|-------------------|------------------------------------------------|----------------------|
| <b>For the year ended March 31, 2005</b>                            |                   |                                                |                      |
| 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 |

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|                                                                     | Yen in millions   |                             |                      |
|---------------------------------------------------------------------|-------------------|-----------------------------|----------------------|
|                                                                     | Pre-tax<br>amount | Tax<br>expense<br>(benefit) | Net-of-tax<br>amount |
| <b>For the year ended March 31, 2007</b>                            |                   |                             |                      |
| 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                |
| <b>Other comprehensive income</b>                                   | <b>¥ 204,572</b>  | <b>¥ (31,527)</b>           | <b>¥ 173,045</b>     |

|                                                                     | U.S. dollars in millions |                             |                      |
|---------------------------------------------------------------------|--------------------------|-----------------------------|----------------------|
|                                                                     | Pre-tax<br>amount        | Tax<br>expense<br>(benefit) | Net-of-tax<br>amount |
| <b>For the year ended March 31, 2007</b>                            |                          |                             |                      |
| 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                   |
| <b>Other comprehensive income</b>                                   | <b>\$ 1,732</b>          | <b>\$ (267)</b>             | <b>\$ 1,465</b>      |

**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 plan's 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

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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:

|                                               | Number of options | Yen<br>Weighted-average exercise price | Weighted-average remaining contractual life in years | Yen in millions<br>Aggregate intrinsic value |
|-----------------------------------------------|-------------------|----------------------------------------|------------------------------------------------------|----------------------------------------------|
| <b>Options outstanding at March 31, 2004</b>  | 4,896,400         | ¥ 3,401                                | 3.83                                                 |                                              |
| Granted                                       | 2,021,000         | 4,541                                  |                                                      |                                              |
| Exercised                                     | (810,300)         | 2,995                                  |                                                      |                                              |
| Canceled                                      | (606,800)         | 4,105                                  |                                                      |                                              |
| <b>Options outstanding at March 31, 2005s</b> | 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                                  |                                                      |                                              |
| <b>Options outstanding at March 31, 2006</b>  | 4,786,900         | 4,180                                  | 4.52                                                 |                                              |
| Granted                                       | 3,176,000         | 6,140                                  |                                                      |                                              |
| Exercised                                     | (1,233,100)       | 4,008                                  |                                                      |                                              |
| Canceled                                      | (437,100)         | 4,590                                  |                                                      |                                              |
| <b>Options outstanding at March 31, 2007</b>  | 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.

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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.

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The following table summarizes information for options outstanding and options exercisable at March 31, 2007:

|              |           | Outstanding |          |           |           | Exercisable |          |
|--------------|-----------|-------------|----------|-----------|-----------|-------------|----------|
|              |           | Weighted    |          | Weighted  |           | Weighted    | Weighted |
| Exercise     |           | -average    | Weighted | -average  |           | -average    | -average |
| price        | Number of | exercise    | -average | remaining | Number of | exercise    | exercise |
| range        | shares    | price       | exercise | life      | shares    | price       | price    |
| Yen          |           | Yen         | price    | Years     |           | Yen         | Dollars  |
|              |           |             | 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.



**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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<br>products<br>sold      | Selling, general<br>and<br>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.

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## TOYOTA MOTOR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**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<br>adoption<br>of<br>FAS 158 | FAS 158<br>Adjustment | Amount after<br>adoption of<br>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<br>adoption<br>of<br>FAS 158 | FAS 158<br>Adjustment | Amount after<br>adoption of<br>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                                    |

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Information regarding Toyota's defined benefit plans is as follow:

|                                                | <b>Yen in millions</b> |                  | <b>U.S. dollars</b> |
|------------------------------------------------|------------------------|------------------|---------------------|
|                                                | <b>March 31,</b>       | <b>March 31,</b> | <b>March 31,</b>    |
|                                                | <b>2006</b>            | <b>2007</b>      | <b>2007</b>         |
| <b>Change in benefit obligation</b>            |                        |                  |                     |
| 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              |
| <b>Change in plan assets</b>                   |                        |                  |                     |
| 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:

|                                        | <b>Yen in millions</b> |
|----------------------------------------|------------------------|
|                                        | <b>March 31, 2006</b>  |
| 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**

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|                                                                            | 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      |

