TOYOTA MOTOR CORP/
Form 20-F
June 25, 2010
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As filed with the Securities and Exchange Commission on June 25, 2010

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, 2010

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

+81 565 28-2121

(Address of Principal Executive Offices)

Kiyohisa Funasaki

Telephone number: +81 565 28-2121

Facsimile number: +81 565 23-5800

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: **3,135,995,860 Shares of Common Stock (including 79,850,690 Shares of Common Stock in the form of American Depositary Shares) as of March 31, 2010**

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 ¥93.04 = $1.00. This was the approximate exchange rate in Japan on March 31, 2010.

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 relate 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, the Canadian dollar and the British pound;

(iii) changes in funding environment in financial markets;

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

(v) 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 vehicle safety including recalls, trade, environmental protection, vehicle emissions and vehicle fuel economy, as well as changes in laws, regulations and government policies that affect Toyota s other operations, including the outcome of current and future litigation and other legal proceedings;

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

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

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(viii) any impact on Toyota s ability to maintain and develop its brand image as a result of Toyota s inability to deliver safe and high-quality products or its failure to promptly implement safety measures such as recalls when necessary; and

(ix) 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,					
	2006	2007	2008	2009	2010	2010
	(in millions, except share and per share data)					
Consolidated Statement of Income Data:						
Automotive:						
Revenues	¥ 19,338,144	¥ 21,928,006	¥ 24,177,306	¥ 18,564,723	¥ 17,197,428	$ 184,839
Operating income (loss)	1,694,045	2,038,828	2,171,905	(394,876)	(86,370)	(928)
Financial Services:						
Revenues	996,909	1,300,548	1,498,354	1,377,548	1,245,407	13,386
Operating income (loss)	155,817	158,495	86,494	(71,947)	246,927	2,654
All Other:						
Revenues	1,190,291	1,323,731	1,346,955	1,184,947	947,615	10,185
Operating income (loss)	39,748	39,679	33,080	9,913	(8,860)	(95)
Elimination of intersegment:						
Revenues	(488,435)	(604,194)	(733,375)	(597,648)	(439,477)	(4,724)
Operating income (loss)	(11,268)	1,681	(21,104)	(4,101)	(4,181)	(45)
Total Company:						
Revenues	21,036,909	23,948,091	26,289,240	20,529,570	18,950,973	203,686
Operating income (loss)	1,878,342	2,238,683	2,270,375	(461,011)	147,516	1,586
Income (loss) before income taxes and equity in earnings of affiliated companies	2,087,360[(1)]	2,382,516	2,437,222	(560,381)	291,468	3,133
Net income (loss) attributable to Toyota Motor Corporation	1,372,180	1,644,032	1,717,879	(436,937)	209,456	2,251
Net income (loss) attributable to Toyota Motor Corporation per share:						
Basic	421.76	512.09	540.65	(139.13)	66.79	0.72
Diluted	421.62	511.80	540.44	(139.13)	66.79	0.72
Shares used in computing net income (loss) attributable to Toyota Motor Corporation per share, basic (in thousands)	3,253,450	3,210,423	3,177,445	3,140,417	3,135,986	
Shares used in computing net income (loss) attributable to Toyota Motor Corporation per	3,254,499	3,212,235	3,178,662	3,140,417	3,135,998	

share, diluted (in thousands)

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	Year Ended March 31,					
	2006	2007	2008	2009	2010	2010
	(in millions, except per share and numbers of vehicles sold data)					
Consolidated Balance Sheet Data (end of period):						
Total Assets:	¥ 28,731,595	¥ 32,574,779	¥ 32,458,320	¥ 29,062,037	¥ 30,349,287	$ 326,196
Short-term debt, including current portion of long-term debt	4,756,907	5,865,507	6,228,152	6,317,184	5,497,997	59,093
Long-term debt, less current portion	5,640,490	6,263,585	5,981,931	6,301,469	7,015,409	75,402
Toyota Motor Corporation shareholders equity	10,560,449	11,836,092	11,869,527	10,061,207	10,359,723	111,347
Common stock	397,050	397,050	397,050	397,050	397,050	4,268
Other Data:						
Dividends per share	¥ 90.0	¥ 120.0	¥ 140.0	¥ 100.0	¥ 45.0	$ 0.48
Number of vehicles sold						
Japan	2,364,484	2,273,152	2,188,389	1,944,823	2,162,418	
North America	2,556,050	2,942,661	2,958,314	2,212,254	2,097,374	
Europe	1,022,781	1,223,628	1,283,793	1,061,954	858,390	
Asia	880,661	789,637	956,509	904,892	979,651	
Other*	1,150,587	1,295,581	1,526,934	1,443,433	1,139,329	
Worldwide total	7,974,563	8,524,659	8,913,939	7,567,356	7,237,162	

* 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, 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
September 30, 2009	20.0	0.22
March 31, 2010	25.0	0.26

The payment and the amount of any future dividends are dependent on the amount 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 it is working to improve corporate structure towards the realization of sustainable growth in order to enhance its corporate value. Toyota will strive to continue to pay dividends while giving due consideration to factors such as business results for each term, investment plans and its cash reserves. In order to survive stiff competition, Toyota plans to utilize its internal funds for the early commercialization of technologies for the next-generation environment and safety, giving priority to customer safety and sense of security. Considering these factors, an annual dividend of 45 yen per share was paid for fiscal 2010, consisting of a year-end dividend of 25 yen per share and an interim dividend of 20 yen per share.

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 ¥93.04 = $1.00. This was the approximate exchange rate in Japan on March 31, 2010.

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. At the end of May 2010, the noon buying rate was ¥90.81 = $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) (¥ per $1.00)**	**High**	**Low**
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	93.40	92.49	100.71	86.12
2011 (through May 31, 2010)	90.81	92.53	94.68	89.89

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Month Ended	High	Low
	(¥ per $1.00)	
December 31, 2009	93.08	86.62
January 31, 2010	93.31	89.41
February 28, 2010	91.94	88.84
March 31, 2010	93.40	88.43
April 30, 2010	94.51	92.03
May 31, 2010	94.68	89.89

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 markets in which it operates. Competition has intensified amidst difficult overall market conditions due to the weak global economy. In addition, competition is likely to further intensify in light of continuing globalization in the worldwide automotive industry, possibly resulting in further industry reorganization. Factors affecting competition include product quality and features, safety, reliability, the amount of time required for innovation and development, pricing, fuel economy, customer service and financing terms. Increased competition may lead to lower vehicle unit sales, 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. During fiscal 2010,

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despite government efforts to stimulate demand in Japan, North America and Europe, which are Toyota s main markets, market conditions in those areas remained difficult, and Toyota was adversely affected by changes in the market structure with further shifts in consumer demand to compact and low-priced vehicles. Such weakness in demand for automobiles and changes in market structure is continuing, 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 adversely affected if the weakness in demand for automobiles and changes in market structure continue or progress further. 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, 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 competitively priced products that meet customer demand on a timely basis.

