TOYOTA MOTOR CORP/
Form 20-F
June 24, 2009
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As filed with the Securities and Exchange Commission on June 24, 2009

UNITED STATES

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, 2009

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)

1 Toyota-cho, Toyota City

Aichi Prefecture 471-8571

Japan

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(Address of Principal Executive Offices)

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Address: 1 Toyota-cho, Toyota City, Aichi Prefecture 471-8571, Japan

(Name, telephone, e-mail and/or facsimile number and address of registrant s contact person)

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:**
American Depositary Shares*	**The New York Stock Exchange**
Common Stock**	

* American Depositary Receipts evidence American Depositary Shares, each American Depositary Share representing two shares of the registrant s Common Stock.

**

No par value. Not for trading, but only in connection with the registration of American Depositary Shares, pursuant to the requirements of the U.S. Securities and Exchange Commission.

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: **3,135,882,475 Shares of Common Stock (including 85,076,834 Shares of Common Stock in the form of American Depositary Shares) as of March 31, 2009**

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files): Yes ¨ No ¨

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ Other ¨

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow: Item 17 ¨ Item 18 ¨

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):Yes ¨ No 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 ¥98.23 = $1.00. This was the approximate exchange rate in Japan on March 31, 2009.

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 , hop intend , may , plan , predict , probability , risk , should , will , would , and similar expressions, are used as they relate to Toyota or its r 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, the Canadian 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.

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,					
	2005	2006	2007	2008	2009	2009
	(in millions, except share and per share data)					
Consolidated Statement of Income Data:						
Automotive:						
Revenues	¥ 17,113,535	¥ 19,338,144	¥ 21,928,006	¥ 24,177,306	¥ 18,564,723	$ 188,992
Operating income (loss)	1,452,535	1,694,045	2,038,828	2,171,905	(394,876)	(4,020)
Financial Services:						
Revenues	781,261	996,909	1,300,548	1,498,354	1,377,548	14,024
Operating income (loss)	200,853	155,817	158,495	86,494	(71,947)	(732)
All Other:						
Revenues	1,030,320	1,190,291	1,323,731	1,346,955	1,184,947	12,063
Operating income	33,743	39,748	39,679	33,080	9,913	101
Elimination of intersegment:						
Revenues	(373,590)	(488,435)	(604,194)	(733,375)	(597,648)	(6,084)
Operating income (loss)	(14,944)	(11,268)	1,681	(21,104)	(4,101)	(42)
Total Company:						
Revenues	18,551,526	21,036,909	23,948,091	26,289,240	20,529,570	208,995
Operating income (loss)	1,672,187	1,878,342	2,238,683	2,270,375	(461,011)	(4,693)
Income (loss) before income taxes, minority interest and equity in earnings of affiliated companies	1,754,637	2,087,360[1]	2,382,516	2,437,222	(560,381)	(5,705)
Net income (loss)	1,171,260	1,372,180	1,644,032	1,717,879	(436,937)	(4,448)
Net income (loss) per share:						
Basic	355.35	421.76	512.09	540.65	(139.13)	(1.42)
Diluted	355.28	421.62	511.80	540.44	(139.13)	(1.42)
Shares used in computing net income (loss) per share, basic (in thousands)	3,296,092	3,253,450	3,210,423	3,177,445	3,140,417	
Shares used in computing net income (loss) per share, diluted (in thousands)	3,296,754	3,254,499	3,212,235	3,178,662	3,140,417	

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	Year Ended March 31,					
	2005	2006	2007	2008	2009	2009
	(in millions, except per share and numbers of vehicles sold data)					
Consolidated Balance Sheet Data (end of period):						
Total Assets:	¥ 24,335,011	¥ 28,731,595	¥ 32,574,779	¥ 32,458,320	¥ 29,062,037	$ 295,857
Short-term debt, including current portion of long-term debt	3,532,747	4,756,907	5,865,507	6,228,152	6,317,184	64,311
Long-term debt, less current portion	5,014,925	5,640,490	6,263,585	5,981,931	6,301,469	64,150
Shareholders equity	9,044,950	10,560,449	11,836,092	11,869,527	10,061,207	102,425
Common stock	397,050	397,050	397,050	397,050	397,050	4,042
Other Data:						
Dividends per share	¥ 65.0	¥ 90.0	¥ 120.0	¥ 140.0	¥ 100.0	$ 1.02
Number of vehicles sold						
Japan	2,381,325	2,364,484	2,273,152	2,188,389	1,944,823	
North America	2,271,139	2,556,050	2,942,661	2,958,314	2,212,254	
Europe	978,963	1,022,781	1,223,628	1,283,793	1,061,954	
Asia	833,507	880,661	789,637	956,509	904,892	
Other*	943,444	1,150,587	1,295,581	1,526,934	1,443,433	
Worldwide total	7,408,378	7,974,563	8,524,659	8,913,939	7,567,356	

* Other consists of Central and South America, Oceania, Africa and the Middle East, etc.