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Amounts recognized in the consolidated balance sheet as of March 31, 2007 are comprised of the following:

|                                                                            | <b>Yen in millions<br/>March 31, 2007</b> | <b>U.S. dollars<br/>in millions<br/>March 31, 2007</b> |
|----------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------------------|
| 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:

|                           | <b>Yen in millions<br/>March 31, 2007</b> | <b>U.S. dollars<br/>in millions<br/>March 31, 2007</b> |
|---------------------------|-------------------------------------------|--------------------------------------------------------|
| 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:

|                                | <b>Yen in millions<br/>March 31,</b> |             | <b>U.S. dollars<br/>in<br/>millions<br/>March 31,<br/>2007</b> |
|--------------------------------|--------------------------------------|-------------|----------------------------------------------------------------|
|                                | <b>2006</b>                          | <b>2007</b> |                                                                |
| 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<br>in<br>millions     |
|------------------------------------------------------------------------------|-------------------------------|----------|----------|------------------------------------|
|                                                                              | For the years ended March 31, |          |          | For the year<br>ended<br>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<br>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                             |

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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             |
|-------------------------------------------------------------------------------|-----------------|---------------------------------------|---------|--------------------------------------|
|                                                                               | 2005            | For the years ended March 31,<br>2006 | 2007    | For the year ended March 31,<br>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:

|                               | 2006        | March 31,<br>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:

|                                | 2005       | For the years ended March 31,<br>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

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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% |

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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:

| <b><u>Years ending March 31,</u></b> | <b><u>Yen in<br/>millions</u></b> | <b><u>U.S. dollars<br/>in millions</u></b> |
|--------------------------------------|-----------------------------------|--------------------------------------------|
| 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                                      |
| <b>Total</b>                         | <b>¥ 762,330</b>                  | <b>\$ 6,458</b>                            |

**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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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<br>March 31, 2006 |                         |
|----------------------------------------------|-----------------------------------|-------------------------|
|                                              | Carrying<br>amount                | Estimated<br>fair value |
| <b>Asset (Liability)</b>                     |                                   |                         |
| 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<br>March 31, 2007 |                         | U.S. dollars in millions<br>March 31, 2007 |                         |
|----------------------------------------------|-----------------------------------|-------------------------|--------------------------------------------|-------------------------|
|                                              | Carrying<br>amount                | Estimated<br>fair value | Carrying<br>amount                         | Estimated<br>fair value |
| <b>Asset (Liability)</b>                     |                                   |                         |                                            |                         |
| 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.



**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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:

| Class of property               | Yen in millions<br>March 31, |           | U.S. dollars<br>in millions<br>March 31, |
|---------------------------------|------------------------------|-----------|------------------------------------------|
|                                 | 2006                         | 2007      | 2007                                     |
| 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<br>millions | U.S. dollars<br>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                      |

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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.

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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:

| <b><u>Years ending March 31,</u></b> | <b>Yen in<br/>millions</b> | <b>U.S. dollars<br/>in millions</b> |
|--------------------------------------|----------------------------|-------------------------------------|
| 2008                                 | ¥ 11,364                   | \$ 96                               |
| 2009                                 | 8,413                      | 71                                  |
| 2010                                 | 6,932                      | 59                                  |
| 2011                                 | 5,380                      | 46                                  |
| 2012                                 | 4,482                      | 38                                  |
| Thereafter                           | 19,570                     | 166                                 |
| <b>Total minimum future rentals</b>  | <b>¥ 56,141</b>            | <b>\$ 476</b>                       |

**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

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**TOYOTA MOTOR CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

not bar the plaintiffs from seeking injunctive relief against the alleged antitrust violations. The plaintiffs have submitted an amended complaint 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.

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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    |

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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    |

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                                       | 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 |             |             |             |             |                                       |              |
|-----------------------------------|-----------------|-------------|-------------|-------------|-------------|---------------------------------------|--------------|
|                                   |                 | North       |             |             |             | Inter-segment                         |              |
|                                   | Japan           | America     | Europe      | Asia        | Other       | Elimination/<br>Unallocated<br>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    |

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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    |

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|                   |    |         |    |        |    |        |    |        |    |        |    |        |    |         |
|-------------------|----|---------|----|--------|----|--------|----|--------|----|--------|----|--------|----|---------|
| 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.

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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<br>in millions |
|---------------|-------------------------------|-------------|-------------|-----------------------------|
|               |                               |             |             | For the year                |
|               |                               |             |             | ended                       |
|               | For the years ended March 31, |             |             | 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                      |

**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****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                     |
|---------------------------------------------------------------------------|-------------------|-------------------|----------------------------------|
|                                                                           | March 31,<br>2006 | March 31,<br>2007 | in millions<br>March 31,<br>2007 |
| <b>Non-Financial Services Businesses</b>                                  |                   |                   |                                  |
| 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                          |
| <b>Financial Services Businesses</b>                                      |                   |                   |                                  |
| 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.