Meeting customer demand with attractive new vehicles and reducing the amount of time required for product development are critical to automotive manufacturers. In particular, it is critical to meet customer demand with respect to quality, safety and reliability. 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 weak global economic conditions. There is no assurance, however, that Toyota will adequately and appropriately respond to changing customer preferences and demands with respect to quality, safety, reliability, styling 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, including cost reduction 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 customers preferences and demands with respect to quality, safety, reliability, styling and other features 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 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. 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. Toyota s inability to maintain well-developed sales techniques and distribution networks may result in decreased sales and market share and may adversely affect its financial condition and results of operations.

Toyota s success is significantly impacted by its ability to maintain and develop its brand image.

In the highly competitive automotive industry, it is critical to maintain and develop a brand image. In order to maintain and develop a brand image, it is necessary to further increase customers confidence by providing safe, high-quality products that meet customer preferences and demands. If Toyota is unable to effectively maintain and develop its brand image as a result of its inability to provide safe, high-quality products or as result of the failure to promptly implement safety measures such as recalls when necessary, vehicle unit sales and/or sale prices may decrease, and as a result revenues and profits may not increase as expected or may decrease, adversely affecting its financial condition and results of operations.

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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, an 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 continues to remain at a high level amidst weak global economic conditions, 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.

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 Japanese yen has been appreciating against major currencies including the U.S. dollar in the past year. If the Japanese yen continues to appreciate against major 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.

Increases 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.

The world economy continues to be weak and business conditions remain difficult. A number of financial institutions and investors have been facing difficulties providing capital to the financial markets at levels corresponding to their own financial capacity. 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.

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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. In particular, automotive manufacturers such as Toyota are required to implement safety measures such as recalls for vehicles that do not or may not comply with the safety standards of laws and governmental regulations. In addition, Toyota may, in order to reassure its customers of the safety of Toyota s vehicles, decide to voluntarily implement recalls or other safety measures even if the vehicle complies with the safety standards of relevant laws and governmental regulations. Many governments also impose tariffs and other trade barriers, taxes and levies, or enact price or exchange controls. Toyota has incurred, and expects to incur in the future, significant costs in complying with these regulations. If Toyota launches products that result in safety measures such as recalls, Toyota may incur various costs including significant costs for free repairs. Furthermore, new legislation or changes in existing legislation may also subject Toyota to additional expenses in the future. If Toyota incurs significant costs related to implementing safety measures or meeting laws and governmental regulations, Toyota s financial condition and results of operations may be adversely affected. Toyota may become subject to various legal proceedings.

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. Toyota may also be subject to legal proceedings brought by its shareholders and governmental proceedings and investigations. Toyota is in fact currently subject to a number of pending legal proceedings and government investigations. A negative outcome in one or more of these pending legal proceedings could adversely affect Toyota s 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 of Japan 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, 2010 Toyota operated through 522 consolidated subsidiaries and 226 affiliated companies, of which 56 companies were accounted for through the equity method.

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See Business Overview Capital Expenditures and Divestitures for a description of Toyota s principal capital expenditures and divestitures between April 1, 2007 and March 31, 2010 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 7.23 million vehicles in fiscal 2010 on a consolidated basis. Toyota had net revenues of ¥18,950.9 billion and net income attributable to Toyota Motor Corporation of ¥209.4 billion in fiscal 2010.

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,		
	2008	2009	2010
Automotive	¥ 24,160,254	¥ 18,550,501	¥ 17,187,308
Financial Services	1,468,730	1,355,850	1,226,244
All Other	660,256	623,219	537,421

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, information technology related businesses including an e-commerce marketplace called GAZOO.com, and sales promotions for KDDI communication related products (predominantly the au brand).

Toyota sells its vehicles in approximately 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,		
	2008	2009	2010
Japan	¥ 8,418,620	¥ 7,471,916	¥ 7,314,813
North America	9,248,950	6,097,676	5,583,228
Europe	3,802,814	2,889,753	2,082,671
Asia	2,790,987	2,450,412	2,431,648
Other*	2,027,869	1,619,813	1,538,613

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

During fiscal 2010, 29.9% of Toyota s automobile unit sales on a consolidated basis were in Japan, 29.0% were in North America, 11.9% were in Europe and 13.5% were in Asia. The remaining 15.7% of consolidated unit sales were in other markets.

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In fiscal 2010, Toyota implemented safety measures including recalls on multiple models in multiple countries, causing concern to many people. The following is a description of Toyota s response.

In light of these recent recalls and other safety measures, in order to ensure that customers feel safe driving Toyota and Lexus vehicles, Toyota established the Special Committee for Global Quality, which is charged with reviewing all of Toyota s processes, including design, procurement, production, sales and service, from a customer s perspective.

On March 30, 2010, the Special Committee for Global Quality convened its first meeting and confirmed its mission to spearhead reforms to further instill the company s operations throughout the world with a customer perspective and identify areas and implement any necessary measures for improvement. The committee members include newly appointed chief quality officers for North America; Europe; China; Asia and Oceania; and the Middle East, Africa, and Latin America, who will represent the concerns of customers. Also present at the meeting were representatives from Toyota s business operations and others. The committee will investigate the causes of quality issues, including those that necessitated recalls, and reexamine the factors that affect quality in every phase of design work, manufacturing, distribution and service. By approaching the task of quality assurance from the standpoint of customers in each region, and by keeping in mind the need for strengthened global communication and for ensuring transparency, the committee decided on various improvement measures aimed at resolving current issues.

Building on the work of the Special Committee for Global Quality, regional quality committees also will spearhead comprehensive improvements to the company s operations, and promote the strengthening of global quality improvement activities.

Through the quality control approach described above, Toyota and its officers and employees will unite to do their best to make customer safety their first emphasis, ensure that thorough quality control is a constant element of their work, strengthen quality control infrastructure and cultivate customers trust.

The Worldwide Automotive Market

Toyota estimates that annual worldwide vehicle sales totaled approximately 65 million units in 2009.

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 to purchase and operate automobiles.