(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 dividends twice per year, including an interim dividend and a year-end dividend. Although Toyota s articles of incorporation provide that retained earnings can be distributed as dividends pursuant to the resolution of its board of directors, Toyota s board of directors recommends the payment of year-end dividend to shareholders and pledgees of record as of March 31 in each year. Year-end dividends are usually paid to the shareholders immediately following approval of the dividends at the general 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. 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 as of any record date, other than those specified above, as set forth by Toyota s articles of incorporation or as determined by its board of directors from time to time. Such dividends may be distributed by a resolution of any general shareholders meeting. Toyota s articles of incorporation also permit 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 enable 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, 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
September 30, 2007	65.0	0.65
March 31, 2008	75.0	0.75
September 30, 2008	65.0	0.61
March 31, 2009	35.0	0.35

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 is working to implement reforms to establish a corporate structure that can achieve continuous growth in order to enhance its corporate value.

With respect to the payment of dividends, Toyota declared an annual dividend payment of ¥100 per share at the end of fiscal 2009, which is a decrease of ¥40 from the previous fiscal year. Going forward, Toyota will strive to continue to pay dividends while taking into consideration factors such as business results of each term, investment plans and cash reserves.

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 ¥98.23 = $1.00. This was the approximate exchange rate in Japan on March 31, 2009.

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 19, 2009, the noon buying rate was ¥96.15 = $1.00. The average exchange rate for the periods shown is the average of the month-end rates during the period.

Fiscal Year Ended or Ending March 31,	**At End of Period**	**Average (of month-end rates)**	**High**	**Low**
		(¥ per $1.00)		
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	99.85	113.61	124.09	96.88
2009	99.15	100.85	110.48	87.80
2010 (through June 19, 2009)	96.15	96.82	100.71	94.45

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Month Ended	**High**	**Low**
	(¥ per $1.00)	
December 31, 2008	93.71	87.84
January 31, 2009	94.20	87.80
February 28, 2009	98.55	89.09
March 31, 2009	99.34	93.85
April 30, 2009	100.71	96.49
May 31, 2009	99.24	94.45

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 American Depositary Shares (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 automotive market is highly competitive.

The worldwide automotive market is highly competitive. Toyota faces intense competition from automotive manufacturers in the respective markets in which it operates. Competition has intensified particularly as a result of the contraction of the automotive market, due to the worldwide deterioration in the economy stemming from the financial crisis unfolding since last fall. In addition, competition is likely to further intensify in light of continuing globalization in the worldwide automotive industry, possibly resulting in industry reorganization. Factors affecting competition include product quality and features, the amount of time required for innovation and development, 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 adequately respond to the recent rapid changes in the automotive market and 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 automotive industry is highly volatile.

Each of the markets in which Toyota competes has been subject to considerable volatility in demand. Demand for vehicles depends to a large extent on 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, economic conditions in such markets are particularly important to Toyota. In reflection of the

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worldwide deterioration in the economy stemming from the financial crisis, the demand for automobiles in Japan, North America and Europe, which are Toyota s main markets, declined substantially particularly since the latter half of 2008, adversely affecting Toyota. Such decline in demand for automobiles and the adverse effect on Toyota are currently ongoing, and it is unclear how long this situation would continue or how it would transition in the future. Toyota s financial condition and results of operations may be affected adversely if the demand for automobiles remain weak or further weakens as a result of a further decline in the world economy. Demand may also be affected by factors directly impacting vehicle price or the cost of purchasing and operating vehicles 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 new innovative, price competitive products that meet and satisfy customer demand on a timely basis.

Meeting and satisfying customer demand with attractive new vehicles and reducing the amount of time required for product development are critical elements to the success of automotive manufacturers. The timely introduction of new vehicle models, at competitive prices, meeting rapidly changing customer preferences and demands is more fundamental to Toyota s success than ever as the automotive market is rapidly transforming in light of the deterioration in the world economy. There is no assurance, however, that Toyota may adequately and appropriately perceive on a timely basis changing customer preferences and demands with respect to quality, styling, reliability, safety and other features in a timely manner. Even if Toyota succeeds in perceiving 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 maintain its brand image is an integral part of Toyota s successful sales.