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                                                            | <b>Yen in millions</b><br><b>March 31,</b> |                   | <b>U.S. dollars</b><br><b>in millions</b><br><b>March 31,</b> |
|------------------------------------------------------------|--------------------------------------------|-------------------|---------------------------------------------------------------|
|                                                            | <b>2006</b>                                | <b>2007</b>       | <b>2007</b>                                                   |
| <b>Non-Financial Services Businesses</b>                   |                                            |                   |                                                               |
| 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                                                        |
| <b>Total current liabilities</b>                           | <b>5,774,891</b>                           | <b>6,390,381</b>  | <b>54,133</b>                                                 |
| 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                                                         |
| <b>Total long-term liabilities</b>                         | <b>2,230,611</b>                           | <b>2,150,596</b>  | <b>18,218</b>                                                 |
| <b>Total Non-Financial Services Businesses liabilities</b> | <b>8,005,502</b>                           | <b>8,540,977</b>  | <b>72,351</b>                                                 |
| <b>Financial Services Businesses</b>                       |                                            |                   |                                                               |
| 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                                                         |
| <b>Total current liabilities</b>                           | <b>5,040,058</b>                           | <b>6,179,737</b>  | <b>52,349</b>                                                 |
| 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                                                         |
| <b>Total long-term liabilities</b>                         | <b>5,483,284</b>                           | <b>6,318,861</b>  | <b>53,527</b>                                                 |
| <b>Total Financial Services Businesses liabilities</b>     | <b>10,523,342</b>                          | <b>12,498,598</b> | <b>105,876</b>                                                |
| <b>Eliminations</b>                                        | <b>(947,278)</b>                           | <b>(929,132)</b>  | <b>(7,871)</b>                                                |
| <b>Total liabilities</b>                                   | <b>17,581,566</b>                          | <b>20,110,443</b> | <b>170,356</b>                                                |

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|                                                |              |              |            |
|------------------------------------------------|--------------|--------------|------------|
| 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 |

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)***Statements of income*

|                                                                                              | Yen in millions |              |              | U.S. dollars<br>in millions<br>For the year<br>ended<br>March 31,<br>2007 |
|----------------------------------------------------------------------------------------------|-----------------|--------------|--------------|---------------------------------------------------------------------------|
|                                                                                              | 2005            | 2006         | 2007         |                                                                           |
| <b>Non-Financial Services Businesses</b>                                                     |                 |              |              |                                                                           |
| 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                                                                    |
| <b>Financial Services Businesses</b>                                                         |                 |              |              |                                                                           |
| 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                                                                     |

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|                                                                                              |             |             |             |           |
|----------------------------------------------------------------------------------------------|-------------|-------------|-------------|-----------|
| 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 |

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Statement of cash flows**

|                                                                                       | Yen in millions<br>For the year ended March 31, 2005 |                                     |              | Yen in millions<br>For the year ended March 31, 2006 |                                     |              |
|---------------------------------------------------------------------------------------|------------------------------------------------------|-------------------------------------|--------------|------------------------------------------------------|-------------------------------------|--------------|
|                                                                                       | Non-Financial<br>Services<br>Businesses              | Financial<br>Services<br>Businesses | Consolidated | Non-Financial<br>Services<br>Businesses              | Financial<br>Services<br>Businesses | Consolidated |
| <b>Cash flows from operating activities</b>                                           |                                                      |                                     |              |                                                      |                                     |              |
| 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    |
| <b>Cash flows from investing activities</b>                                           |                                                      |                                     |              |                                                      |                                     |              |
| 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)  |
| <b>Cash flows from financing activities</b>                                           |                                                      |                                     |              |                                                      |                                     |              |
| 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      |
|                                                                                       | 21,276                                               | 3,573                               | 24,849       | 58,211                                               | 10,532                              | 68,743       |

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Effect of exchange rate changes on cash and cash equivalents

|                                                      |             |           |             |             |           |             |
|------------------------------------------------------|-------------|-----------|-------------|-------------|-----------|-------------|
| 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 |

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**Table of Contents****TOYOTA MOTOR CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                                                                                       | Yen in millions                         |                                     |              | U.S. dollars in millions                |                                     |              |
|---------------------------------------------------------------------------------------|-----------------------------------------|-------------------------------------|--------------|-----------------------------------------|-------------------------------------|--------------|
|                                                                                       | For the year ended March 31, 2007       |                                     |              | For the year ended March 31, 2007       |                                     |              |
|                                                                                       | Non-Financial<br>Services<br>Businesses | Financial<br>Services<br>Businesses | Consolidated | Non-Financial<br>Services<br>Businesses | Financial<br>Services<br>Businesses | Consolidated |
| <b>Cash flows from operating activities</b>                                           |                                         |                                     |              |                                         |                                     |              |
| 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       |
| <b>Cash flows from investing activities</b>                                           |                                         |                                     |              |                                         |                                     |              |
| 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)     |
| <b>Cash flows from financing activities</b>                                           |                                         |                                     |              |                                         |                                     |              |
| 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       |