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

Due in part to economic stimulus measures taken in countries throughout the world, the global economy in fiscal 2010 ceased its downward trend and showed signs of recovery principally in Asia. The automotive industry also felt this influence, with markets expanding in emerging countries such as China and India. However, conditions remained challenging in developed nations such as Japan, the United States and Europe despite these respective countries stimulus measures, due to shifts in the market demand towards compact and low-price vehicles.

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, 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 concern for the environment.

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In 2009, Europe, China, North America, Asia, and Japan were the world s largest automotive markets. The share of each market in the global market, based on total automobile sales on a retail basis in each market, was 28% for Europe, 20% for China, 19% for North America (18% excluding Mexico and Puerto Rico), 9% for Asia, and 7% for Japan. In Europe, new vehicle sales decreased from the previous year to approximately 18.8 million units. In China, new vehicle sales increased significantly to approximately 13.7 million units. In North America, new vehicle sales decreased to approximately 12.9 million units. In Asia (including India but excluding Japan and China), new vehicle unit sales increased to approximately 6.0 million units. In Japan, total new vehicle unit sales (including mini-vehicles) decreased to approximately 4.6 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, various transactions have promoted consolidation within the global automotive industry. There are various reasons behind these transactions including the need to respond to the excessive global capacity 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. Recently these have included business alliances and investments between major manufacturers in Japan and Europe.

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 achieve continuous growth and enhance its corporate value by contributing to society and gaining customers enduring trust 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 improvements in quality control, strengthening of cost-competitiveness and personnel development. 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.

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The automotive industry is intensely competitive across the globe and is expected to transform significantly in the future. In order to respond to changes in environment and attain further growth, Toyota will come together as a group and pursue the following agenda:

- Adhere to the Customer First principle, humbly listen to customers demands and opinions, ensure that officers and employees in Japan and abroad prioritize safety and quality above all, and make every effort to manufacture safe and reliable cars
- Set in place development processes to ensure the design of safe and quality products, design a lineup of products that responds accurately to the needs of customers in every region including emerging countries, prioritize above all customers safety and quality assurance, approach product manufacturing with a customer s attention to price and design, develop products that further incorporate customer perspective in each region in which Toyota operates, and pursue regional strategies suitable to Toyota s capability which would be valued by customers and regional societies
- Develop next-generation environmental and energy technology useful to society, including by developing low-cost hybrid systems aimed at full-scale market penetration and pursuing strategies to prepare for an expansion in electric vehicles and plug-in hybrids operations
- Cultivate and train personnel who further the self-sufficiency of each region and will pursue manufacturing better vehicles
- Through the operational changes and personnel training listed above, establish a profit structure that is stable and sustainable even in challenging business environments

Through these efforts, Toyota is adhering to its founding philosophy to contribute to society through the manufacturing of automobiles and delivering good products at affordable prices based on the principles of Customer First and Genchi Genbutsu , thereby enhancing corporate value. Toyota plans to fulfill its social responsibilities by carrying out its corporate social responsibility activities through corporate ethics, including full compliance with applicable laws and regulations and increased transparency.

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

Attractive Product Lineup Responding to Consumer Preferences in Each Region

Toyota strives for better quality to advance growth and build on the related foundations, and provide attractive products responding to consumer preferences in each region at affordable prices. Key elements of this strategy include models in the following categories:

- ***Next-Generation Eco-cars Centered on 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. Sales of the RX450h commenced in April 2009. The third-generation Prius was introduced in May 2009. The Lexus HS250h, a new hybrid-only model, was released in July 2009. The SAI, also a hybrid-only model, was launched in December 2009. In December 2009, Toyota began leasing the Prius plug-in hybrid equipped with a lithium ion battery targeted at certain corporate users including electrical power companies. The total number of Prius models sold reached 1.742 million units at the end of March 2010. In addition, the total number of all Toyota hybrid vehicles sold as of the end of March 2010 was 2.439 million units. Toyota aims to make use of the technical know-how obtained through the sale of these models, and aims to continue to offer hybrid model lineups with improved performance and quality.

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Annual Unit Sales of Hybrid Models Globally

	Year Ended March 31,		
	2008	2009	2010
	(in thousands)		
Total Unit Sales	444	385	644

Models Targeted to Resource-rich and Emerging Markets. Toyota expects that the automobile market in resource-rich and emerging countries such as the BRICs will grow in the medium to long term. Toyota has therefore been striving to, and has been achieving success in, establishing operational foundations for production and distribution in some of these markets. Toyota is establishing 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 and emerging markets. Toyota plans to produce and commence sales of the Etios, a new compact car developed specifically for the Indian market. Toyota expects to commence production of the Etios at the end of 2010.

Global Models (IMV, Vitz/Yaris, Camry and Corolla/Auris). 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 2010, Toyota sold approximately 2.6 million units of global models worldwide. Global models accounted for approximately 36% of its global sales in fiscal 2010.

Premium Brand Models (Lexus). Since the Lexus was first launched in 1989 in the United States, Lexus has been introduced in 79 countries around the world. At present, Toyota is taking action to strengthen the Lexus brand in each geographic region. In fiscal 2010, Lexus sales totaled approximately 394 thousand units, an increase of 27 thousand units from the 367 thousand units sold in fiscal 2009.

Market-creating Products including Exciting Cars. In addition to producing vehicles utilizing environmental engineering, Toyota is working to provide customers with vehicles that emphasize driving seasoning and the joy of automobiles that customers find exciting, such as the compact FR sports car, FT-86 concept unveiled at the 2009 Tokyo Motor Show.

Localize Global Operations with Targeted Regional Strategies

Toyota believes that the global automotive industry will continue to undergo significant changes, and that Toyota must prioritize above all the safety and quality of vehicles and supply products that are targeted carefully to local demand in order to maintain and strengthen a competitive edge. Toyota 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 Toyota 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 earn the loyalty of customers by providing products meeting the needs of customers in each region.

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 endeavors to secure and maintain its large share of and position atop the Japanese market. Toyota held a domestic market share (excluding mini-vehicles) on a retail basis of 45.6% in fiscal 2008, 46.0% in fiscal 2009 and 48.2% in 2010. Amid a low level of domestic economic activity and intense domestic competition, Toyota maintained its high market share in fiscal 2010 owing to the launch of the new Prius model and the new SAI hybrid

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vehicle, which were launched through all distribution channels for the first time, the launch of the first hybrid-only Lexus model, the HS250h, launches of other vehicles eligible for subsidies and tax breaks under government policies promoting eco-cars, and sales of Toyota s existing models.