Toyota s success in the sale of vehicles 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 changing 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. 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, increase in the ratio of credit losses and increased funding costs are factors which may impact Toyota s financial services operations. The likelihood of these factors materializing has increased as a result of the ongoing rapid worldwide economic deterioration, and competition in automobile financing has intensified. If Toyota is unable to adequately respond to the changes and competition in automobile financing, Toyota s financial services operations may adversely affect its financial condition and results of operations.

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Financial Market 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, the Canadian 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, strengthening of the Japanese yen against the U.S. dollar can have an adverse effect on Toyota s operating results. The fluctuation of the Japanese yen against other currencies including the U.S. dollar has been particularly great in the past year. If the Japanese yen further rapidly appreciates against other currencies, including the U.S. dollar, Toyota s financial condition and results of operations may be adversely affected.

Toyota believes that its use of certain derivative financial instruments including interest rate swaps and increased localized production of its products have reduced, but not eliminated, the effects of interest rate and foreign currency exchange rate fluctuations. 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, 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.

High prices of raw materials and strong pressure on Toyota s suppliers could negatively impact Toyota s profitability.

Increase in prices for raw materials that Toyota and Toyota s suppliers use in manufacturing their products or parts and components such as steel, precious metals, non-ferrous alloys including aluminum, and plastic parts, may lead to higher production costs for parts and components. This could, in turn, negatively impact Toyota s future profitability because Toyota may not be able to pass all those costs on to its customers or require its suppliers to absorb such costs.

The downturn in the financial markets could adversely affect Toyota s ability to raise capital.

Financial markets worldwide have been significantly disrupted in the wake of the global financial crisis. A number of financial institutions and investors have been facing difficulties providing capital to the financial markets due to their deteriorated financial conditions. As a result, there is a risk that companies may not be able to raise capital under terms that they would expect to receive with their creditworthiness. If Toyota is unable to raise the necessary capital under appropriate conditions on a timely basis, Toyota s financial condition and results of operations may be adversely affected.

Political, Regulatory and Legal Risks

The automotive industry is subject to various governmental regulations.

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. Many governments also 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 expenses in the future.

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Toyota may become subject to various legal proceedings.

As an automotive manufacturer, Toyota may become subject to legal proceedings in respect of various issues, including product liability and infringement of intellectual property, and Toyota is in fact currently 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 governmental regulations, 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, parts and 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 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. In 1982, the Toyota Motor Company and Toyota Motor Sales merged into one company, the Toyota Motor Corporation of today. As of March 31, 2009 Toyota operated through 529 consolidated subsidiaries and 229 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, 2006 and March 31, 2009 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

Toyota primarily conducts business in the automotive industry. Toyota also conducts business in the finance and other industries. Toyota sold 7.56 million vehicles in fiscal 2009 on a consolidated basis. Toyota had net revenues of ¥20,529.5 billion and net loss of ¥436.9 billion in fiscal 2009.

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

	Yen in millions Year Ended March 31,		
	2007	2008	2009
Automotive	¥ 21,914,168	¥ 24,160,254	¥ 18,550,501
Financial Services	1,277,994	1,468,730	1,355,850
All Other	755,929	660,256	623,219

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Toyota s automotive operations include the design, manufacture, assembly and sale of passenger cars, minivans and commercial vehicles such as 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). Toyota s all other operations business segment includes the design and manufacture of prefabricated housing and information technology related businesses, including 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 sales to external customers in each of its geographical markets for each of the past three fiscal years.

	Yen in millions		
	Year Ended March 31,		
	2007	**2008**	**2009**
Japan	¥ 8,152,884	¥ 8,418,620	¥ 7,471,916
North America	8,771,495	9,248,950	6,097,676
Europe	3,346,013	3,802,814	2,889,753
Asia	1,969,957	2,790,987	2,450,412
Other*	1,707,742	2,027,869	1,619,813

* Other consists of Central and South America, Oceania and Africa.

During fiscal 2009, 25.7% of Toyota s automobile unit sales on a consolidated basis were in Japan, 29.2% were in North America, 14.0% were in Europe and 12.0% were in Asia. The remaining 19.1% of consolidated unit sales were in other markets.

The Worldwide Automotive Market

Toyota estimates that annual worldwide vehicle sales totaled approximately 68 million units in 2008.

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.

The disruption in the financial markets stemming from the subprime mortgage crisis deepened in the latter half of fiscal 2009. The disruption extended beyond the U.S. and Europe and spread worldwide, including resource-rich countries and emerging countries, resulting in a global financial crisis. The real economy has suffered as a result and the world economy faces a serious recession.

The automotive industry has also been affected, experiencing a rapid contraction in the worldwide market. In particular, in Japan, the U.S. and Europe, the markets contracted significantly in the latter half of fiscal 2009. Furthermore, the growth in resource-rich markets and emerging markets stalled abruptly.

