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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

(Mark One)

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

x **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

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)

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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:	Name of Each Exchange on Which Registered:
Common Stock	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 x 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 x

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 x 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 x Accelerated filer ¨ Non-accelerated filer ¨

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

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 x

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As used in this annual report, the term fiscal 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 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.

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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.

	Year Ended March 31,					
	2003	2004	2005	2006	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[(1)]	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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	Year Ended March 31,					
	2003	2004	2005	2006	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.

	Cash Dividends per Share	
Period Ended	**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.

	At End	Average		
Fiscal Year Ended or Ending March 31,	**of Period**	**(of month-end rates)**	**High**	**Low**
		(¥ per $1.00)		
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**	**Low**
	(¥ per $1.00)	
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 for the Toyota s net revenues from external customers in each of its business segments for each of the past three fiscal years.

	Yen in millions 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:

	Year Ended March 31,				
	2003	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 ist 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 ist 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.

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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.

	Year Ended March 31,									
	2003		2004		2005		2006		2007	
	Units	%	Units	%	Units	%	Units	%	Units	%
Market										
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) Fiscal Year Ended March 31,				
	2003	2004	2005	2006	2007
Japan:					
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) Calendar Year Ended December 31,				
	2002	2003	2004	2005	2006
North America:					
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%
Europe:					
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%

Japan

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 lead 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.

Toyota Sales (in thousands of units)(Calendar year)	Asia (excluding China)	China
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.

	Dealers			
	Toyota			
Channel	**Owned**	**Independent**	**Total**	**Market Focus**
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 21st 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.

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 March 31,		US dollars in millions March 31,
	2006	2007	2007
Finance Receivables			
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
Operating Leases			
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.

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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.

Facility	Principal Activity
Japan	
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
United States	
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
Calty Design Research, Inc.	Design development, model production and design survey
Europe	
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
Asia Pacific	
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 by subsidiary basis and as reported in Toyota s annual Japanese securities report filed with the director of the Kanto Local Finance Bureau.

Description of Activity	Total Cost (billions of yen)	Location	Method of Financing
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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Description of Activity	Total Cost (billions of yen)	Location	Method of Financing
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.

Description of Activity	Total Cost (billions of yen)	Location	Method of Financing
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 compliant adding a claim for damages based on state antitrust laws and Toyota has responded to the plaintiff s discovery requests. Toyota believes that its actions have been lawful. In the interest of quickly resolving these legal actions, however, Toyota entered into a settlement agreement with the plaintiffs at the end of February 2006. The settlement agreement is pending the approval of the federal district court, and immediately upon approval the plaintiffs will, in accordance with the terms of the settlement agreement, withdraw all pending actions against Toyota in the federal district court as well as all state courts and all related actions will be closed.

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.

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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 Incorporation	Percentage Ownership Interest	Percentage Voting 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 (thousand square meters)	Principal Products or Functions
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.

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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