In order to respond flexibly to global demand fluctuations, Toyota has implemented the Global Link Production System . Through its Global Link Production System, 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. Toyota also will implement a fundamental review of its existing domestic production system, as Toyota is greatly affected by conditions in Japan, which is the center from which Toyota develops, supports and supplies export vehicles.

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 operated by 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 promote 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 Change in Demand in the North American Market. In North America, one of Toyota s most significant markets, Toyota expanded its production capability in the past few years and improved the product lineup in order to secure steady profits and to establish a self-reliant operational framework.

Although the North American market remains in difficult business conditions due to the economic recession brought about by the financial crisis beginning in fall 2008, new car sales showed signs of improvement in the latter half of 2009 due in part to scrapping incentive programs launched in July 2009.

The North American market is an important market representing approximately 29% of Toyota s total global unit sales on a consolidated basis in fiscal 2010. Sales of models such as the Lexus RX, which was fully remodeled in February 2009, and the new Prius model introduced in May 2009 provide foundational support for Toyota s total sales. Toyota hopes to increase its share with a Lexus-brand compact hybrid vehicle that Toyota plans to introduce at the beginning of 2011. In fiscal 2010, Toyota brand vehicles accounted for approximately 88%, and Lexus brand for approximately 12%, of the vehicle unit sales in the United States.

Toyota commenced sales of the first-generation Prius hybrid model in North America in 2000. The Prius became Toyota s best selling model behind the Corolla and Camry, having gained particular support among persons concerned for the environment. Toyota released the first hybrid model under the Lexus brand, the RX400h, and the Highlander hybrid in 2005. And in July 2009, Toyota continued expansion of its hybrid models by commencing sales of the HS model under the Lexus brand.

Since announcing the LS model under the premium brand model Lexus in the U.S. in 1989, Toyota has expanded its Lexus sales with models including the GS, ES and IS. In 2009, Lexus sales exceeded 232 thousand units and Lexus became the most purchased luxury brand vehicle for the past ten consecutive years.

Toyota is continuing to revise its production system in North America in response to the substantially contracting sales market due to the economic downturn brought about by the financial crisis. In November 2008, due to a significant decline in demand for the Tundra, Toyota s Texas plant was designated the sole production facility for the Tundra, which was previously produced jointly by

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Toyota s Indiana plant and Texas plant. Toyota s Kentucky plant commenced production of the new Venza model in November 2008 and the Indiana plant began local production of the Highlander in October 2009. The new Woodstock plant in Canada commenced production of the RAV4 by single shift operation in November 2008 and the Cambridge plant in Canada commenced production of the remodeled Lexus RX in January 2009. Due to an increase in demand, production of the RAV4 at the Woodstock plant changed to double shift operation beginning March 2010.

Due to the termination of the NUMMI joint venture with GM in the middle of 2009, Toyota ceased placing orders with NUMMI and production was stopped at the NUMMI plant in April 2010. Equipment utilized in the production of the Tacoma model was transferred to the Texas plant, where production will begin in July 2010. Toyota plans to start the production of the Corolla at its Mississippi plant in fall 2011. The Corolla is currently produced at the Cambridge plant in Canada and finished vehicles are imported into North America from the Takaoka plant and the plant of the Kanto Auto Works, Ltd. in Japan.

Forging Solid Footing in European Operations 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. Toyota s European unit sales on a consolidated basis in fiscal 2010 decreased by 19.2% compared to fiscal 2009 to 858 thousand units and market share fell below the level achieved in fiscal 2009 to 4.7%; however, Toyota remained the eighth largest manufacturer operating in the European market. In fiscal 2010, the automotive market in Europe continued to contract due to the economic recession brought about by the financial crisis beginning in fall 2008. In Western Europe, sales of the compact and eco-friendly models Aygo and Prius remained relatively steady due to government-enacted economic stimulus measures such as the scrapping incentives program in Germany. As a result, although Toyota s unit sales decreased from the previous year, it was able to avoid a greater potential downturn.

By contrast, the decrease in sales in markets in Eastern Europe was prominent. In particular, significant market contraction in Russia, which experienced a rapid decline in 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 2010 failing to reach the level achieved in the previous year.

In order to comply with the increasingly stringent environmental regulations in Western European countries, Toyota is promoting sales of its existing fuel-efficient models. Toyota also plans to launch new model vehicles that meet carbon dioxide emission standards, following the Prius and the Auris HV introduced in April 2010.

Toyota has in the past increased local production in response to sales growth, establishing Toyota Motor Manufacturing (UK) Ltd. (TMUK) 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 Toyota Motor Manufacturing Russia. However, in light of the current levels of demand in the United Kingdom, TMUK will limit its production to one production line at its Burnaston plant. TMUK will determine whether and when to reopen the second production line based on the direction of the market.

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 2010 increased compared to fiscal 2009. This increase is attributable to the recovery of markets in Thailand, Indonesia and elsewhere in Asia following the economic recession brought about by the financial crisis beginning fall 2008, and also due in part to the fact that Toyota 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.

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Toyota is aiming to further increase its competitiveness by improving the 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 in Australia and in 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, commenced production of the Camry Hybrid in July 2009. In India, Toyota is developing its business through local production and sales, constructing a second plant with an annual production capacity of 70 thousand units, and expects to commence production and sales of the Etios compact model designed specifically for the Indian market. Toyota expects to commence production of the Etios at the end of 2010.

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 as a result of a downturn in the markets. As a result, in fiscal 2010, Toyota s consolidated unit sales in the regions was 1.139 thousand units, a decrease of approximately 21.1% from fiscal 2009. The core models in this region are global models such as the Corolla, IMV (Hilux) 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, commenced production of the Camry Hybrid in the beginning of 2010.

In these regions, which are expected to become increasingly 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.

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 of promoting further growth and increasing 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 has been producing and selling seven car models in China, including the Land Cruiser Prado, Land Cruiser, Corolla, Crown, REIZ and Coaster. 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. Toyota is currently constructing a new factory in Changchun, China, where Toyota will begin producing Corollas in 2012 with an annual production capacity of 100 thousand units. Guangzhou Toyota Motor Co., Ltd., a joint venture between Toyota and 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 and the Camry hybrid in April 2010.

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

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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:

- contributing to efforts to preserve the environment through 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 electricity, 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 its 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.

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 fundamental research, using data obtained through testing. Toyota s 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 widespread use.

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 actual 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, joint development was suspended in December 2009.

In May 2010, Toyota and Tesla Motors, Inc. (Tesla) came to a basic agreement to cooperate on electric vehicles and parts development, production and engineering support. The two companies will

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determine the scope and content of the business alliance. The business alliance is accompanied by an investment of $50 million in Tesla by Toyota.