While Toyota expects the automotive market to grow in the medium- to long-term driven principally by the growth in resource-rich markets and the emerging markets, the automotive market is rapidly contracting

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currently. Furthermore, global competition is severe, as competition in compact and low-price vehicles intensifies, and as technological development and development of new products become more frequent with an increased global awareness in the environment.

In 2008, Europe, North America, China, Asia, 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 32% for Europe, 23% for North America (22% excluding Mexico and Puerto Rico), 13% for China, 8% for Asia, and 7% for Japan. In Europe, new vehicle sales decreased from the previous year to approximately 21.9 million units. In North America, new vehicle sales decreased to approximately 16.2 million units. In China, new vehicle sales increased to approximately 9.1 million units. In Asia (including India but excluding Japan and China), new vehicle unit sales remained at the same level at approximately 5.5 million units. In Japan, total new vehicle unit sales (including mini-vehicles) decreased to approximately 5.0 million units.

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 parts and 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 parts and 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 improve 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 on its own. 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.

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 enhance its corporate value by maintaining its position as a market leader in the automotive industry and by continuing its growth through global operations and through products reflecting Toyota s advanced technology that target the local demand in each market. In order to achieve this corporate goal, Toyota strives to further enhance its technology, supply capability and marketing, supported by

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improvements in quality control, strengthening of cost-competitiveness and personnel development. Among these, technology is the most important element as the driver of growth. In particular, Toyota has been dedicated to addressing environmental issues, and as environmental awareness continues to grow in the market, Toyota strives to further improve technology, including its unique hybrid technology, in order to develop environmentally-friendly products.

In light of the rapidly contracting automotive market as a result of the downturn in the world economy, and in light of the intense global competition that Toyota faces, Toyota is working to create an agile corporate structure that can react to short-term changes in demand and further reduce inefficiency. Toyota is also implementing reforms aiming to establish a solid yet flexible corporate structure capable of attaining steady growth in the medium to long term. To carry out these reforms, Toyota will step up its efforts in accordance with the following agenda:

Strengthen customer-orientation of products through increased attention to the requests and demands of customers in each country and region, based on Genchi Genbutsu (going to the source) principle, to provide attractive high-quality products at a lower price and to respond to changing customer needs.

Further promote commercialization of next-generation environmental, energy and safety technologies.

Create a structure for efficient development, production and sales that can respond flexibly to changes in the external environment.
Toyota is working to enhance its corporate value as a company while maintaining growth in harmony with society, through the foregoing agenda and through underscoring its fundamental principles of Customer First, Genchi Genbutsu, and Continuous Improvement. These principles are the cornerstones of Toyota s growth, and are key to Toyota s responding flexibly and promptly to the changes in the market environment. Toyota plans to fulfill its social responsibilities by carrying out its corporate social responsibility through philanthropic activities undertaken through corporate ethics, including full compliance with applicable laws and regulations.

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

Attractive Product Lineup Responding to Consumer Preferences in All Regions

Toyota aims to strive for better quality to advance growth and build on the related foundations, and provide attractive products responding to consumer preferences in all regions at a lower price. Key elements of this strategy include models in the following categories:

Global Models (IMV, Vitz/Yaris, Camry and Corolla/Auris). Under the concept of Global Best, Local Best, Toyota aims to develop, manufacture and distribute attractive products that satisfy regional characteristics and demand while using common platforms and core parts and components. In fiscal 2009, Toyota sold about 2.9 million units of Global Models worldwide. Global Models accounted for approximately 40% of its global sales in fiscal 2009.

Models Targeted to Resource-rich and Emerging Markets. Toyota expects that the automobile market in resource-rich countries and emerging countries such as BRICs will grow in the medium to long term. Toyota has therefore been striving to, and has been achieving partial success in, establishing operational foundations for production and distribution in these markets. Toyota is arranging its supply system by promoting locally manufactured products as well as introducing products that meet different regional needs, while considering the demand trends of the resource-rich markets and emerging markets.

Hybrid Models. Since the introduction of the Prius in 1997, which was the first mass-produced hybrid car in the world, Toyota has continued expanding and upgrading the model line-up by using its hybrid technology as one of the key technologies for solving environmental issues. In May 2008, a hybrid model was added to the new Crown, and in May 2009, the third-generation Prius was released. The total

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number of Prius models sold reached 1.26 million units at the end of April 2009. In addition, the total number of all Toyota hybrid vehicles sold as of April 30, 2009 reached 1.81 million units. Toyota aims to make use of the technical know-hows obtained through the sale of these models, and aims to continue to offer hybrid model lineups with improved performance and quality.