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|                                          |             |           |             |           |          |           |
|------------------------------------------|-------------|-----------|-------------|-----------|----------|-----------|
| Cash and cash equivalents at end of year | ¥ 1,714,722 | ¥ 185,657 | ¥ 1,900,379 | \$ 14,525 | \$ 1,573 | \$ 16,098 |
|------------------------------------------|-------------|-----------|-------------|-----------|----------|-----------|

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## TOYOTA MOTOR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**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<br>millions | Thousands<br>of shares<br>Weighted-<br>average<br>shares | Yen<br>Net<br>income<br>per share | U.S. dollars<br>Net income<br>per share |
|--------------------------------------------|--------------------|----------------------------------------------------------|-----------------------------------|-----------------------------------------|
| <b>For the year ended March 31, 2005</b>   | <b>Net income</b>  |                                                          |                                   |                                         |
| 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                          |                                         |
| <b>For the year ended March 31, 2006</b>   |                    |                                                          |                                   |                                         |
| 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                          |                                         |
| <b>For the year ended March 31, 2007</b>   |                    |                                                          |                                   |                                         |
| 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<br>millions<br>Net assets | Thousands<br>of shares<br>Shares issued<br>and | Yen<br>Net assets<br>per share | U.S. dollars<br>Net assets<br>per share |
|----------------------------------|------------------------------------------------|--------------------------------|-----------------------------------------|
|----------------------------------|------------------------------------------------|--------------------------------|-----------------------------------------|

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|                |              | outstanding<br>at the end of<br>the year |            |    |       |
|----------------|--------------|------------------------------------------|------------|----|-------|
| 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 |

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**ITEM 19. EXHIBITS**

*Index to Exhibits*

- 1.1 Amended and Restated Articles of Incorporation of the Registrant (English translation) (incorporated by reference to Exhibit 1.1 to Toyota's Annual Report on Form 20-F for the fiscal year ended March 31, 2006 filed with the SEC on June 26, 2006 (file no. 001-14948))
- 1.2 Amended and Restated Regulations of the Board of Directors of the Registrant (English translation) (incorporated by reference to Exhibit 1.2 to Toyota's Annual Report on Form 20-F for the fiscal year ended March 31, 2006 filed with the SEC on June 26, 2006 (file no. 001-14948))
- 1.3 Amended and Restated Regulations of the Board of Corporate Auditors of the Registrant (English translation) (incorporated by reference to Exhibit 3.3 to Toyota's Registration Statement on Form F-3 filed with the SEC on November 7, 2006 (file no. 333-138469))
- 2.1 Amended and Restated Share Handling Regulations of the Registrant (English translation) (incorporated by reference to Exhibit 2.1 to Toyota's Annual Report on Form 20-F for the fiscal year ended March 31, 2006 filed with the SEC on June 26, 2006 (file no. 001-14948))
- 2.2 Form of Deposit Agreement among the Registrant, The Bank of New York, as depositary, and the owners and beneficial owners from time to time of American Depositary Receipts, including the form of American Depositary Receipt (incorporated by reference to Exhibit 1 to Toyota's Registration Statement on Form F-6, filed with the SEC on November 7, 2006 (file no. 333-138477))
- 2.3 Form of ADR (included in Exhibit 2.2)
- 8.1 List of Principal Subsidiaries (See Organizational Structure in Item 4. Information on the Company )
- 11.1 Code of Ethics of the Registrant applicable to its directors and managing officers, including its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions (English translation) (incorporated by reference to Exhibit 11.1 to Toyota's Annual Report on Form 20-F for the fiscal year ended March 31, 2006 filed with the SEC on June 26, 2006 (file no. 001-14948))
- 12.1 Certifications of the Registrant's Chairman of the Board and Executive Vice President, Member of the Board pursuant to Section 302 of the Sarbanes-Oxley Act
- 13.1 Certifications of the Registrant's Chairman of the Board and Executive Vice President, Member of the Board pursuant to Section 906 of the Sarbanes-Oxley Act
- 15.1 Consent of Independent Registered Public Accounting Firm

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

TOYOTA MOTOR CORPORATION

By: /s/ TAKESHI SUZUKI

Name: Takeshi Suzuki

Title: Senior Managing Director, Member of the Board

Date: June 25, 2007