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 enhance the efficiency of development,
- building a production structure that can withstand fluctuations in demand and currency exchange rates, 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,
- implementing Ryohin-Renka Cost Innovation (RR-CI) activity, which aims at the elimination of waste in all processes from design to production while ensuring the reliability and safety of each part,
- applying advanced information technologies to improve efficiency throughout the product development and production processes,
- increasing the focus on global purchasing opportunities, and optimizing purchasing from suppliers through standardization and modularization,
- 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 the 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. Furthermore, Toyota is conducting RR-CI activities, which are cost reduction activities. RR-CI activities incorporate the VI (Value Innovation) activities that Toyota previously developed, strengthened by a focus on manufacturing products meeting the needs of customers in each region and vehicle classification. In

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addition, Urgent VA (Value Analysis) Activity, an urgent cost reduction activity that Toyota started in 2008 together with its suppliers with a focus on reducing costs of existing models, will be implemented constantly under the renewed name of All Toyota VA Activity beginning in 2010.

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, which support 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 capital ratio. Toyota s financial strength is the financial flexibility that its conservative financial strategy affords. While a challenging business environment has continued due to the economic recession brought about by the financial crisis beginning in fall 2008, by managing an even more adequate cash flow and maintaining a strong financial foundation as described, Toyota believes it will be able 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 it is working to improve corporate structure towards the realization of sustainable growth in order to enhance its corporate value. Toyota will strive to continue to pay dividends while giving due consideration to factors such as business results for each term, investment plans and its cash reserves. In order to survive stiff competition, Toyota plans to utilize its internal funds for the early commercialization of technologies for the next-generation environment and safety, giving priority to customer safety and sense of security. Considering these factors, an annual dividend of 45 yen per share was paid for fiscal 2010, consisting of a year-end dividend of 25 yen per share and an interim dividend of 20 yen per share.

Toyota has decided, for the time being, to refrain from repurchasing its own shares, in order to prioritize retention of reserves of cash reserves given the uncertain future of global financial conditions. Since Toyota began repurchasing shares in fiscal 1997, the cumulative number of shares repurchased as of the end of March 2010 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,				
	2006	**2007**	**2008**	**2009**	**2010**
Number of shares repurchased	28 million	45 million	49 million	15 million	0
Approximate amount paid	¥ 134 billion	¥ 300 billion	¥ 317 billion	¥ 73 billion	0

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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 ¥17.2 trillion in fiscal 2010, ¥18.6 trillion in fiscal 2009 and ¥24.2 trillion in fiscal 2008.

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 (produced by Toyota, Daihatsu and Hino) can be classified into two categories: hybrid vehicles and conventional engine 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.

Hybrid Vehicles

The world s first mass-produced hybrid car was Toyota s Prius. It runs on an efficient combination of a gasoline engine and motor. This system allows the Prius to travel more efficiently than conventional engine vehicles of comparable size and performance. The hybrid design of the Prius also results in the output of 75% less emission than the maximum amount allowed by Japanese environmental regulations. Toyota views the Prius as the cornerstone of its emphasis on designing and producing eco-friendly automobiles. As of the end of March 2010, the total number of Toyota s hybrid vehicles sold was just less than 2.439 million units.

In May 2007, Toyota introduced the LS600h hybrid sedan in Japan, North America, and Europe, which Toyota believes offers the highest quality of the Lexus brand to date. In May 2008, Toyota introduced the hybrid version of the Crown, which is the signature model of the Toyota brand, in Japan. In April 2009, the Lexus RX450h, which is the fully-remodeled Lexus RX400h, was successively introduced in Japan, North America and Europe. The Prius, of which 1.742 million units have been sold (as of the end of March 2010) since it was first introduced in 1997 and whose name has become synonymous with hybrid vehicles, underwent its second full model change in May 2009. The hybrid vehicles HS250h and SAI were introduced in July 2009 and December 2009, respectively. And in December 2009, Toyota began leasing the Prius plug-in hybrid equipped with a lithium ion battery targeted at certain corporate users including electrical power companies. Toyota anticipates strong growth in the hybrid vehicles area and will continue to introduce new models.

Toyota 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, Transport and Tourism. Leases for the vehicle began in July 2005. By 2007, Toyota was able to make improvements to start up and cruising distance at temperatures below freezing, which were technological challenges. Toyota has made advances by solving technological issues such as the above, and has been working towards the practical use of such solutions.

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

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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 perform better and offer greater comfort than other compact cars available in the market, with low emissions that are particularly attractive to European consumers. In Japan, Toyota introduced the micropremium iQ in November 2008 and the remodeled Passo in February 2010. In the United States, Toyota introduced the Scion xB and Scion xD in 2007.

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. Daihatsu sold approximately 571 thousand mini-vehicles and 138 thousand automobiles on a consolidated basis during fiscal 2010. Daihatsu s largest market is Japan, which accounted for approximately 80% of Daihatsu s unit sales during fiscal 2010.

Mid-Size

Toyota s mid-size models include the Camry, which has been the best selling passenger car in the United States for twelve of the past thirteen calendar years (From 1997 to 2009) and also for the last eight consecutive years. The Camry was fully remodeled in January 2006. Camry models include the Camry Solara sport coupe. Camry sales in the United States for 2009 were approximately 357 thousand units (including approximately 7 thousand Solaras and approximately 23 thousand hybrid vehicles). In addition, Toyota s other mid-size models include (i) the REIZ for the Chinese market, (ii) the Avensis, which was remodeled in November 2008 for the European market, and (iii) the Mark X, which was remodeled in October 2009 for the Japanese market.

Luxury & Large

In North America, Europe and Japan, Toyota s luxury lineup 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 tenth consecutive year by selling approximately 216 thousand units in 2009. Lexus passenger car models include the LS, the GS, the HS, the ES and the IS. Lexus models also include luxury sport-utility vehicles sold in the United States, such as the GX, the RX and the LX. Toyota commenced sales of its luxury automobiles in Japan under the Lexus brand in August 2005. As of May 31, 2010, the Lexus brand lineup in Japan includes the LS, GS, HS, IS, RX, SC and IS F. The Toyota brand s full-size luxury car, the Crown, was remodeled in February 2008, and the Crown Majesta was remodeled in March 2009. Toyota also sells the Century limousine in Japan.