Annual Unit Sales of Hybrid Models Globally

	Year Ended March 31,		
	2007	2008	2009
	(in thousands)		
Total Unit Sales	353	444	385

Premium Brand Models (Lexus). Since the Lexus was first launched in 1989 in the United States, Lexus has been introduced in 68 countries around the world. At present, Toyota is taking action to strengthen the Lexus brand in each geographic region. In fiscal 2009, Lexus sales totaled approximately 378 thousand units, a decrease of 132 thousand units from the 510 thousand units sold in fiscal 2008.

Market-creating Products. Toyota believes that it is strategically important to introduce models into developed countries that meet the diverse needs and that comply with environmental regulations which are being tightened due to heightened environmental concerns. Toyota plans to introduce market-creating products taking into consideration environmental concerns, by utilizing its advanced technology.

Localize Global Operations with Targeted Regional Strategies

Toyota believes that it needs to supply products that are targeted carefully to local demand in order to maintain and strengthen a competitive edge in the rapidly-changing worldwide automotive industry, and also believes that 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 allows Toyota to make social contributions to communities in which it has a local presence. Toyota s efficient production and sales network, together with its global model strategy and its efforts to design products that appeal to 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.

Japan as the Center of the Global Operations. In Japan, Toyota aims to maintain steady profitability in the Japanese market, which is the center of its global operations, and to develop products and to establish the global core base which leads and supports operations in all other regions. Toyota believes that it is important to maintain and endeavor to improve its high market share in Japan and is committed to maintaining its market leadership in Japan by striving to achieve a consistent market share (excluding mini-vehicles) each year. Toyota held a domestic market share (excluding mini-vehicles) on a retail basis of 45.8% in fiscal 2007, 45.6% in fiscal 2008 and 46.0% in fiscal 2009.

Amid the downturn in the real economy and the increased domestic competition, Toyota maintained its market share in fiscal 2009 owing to the introduction of new car models such as the Alphard, Vellfire, iQ, PASSO Sette, Lexus RX450h and Lexus RX350, along with the sales of its conventional models. In addition, in order to respond flexibly to global demand fluctuations, Toyota has implemented the Global Link Production System . Specifically, Toyota strives to improve flexible production capabilities for various car models in its plants in Japan, thereby establishing a production system that can respond quickly and flexibly to the fluctuating demands of the overseas markets. Furthermore, Toyota aims to improve its production capacity and operation rate through putting in place a mutual

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support structure at a global level by maintaining an encompassing view of trends in demands, as well as the operating conditions of plants, in each region in which it operates.

Since Toyota formed an alliance with Fuji Heavy Industries, Ltd. (FHI) in 2005, Toyota and FHI have utilized each other s resources in development and production such as moving some of Toyota s production to FHI s North American production center Subaru of Indiana Automotive, Inc. In April 2008, in order to create synergy and to further strengthen competitiveness, Toyota, Daihatsu and FHI agreed on the following three points: (1) Toyota and FHI will jointly develop a compact rear-wheel- drive sports car that will be marketed by both Toyota and FHI, (2) Toyota will provide FHI with a compact car on an original-equipment-manufacturing basis (OEM) and (3) Daihatsu will supply FHI with mini-vehicles and an FHI version of the Daihatsu Coo compact car on an OEM basis. In order to implement a smooth cooperation, FHI transferred 61 million FHI shares owned by FHI to Toyota in July 2008. As a result of this transfer, Toyota owns 16.5% of FHI issued shares.

Review of Supply Framework Responding to the Rapid Change in Demand in the North American Market. In North America, one of Toyota s most significant markets, Toyota expanded its production capacity in the past few years and improved the product lineup in order to secure steady profits and to establish a self-reliant operational framework. As a result of the downturn in the market stemming from the financial crisis since the fall of 2008, Toyota s North American unit sales on a consolidated basis decreased substantially from 2.96 million units in fiscal 2008 to 2.22 million units in fiscal 2009. While Toyota continues to face difficulty in the North American market, the North American market is an important market representing approximately 29% of its total global unit sales on a consolidated basis in fiscal 2009. The increased sales of models such as the Venza, a model tailored specifically to North America which was introduced at the end of 2008, and the Lexus RX, which was fully-remodeled in February 2009, provide foundational support for Toyota s total sales. In addition, Toyota plans to increase its share in the North American market, with the introduction of the new Prius in May 2009 and the planned introduction of a Lexus-brand hybrid vehicle. In fiscal 2009, Toyota brand vehicles accounted for approximately 83%, Lexus brand accounted for approximately 12% and Scion line-up vehicles accounted for approximately 5% of the vehicle unit sales in the United States, respectively.

Toyota is continuing to revise its production system in North America in response to the substantially contracting sales market due to the economic downturn that stemmed from the financial crisis. In November 2008, the Texas plant was designated the sole production facility for the Tundra, for which the Indiana plant and the Texas plant were previously jointly responsible. Toyota plans to commence local production of the Highlander at the Indiana plant in the fall of 2009. Construction of the Mississippi plant, which was due to commence production in 2010, has been temporarily postponed and Toyota plans to recommence construction once the market recovers. Furthermore, the Kentucky plant commenced production of the new Venza model and the new Woodstock plant in Canada commenced local production of the RAV4 in October 2008, and the Cambridge plant in Canada commenced production of the remodeled Lexus RX in January 2009.

Forging Solid Footing in the European Operation with a Focus on Environmental Responsiveness. In the European market, Toyota is aiming to establish a presence comparable to that of major European automotive manufacturers. Although Toyota s European unit sales on a consolidated basis decreased by 17.3% compared to fiscal 2008 to 1.06 million units in fiscal 2009 and market share fell short of the level achieved in fiscal 2008 and accounted for only 5.3%, Toyota retained its position as the sixth largest manufacturer operating in the European market, as in the previous fiscal year. Sales results in Western European countries failed to reach the levels achieved in the previous year as a result of significant deterioration in the automotive market stemming from the financial crisis. However, sales of the Aygo and the Prius remained steady in this region, reflecting the increasing demand for compact cars and environmentally-friendly cars. Sales in certain Western European countries benefited from government economic stimulus initiatives implemented in some countries in the region, as exemplified by the scrap incentive program in Germany. The market also slowed significantly in Eastern European countries. In particular, significant market contraction in Russia, which experienced a rapid decline in

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exchange rates against both the U.S. dollar and Japanese yen, and other countries in the region resulted in Toyota s Eastern European unit sales in fiscal 2009 failing to reach the level achieved in the previous year.

In order to comply with the increasingly more stringent environmental regulations in Western European countries, in addition to promoting the sale of its existing low-emission vehicles, Toyota is launching a new vehicle model that meets carbon dioxide emission standards, followed by a new engine that meets the same standards. Furthermore, Toyota is endeavoring to stimulate the demand through its launch of market-creating products such as the iQ and the Urban Cruiser.

Toyota has in the past increased local production in response to sales growth, designating Toyota Motor Manufacturing (UK) Ltd. in 1992, Toyota Motor Manufacturing Turkey Inc. in 1994 and Toyota Motor Manufacturing France S.A.S. in 2001 as supply factories to Europe. With respect to Russia, where market growth is expected, Toyota began operation of a factory in 2007 at OOO TOYOTA MOTOR MANUFACTURING RUSSIA. The level of operation has been reduced in response to the decrease in sales since the latter half of 2008, and the supply framework is currently under review.

Establishing an Advantage in the Increasingly Significant Asian Market. In light of the importance of the Asian market that is expected to grow in the long term, Toyota aims to build an operational framework that is efficient and self-reliant as well as a predominant position in the automotive market in Asia. Operating income for Asia in fiscal 2009 decreased significantly compared to fiscal 2008. This decrease can be partly attributed to the slowdown in the Asian market from the latter half of fiscal 2009 due to the economic downturn experienced simultaneously throughout the world, stemming from the financial crisis. However, Toyota also made strategic investments in this market earlier than its major global competitors and developed relationships with local suppliers in the region. While competition in Asia is further increasing, Toyota believes that its existing local presence in the market provides it with a competitive advantage and expects to be able to promptly respond to demand for vehicles in the region.

Toyota is aiming 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, Toyota began producing IMV models (Hilux, Fortuner and Innova) in Thailand, Indonesia, India, the Philippines and Malaysia in fiscal 2005 and in Vietnam in fiscal 2006. Furthermore, with increased production capacity, the Thailand plant now produces IMV models (Hilux and Fortuner) for sale outside of Asia, including Australia and the Middle East, and has contributed greatly to the expansion of Toyota s automotive business. Furthermore, Toyota Motor Thailand Co., Ltd., Toyota s vehicle production base in Thailand, plans to commence production of the Camry Hybrid in 2009. In India, Toyota is developing its business through local production and sales, and decided to construct the second plant with an annual production capacity of 70 thousand units. In 2010, this plant is scheduled to commence production of newly developed compact cars.

Promoting Vehicle Sales in Central and South America, Oceania, Africa and the Middle East. With respect to Central and South America, Oceania, Africa and the Middle East, unit sales decreased other than in the Middle East as a result of a downturn in the markets. As a result, in fiscal 2009, Toyota s consolidated unit sales in the region was approximately 1.44 million units, a decrease of approximately 5.5% from fiscal 2008. The core models in this region are global models such as the Corolla, IMV and the Camry, which are designed to satisfy regional demands, while keeping production costs down by using common platforms and core parts and components with vehicle models in other regions. Furthermore, Toyota Motor Corporation Australia Ltd., Toyota s vehicle production base in Australia, plans to commence production of the Camry Hybrid from the beginning of 2010.