Sports and Specialty

In Japan and other markets, Toyota sells the Lexus SC two-door sports coupe, and in the United States the Scion tC, a sport car model targeted to young drivers. In December 2007, Toyota introduced the IS F model under the Lexus brand as the high-performance sports model and in May 2009, the IS 250C as the convertible model.

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, the RAV4, the Highlander, the FJ Cruiser and the Land Cruiser, and pickup trucks available are the Tacoma and Tundra. The Tacoma, the Tundra, the Highlander and the Sequoia are manufactured in the United States. Toyota also offers three types of sport-utility vehicles under the Lexus brand, including the GX, the RX, as well as the LX. Toyota also manufactures the RX model in

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Canada. Toyota s pickup truck, the Hilux, has been the best selling model of all Toyota cars sold in Thailand. In December 2008, Toyota introduced the new Venza in North America. The fully remodeled RX was introduced in February 2009 in North America and in March 2009 in Europe. In Japan, the RX was introduced for the first time in January 2009.

Minivans and Cabwagons

Toyota offers several basic models for the global minivan market. Its largest minivan, the Alphard was remodeled in May 2008 in Japan at the same time that the Vellfire was introduced. In addition, the Corolla Verso was introduced in December 2008 in Europe, and the Wish was remodeled in April 2009 in Japan. Toyota s other minivan models include, in Japan, the Hiace, the Regius Ace, the Estima, the Noah, the Voxy, the Sienta, the Isis and the Passo Sette and, in North America, the Sienna.

Trucks and Buses

Toyota s product lineup includes trucks (including vans) up to a gross vehicle weight of five 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 lineup includes large trucks with a gross vehicle weight of over eleven tons, medium trucks with a gross vehicle weight of between five and eleven tons, and small trucks with a gross vehicle weight of up to five tons. Hino held the largest share of the Japanese large truck market in fiscal 2010. Hino s bus lineup includes medium to large 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) market in Japan.

Product Development

New cars introduced in Japan during fiscal 2010 and thereafter include the SAI, the Prius plug-in hybrid, the Lexus RX450h, the Lexus IS250C and the Lexus HS250h. Remodeled cars in Japan during fiscal 2010 and thereafter include the Wish, the Prius, the Land Cruiser Prado, the Mark X and the Passo. New cars introduced outside Japan during fiscal 2010 and thereafter include the Prius plug-in hybrid, the Lexus RX450h, the Lexus IS250C and the Lexus HS250h introduced in the U.S., and the Urban Cruiser, the Prius plug-in hybrid, the Lexus RX450h and the Lexus IS250C in Europe.

Remodeled cars sold in the United States during fiscal 2010 and thereafter include the Prius, the 4Runner, the Sienna and the Lexus GX. Remodeled cars sold in Europe during fiscal 2010 and thereafter include the Corolla Verso, the Prius, the Land Cruiser Prado and the Lexus GX. The IMV product lineup based on the Innovative International Multi-purpose Vehicle project (IMV) to optimize global manufacturing and supply systems is a lineup of strategic multipurpose vehicles produced from a single platform to meet market demand. The IMV product lineup includes, as of May 31, 2010, one or all of the Hilux, Fortuner and Innova are available in all regions except for Japan and North America.

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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.

	Year Ended March 31,									
	2006		2007		2008		2009		2010	
	Units	%	Units	%	Units	%	Units	%	Units	%
Market										
Japan	2,364,484	29.7%	2,273,152	26.7%	2,188,389	24.6%	1,944,823	25.7%	2,162,418	29.9%
North America	2,556,050	32.1	2,942,661	34.5	2,958,314	33.2	2,212,254	29.2	2,097,374	29.0
Europe	1,022,781	12.8	1,223,628	14.3	1,283,793	14.4	1,061,954	14.0	858,390	11.9
Asia	880,661	11.0	789,637	9.3	956,509	10.7	904,892	12.0	979,651	13.5
Other*	1,150,587	14.4	1,295,581	15.2	1,526,934	17.1	1,443,433	19.1	1,139,329	15.7
Total	7,974,563	100.0%	8,524,659	100.0%	8,913,939	100.0%	7,567,356	100.0%	7,237,162	100.0%

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

The following table sets forth Toyota s vehicle unit sales and market share in Japan, North America, Europe and Asia 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 (except for the Asia market where vehicle registration does not necessarily apply). All information on Japan excludes mini-vehicles. The sales information contained below excludes unit sales by Daihatsu and Hino, each a consolidated subsidiary of Toyota. Vehicle unit sales in Asia do not include sales in Pakistan.

	(Thousands of Units) Fiscal Year Ended March 31,				
	2006	2007	2008	2009	2010
Japan:					
Total market sales (excluding mini-vehicles)	3,915	3,590	3,428	2,894	3,184
Toyota sales (retail basis, excluding mini-vehicles)	1,735	1,643	1,564	1,331	1,535
Toyota market share	44.3%	45.8%	45.6%	46.0%	48.2%

	(Thousands of Units) Calendar Year Ended December 31,				
	2005	2006	2007	2008	2009
North America:					
Total market sales	20,353	19,979	19,360	16,294	12,705
Toyota sales (retail basis)	2,514	2,840	2,923	2,537	2,053
Toyota market share	12.4%	14.2%	15.1%	15.6%	16.2%
Europe:					
Total market sales	21,138	21,799	23,100	21,212	18,314
Toyota sales (retail basis)	1,013	1,144	1,261	1,141	905
Toyota market share	4.8%	5.2%	5.5%	5.3%	4.9%
Asia:					
Total market sales	5,214	5,107	5,463	5,540	5,933
Toyota sales (retail basis)	838	750	779	809	779
Toyota market share	16.1%	14.7%	14.3%	14.6%	13.1%

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Japan

Since the financial crisis in fall 2008, the Japanese economy has stagnated and the automobile market has seen a rapid decrease in consumer demand. Toyota faces great challenges as future employment concerns weaken consumer spending. 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 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 2010, Toyota s (excluding Daihatsu and Hino) share of the domestic market excluding mini-vehicles was 48.2%, and Toyota s (including Daihatsu and Hino) share of the market including mini-vehicles was 44.3%. In August 2005, Toyota launched the Lexus brand in Japan and recorded a market share of 22.0% in the luxury market in 2009. 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

In North America, with the United States as its primary market, Toyota offers a wide range of products in all model types except for one-ton/half-ton trucks and buses. Toyota s consolidated vehicle unit sales in North America was 2,098 thousand units in fiscal 2010. The United States is the largest portion of the North American market for Toyota, representing approximately 86% of its total retail unit sales in the region. Toyota s retail unit sales in North America in fiscal 2010 was at 90% of its retail unit sales in fiscal 2009, due to the weak market conditions resulting from the downturn in the economy stemming from the financial crisis which began in the fall of 2008. However, the scrap incentive introduced in July 2009 boosted sale of new vehicles, and the Lexus RX, which was fully remodeled in February 2009, together with the new Prius, which was introduced in May 2009, contributed to overall sales. Consequently, Toyota s market share in the United States in 2009 was a record 17%. Competition in North America, particularly the United States is intense. Toyota s principal competitors in North America are General Motors, Ford, Chrysler, Honda and Nissan. In recent years, Hyundai of Korea has shown remarkable growth.