In these regions, which are expected to become increasingly more important to Toyota s business strategy, Toyota aims to develop new products which meet the specific demands of each region, increase production and further promote sales.

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Securing Stable Development in China. Toyota has been conducting its operations in China through joint ventures, and its success in producing products that meet local demands and in establishing its sales and service network has significantly contributed to Toyota s profits. Based on the firm business foundation that it has established, Toyota is conducting its operations with the aim to promote further growth and increase in profitability through further development of its sales and service network and expansion of its product lineup.

In China, Toyota has been conducting joint ventures with two major partners. First, with respect to the joint venture with China FAW Group Corporation, since Toyota first launched the Vios through the joint venture in 2002, Toyota commenced the production and sale of eight car models by the end of 2005 including the Land Cruiser Prado, Land Cruiser, Corolla, Crown, REIZ and Coaster in China. Particularly, in late 2005, Toyota also began the production of the Prius, taking in environmental considerations. With regard to increasing production capacity, in May 2007, Toyota commenced production of the new Corolla on the second line of the Tianjin Teda plant with an annual production capacity of 200 thousand units, and commenced production of the RAV4 on the same line in March 2009. Guangzhou Toyota Motor Co., Ltd., a joint venture between Toyota and the other partner Guangzhou Automobile Group Co., Ltd, commenced production of the Camry in May 2006 with an annual production capacity of 100 thousand units on a single shift basis and, by late 2006, it expanded its annual production capacity to 200 thousand units on a double shift basis. In addition, it commenced production of the Yaris in May 2008, and the second Guangzhou plant commenced production of the Highlander in May 2009.

Promote Key Initiatives Globally

Toyota believes that the following key initiatives are essential in 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 and product safety technologies, and plans to further promote early commercialization of next-generation environmental, energy and product safety technologies. Toyota is committed to building environmentally friendly automobiles and is focusing its initiatives on the following areas:

- contribute to the efforts to preserve the environment through increased promotion of and further improvement in hybrid technology (including efforts for cost reduction and enhanced performance),
- the improvement of fuel economy technology in gasoline engines and improvement of technologies to comply with more stringent emissions standards regulations,
- the improvement of engine performance and fuel economy in clean diesel engines,
- the development of automobiles powered by fuel cells and other non-traditional fuel technologies, and
- the improvement of technologies that pursue driving and vehicle safety.

In particular, Toyota considers addressing environmental issues as one of the top priorities and aims to curtail environmental burden by reducing carbon dioxide emission at all levels of operations, namely in automobile design to production, distribution, disposal, and recycling. In addition, in order to utilize diverse energy sources that can replace oil, Toyota plans to commercialize plug-in hybrid vehicles that can be charged from household power supplies, mass-produce electric vehicles and develop next-generation batteries, develop biofuel as an alternative fuel source, and develop fuel cell vehicles. A chief example of Toyota s leadership in environmental technology was the introduction of the hybrid Prius into the Japanese market in 1997.

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In addition, Toyota began leasing the Toyota FCHV, the first ever fuel cell hybrid vehicle, in 2002. In 2005, these vehicles became the first fuel cell hybrid vehicles to acquire vehicle type certification in Japan and Toyota has continued to lease them since then.

With respect to the development of fuel cell hybrid vehicles, Toyota has focused on establishing mechanisms to address technological issues and other such fundamental research, using data obtained through real-world testing. Toyota s real-world testing activities include demonstration studies through the Japan Hydrogen & Fuel Cell Demonstration Project, which is run by the Ministry of Economy, Trade and Industry of Japan, road testing in the U.S. as part of the California Fuel Cell Partnership and evaluating the performance of its vehicles in cold climates in Timmins, Canada.

Furthermore, Toyota began leasing its new Toyota Fuel Cell Hybrid Vehicle advanced (the new Toyota FCHV-adv) in September 2008. Based on the results of the research described above, Toyota has remodeled the fuel cell system in the new Toyota FCHV-adv and has made significant improvements to low-temperature startup performance and cruising distance, in order to improve the prospects of its use becoming widespread.

Aiming to bring about the widespread use of fuel cell vehicles, Toyota is making efforts to improve the durability and reduce the cost of its proprietary high-performance polymer electrolyte fuel cell, the Toyota FC Stack, by making use of real-world feedback obtained from the lessees. Toyota also believes that participation in other cooperative efforts with the government, the energy industry and other concerned parties will help bring about the widespread use of fuel cell vehicles.