The effects of suspension of sales due to the sticking accelerator pedal recall resulted in a temporary drop in sales units in February 2010. However, sales started to recover in March 2010. Toyota will continue to work towards regaining customer confidence through the implementation of various sales promotion measures.

Europe

Consolidated European sales of Toyota vehicles in fiscal 2010 was 858 thousand units, down 19.2% from fiscal 2009. In 2009, Toyota had a market share in Europe of 4.9% and achieved annual retail unit sales of approximately 905 thousand units, down 0.4% as compared to the previous year. Sales in Germany, where the government s economic stimulus package had been effective, increased as compared to the previous year. However, sales in most other countries decreased from the previous year, resulting in an overall decrease in sales in the European market. Toyota will aim to improve its operations by seeking opportunities to increase sales by taking advantage of measures taken by various governments to stimulate demand. Toyota s principal European markets are Germany, France, the United Kingdom, Italy, Spain and Russia. Toyota s principal competitors in Europe are Volkswagen, Opel, Renault, Ford and Peugeot.

Asia and China

Consolidated Asian sales of Toyota vehicles in fiscal 2010 was 979 thousand units, up 8.3% from fiscal 2009. In 2009, Toyota had a market share in Asia of 13.1% and achieved annual retail unit sales of

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approximately 779 thousand vehicles. Increased sales due to market recoveries primarily in Thailand and in Indonesia contributed to the growth in Asian sales. Toyota s principal Asian markets are Thailand, Indonesia, India, Malaysia and Taiwan.

In China, vehicle sales increased 50% from 9.10 million in 2008 to 13.7 million in 2009, and the market has expanded from 2008 due to strong economic growth. In this market, Toyota s sales was 710 thousand vehicles. In the locally produced passenger vehicle market (total of approximately 8.6 million units), Toyota s sales was 660 thousand units, for a market share of 8%. Due to the economic downturn stemming from the financial crisis beginning in fall of 2008, Toyota conducted an inventory optimization between January and April 2009 to deal with the temporary increase in inventory. However, Toyota s sales for 2009 resulted in a record high reflecting strong sales of the RAV4 (locally produced since March 2009) and the Highlander (locally produced since May 2009), as well as the effects of increased sales of existing models. As for Toyota s distribution network, Toyota has been expanding the distribution network for locally produced vehicles in cooperation with Chinese joint venture partners under Tianjin FAW Toyota Motor Co., Ltd. and Guanqi Toyota Motor Co., Ltd., and for imported vehicles, Toyota has also been expanding the Lexus brand sales network. Toyota plans to further increase sales by expanding the number of dealers and the product lineup for both locally produced and imported vehicles. In addition, as the market in China develops, Toyota plans to promote the so-called Value Chain businesses such as used cars, services, financing and insurance.

South and Central America, Oceania, Africa and the Middle East

Consolidated sales of Toyota vehicles in fiscal 2010 in South and Central America, Oceania, Africa and the Middle East (collectively, the Four Regions) was approximately 1,139 thousand units, down 21.1% from fiscal 2009. This decrease was primarily due to the market downturn as well as intensifying competition, including the increased presence of Korean automobiles. Toyota s principal markets in the Four Regions are Brazil, Australia, Saudi Arabia, Oman and South Africa.

Production

Toyota and its affiliates produce automobiles and related parts and 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, Brazil, Indonesia and India. Daihatsu brand vehicles are produced at 4 factories in Japan and 6 manufacturing companies in 6 other countries, including Indonesia and Malaysia. Hino produces medium trucks for the North American market in Ontario, Canada and West Virginia, United States. Toyota decided to stop issuing production orders, however, to NUMMI, a joint venture in the United States between Toyota and General Motors Corporation (currently Motors Liquidation Company). For a listing of Toyota s principal production facilities, see Information on the Company Property, Plants and Equipment .

In promoting a sustainable growth strategy, establishing a system capable of providing optimal supply of products in the global market is integral to Toyota s strategy. In May 2010, Toyota announced its production strategy aimed at achieving an optimal supply system in the global market. For example, Toyota will increase its local production capacities to meet a wide range of growing customer demands in a timely manner in emerging countries such as China and India. On the other hand, in developed countries with mature markets, Toyota will reconsider production models to respond to changes in market demand and establish a flexible and efficient production system that can withstand currency fluctuations. In 2009, approximately 65% of Toyota automobiles sold in overseas markets were manufactured in overseas plants by Toyota and its unconsolidated affiliates. In 2009, approximately 60% of Toyota vehicles sold in North America were produced in North America. Of the vehicles sold in Europe in 2009, approximately 57% were produced in Europe. In fiscal 2010, Toyota produced on a consolidated basis approximately 3,956 thousand vehicles in Japan and approximately 2,853 thousand vehicles overseas, compared to approximately 4,255 thousand vehicles in Japan and approximately 2,796 thousand vehicles overseas in fiscal 2009.

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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 the vehicle production figures set forth below.

	Year Ended March 31,				
	2006	2007	2008	2009	2010
Units Produced	7,711,647	8,180,951	8,547,200	7,051,032	6,809,440

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.

See 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.

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 of only necessary and quality products and efficient cost reduction, and has the following two principal elements:

Just-in-Time , and

Jidoka .

Just-in-Time is an approach in 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 is the 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 utilizes 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

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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 train their subordinates with the local management. GPC develops efficient training systems and formulaic, simplified and easy-to-understand methodology. One characteristic of the GPC is that managers and supervisors, 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 the skills that they must acquire through image training. This is followed by various steps, from basic skill training, elemental task training, to standard task training, which is a sure method of training. The fruits of this training method are reduced training time, higher levels of achievement and the efficiency of training. 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. Since its establishment, GPC (including regional GPCs) has trained approximately 25,000 people in 7 years.

With the aim of enhancing its competitive edge in self-manufacturing , Toyota, since 2001, 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.