In November 2006, Toyota entered into a basic agreement with Isuzu Motors Limited, to complement each other technologically in the development and production of diesel engines and other areas. In August 2007, the parties reached a basic agreement to develop, manufacture and distribute aluminum block diesel engines with 1.6 liter-class emission to be used in Toyota cars to be introduced in the European market. However, in light of the downturn of the European market, the parties have agreed to put the agreement on hold temporarily.

In April 2008, Toyota established the Toyota Research Institute of North America (the TRI-NA), a specialized institute in advanced research within the Toyota Technical Center in North America. In addition to accelerating existing advanced research, the theme of transportation society will be newly added. The TRI-NA aims to strengthen Toyota s advanced research efforts in North America, while enhancing interaction with North American universities and research organizations.

***Improve Efficiency*.** Toyota is working on the following to create a structure allowing for efficient development, production and sales that can respond flexibly to changes in the external environment:

- working with suppliers to dramatically increase the efficiency of development,
- creating a production structure that can better withstand fluctuations in demand and currency exchange rates,
- reducing lead times from development to sales, and
- strengthening sales capabilities in line with local conditions.

Toyota also plans to improve profitability 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, conducting cost reduction activities under the VI (Value Innovation) Activities, aiming to reduce costs starting with the developing phase on a system-by-system basis,

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- 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,
- streamlining production systems, and
- improving the efficiency of domestic and international distribution.

Toyota is further improving production efficiency 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.

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 vehicles. 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 using common platforms, 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 VI Activities 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. In fiscal 2009, Toyota initiated cost reduction programs together with its suppliers in order to improve profits with respect to vehicles already being sold, as part of its Emergency VA (Value Analysis) activity.

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.

Strengthening Finance Operations for Sales

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, through which Toyota aims to strengthen the overall competitiveness of its 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. Accordingly, Toyota currently operates financial services companies in 33 countries and regions, supports its automotive operations globally.

Maintain Financial Strength

Toyota currently enjoys high credit ratings which it believes reflect, among other factors, its strong financial position. Toyota currently maintains highly-liquid current assets such as cash and marketable securities and maintains the necessary liquidity in business operations as well as a high level of capital ratio. Toyota s financial strength is the financial flexibility that its conservative financial strategy affords. While the current business environment has become extremely uncertain due to worldwide deterioration in the economy stemming from the

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financial crisis unfolding since last fall, by managing an even more adequate cash flow and maintaining a strong financial foundation as described, Toyota believes these factors will allow it 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 deems the benefit of its shareholders as one of its priority management policies, and is working to implement reforms to establish a corporate structure that can achieve continuous growth in order to enhance its corporate value.

The results of operations for fiscal 2009, which was a loss, reflect extremely difficult conditions due to a number of factors such as (i) a substantial contraction of the automotive market caused by a rapid deterioration of the world economy following the financial crisis last fall, (ii) changes in the market structure with a marked shift towards small vehicles and low-price vehicles, and (iii) the sharp appreciation of the Japanese yen. As a result, with respect to the payment of dividends, Toyota declared an annual dividend payment of ¥100 per share at the end of fiscal 2009, a decrease of ¥40 from the previous fiscal year, determining that it would be very difficult to maintain the same level of dividend as in fiscal 2008. Going forward, Toyota will strive to continue to pay dividends while taking into consideration factors such as business results of each term, investment plans and cash reserves.

With respect to the repurchase of own shares, of the shares authorized at the ordinary general meeting of shareholders in June 2008, which were the lesser of 30 million shares or the number of shares equivalent to ¥200 billion in cost of repurchase, 14.01 million shares totaling ¥69.9 billion were repurchased. In all of fiscal 2009, 15 million shares totaling ¥73 billion were repurchased. Since Toyota began repurchasing shares in fiscal 1997, the cumulative number of shares repurchased as of the end of June 2009 was 736.98 million shares at a total cost of ¥2,868.8 billion. 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,				
	2005	**2006**	**2007**	**2008**	**2009**
Number of shares repurchased	63 million	28 million	45 million	49 million	15 million
Approximate amount paid	¥ 266 billion	¥ 134 billion	¥ 300 billion	¥ 317 billion	¥ 73 billion

In the current business environment, Toyota plans to prioritize the retention of cash reserves and withhold repurchases of own shares.

Toyota s future share repurchases will be influenced by factors such as Toyota s future earnings and financial position. For more details, please see Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Automotive Operations

Toyota s revenues from its automotive operations were ¥18.6 trillion in fiscal 2009, ¥24.2 trillion in fiscal 2008 and ¥21.9 trillion in fiscal 2007.

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