Distribution

Toyota s automotive sales distribution network is the largest in Japan. As of March 31, 2010, this network consisted of 289 dealers employing approximately 36,000 sales personnel and operating approximately 4,800 sales and service outlets. Toyota owns 18 of these dealers and the remainder is independent. In addition, as of March 31, 2010, Daihatsu s sales distribution network consisted of 62 dealers employing approximately 5,500 sales personnel and operating approximately 700 sales and service outlets. Daihatsu owns 36 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 improve its sales activities such as customer reception and meticulous service at showrooms to increase customer satisfaction.

Sales of Toyota vehicles in Japan are conducted through four sales channels Toyota, Toyopet, Corolla and Netz. In addition, Toyota introduc the Lexus brand to the Japanese market in August 2005, and currently distributes the Lexus brand vehicles through a network of approximately 170 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, 2010.

	Dealers			
Channel	**Toyota Owned**	**Independent**	**Total**	**Market Focus**
Toyota	6	43	49	Luxury channel for Toyota brand vehicles
Toyopet	5	47	52	Leading channel for the medium market
Corolla	4	70	74	Volume retail channel centering on compact models
Netz	3	111	114	Sales channel targeting customers with new values for the 21st century

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Brand	Sales Outlets	Market Focus
Lexus	165	Premium brand

Outside Japan, Toyota vehicles are marketed through approximately 180 distributors in approximately 170 countries and regions. Through these distributors, Toyota maintains networks of dealers. The chart below shows the number of Toyota distributors as of April 2010 by country and region:

Country/Region	Number of Countries	Number of Distributors
North America	3	5
Europe	36	30
China	1	4
Asia (excluding China)	17	12
Oceania	17	16
Middle East	17	14
Africa	53	55
Central and South America	31	42

Daihatsu vehicles are sold in at least 130 countries and regions through approximately 2,300 sales outlets.

Increase Vehicles Functionality and 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 at transporting 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.

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 of 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 has matured as a comprehensive telematics service and is built on the proven reliability and security of G-BOOK with the addition of services allowing drivers to use more convenient navigation systems 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.

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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.

In addition to the above, 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 has provided information on new and used Toyota automobiles and related services as well as online shopping capabilities. Currently, in addition to information on Toyota automobiles, Gazoo provides information on automobile companies, at the same time providing information as a membership automobile portal site with an enhanced blog function. Furthermore, Toyota is using new content such as Gazoo Racing and Gazoomura to further add to its content line-up. In October 2008, Toyota introduced the new Internet-based service TOYOTA METAPOLIS, which is Toyota s own virtual city created using 3-D imaging, to inspire new interest in cars and propose new ways for people to enjoy their vehicles through the Internet. Toyota utilized its GAZOO technology to further expand its motor vehicle information service by launching the G-BOOK telematics service in Japan in fall 2002 and G-Link, which is a service exclusive to Lexus, in August 2005. 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 more convenient navigation systems such as Map-on-Demand the world s first technology for automatically updating map data. Also, Toyota has further strengthened its ties with Gazoo and G-BOOK and has for example allowed map information searched on a blog on GAZOO.com to be used on G-BOOK, further maturing as a comprehensive telematics service. In Japan, Toyota is seeking to promote the use of the G-BOOK by equipping all Crown models with the G-BOOK and increasing the number of car navigation system models that are compatible with the G-BOOK. Toyota has also licensed its G-BOOK technology to certain other competitors in Japan. Toyota is applying the technology and experience it has accumulated in Japan to regions outside Japan. G-BOOK services have been available in China since March 2009, and Toyota is planning to commence its unique telematics services in the United States in August 2009.

In addition, 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 a technology cultivated through the development of Gazoo and G-BOOK and 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. In addition, e-CRB offers an advanced operation system that can be utilized comprehensively at dealers including with respect to new and used vehicles and services. Toyota is currently promoting e-CRB in countries including China, Thailand and Australia where steady progress has been made as the service-in rate (the number of vehicles being serviced in relation to a whole) has increased.

Also, Toyota introduced a system called Sales Logistics Integrated Management (SLIM) in Guangzhou, China that provides real information related to sales. By utilizing such information in its production and distribution, Toyota is able to realize the Just-in-Time production system of producing and delivering only the amount of automobiles that have been sold. SLIM has been recognized to significantly increase the freshness of inventory and improve cash flow.

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

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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-collision Safety System is a system that perceives the possibility of a crash with obstacles or the car in front by millimeter-wave radar sensor that can precisely detect objects even in bad weather condition. If it is determined to be unavoidable, it proceeds to activate safety devices at an early stage to reduce any damage caused by collisions. Toyota is also developing an advanced system that determines unavoidable collision at an earlier stage with a system using a front camera that better detects objects and a driver monitoring camera that detects facial orientation and the opening and closing of eyes.

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 signaling a warning of 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. In addition, Toyota is developing a system that brackets pedestrians in yellow in the Night View screen and prompts attention.

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 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 it possible to develop various systems that used to be mere concepts, such as the VICS and the ETC (Electronic Toll Collection System) already standard in Japan, as well as the Vehicle-Infrastructure Cooperative Systems that support Safety Driving currently partly in use. The following are examples of transport systems enhancements.

Vehicle-Infrastructure Cooperative Systems that support Safety Driving is a system developed to decrease the incidence of traffic accidents that are difficult to prevent with only existing safety equipment. It utilizes communication between the vehicle and the road, the vehicle and other vehicles and the vehicle and pedestrians, providing information to the driver and prompting attention with sound.

DSRC Service commenced in 2009 and corresponding products are available for purchase. This service links with car navigation and, in addition to ETC Service, aims to reduce road accidents by connecting road and vehicle through video and voice and supplying drivers with information related to road traffic and safe driving.

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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 ¥1,245 billion in fiscal 2010, ¥1,378 billion in fiscal 2009 and ¥1,498 billion in fiscal 2008. In fiscal 2009, the global economic downturn adversely affected Toyota s financial services operations. In fiscal 2010, however, with a more widespread recovery in Asia and other emerging countries, the economy has stabilized and the financial services operations were steady overall. Toyota also maintained a high level of financing share at 29.6%. Moreover, the implementation of government financing initiatives worldwide has resulted in the financing environment showing signs of recovery since January 2009. In countries such as the United States where rising unemployment rate resulted in the worsening of individual credit standing, measures such as the revision of lending standards have kept down costs of credit, and the percentage of credit losses improved by 0.12% in fiscal 2010 as compared to fiscal 2009 to 0.72%. In addition, the prices of used cars in the United States have remained steady, keeping down costs from residual value, leading to record profits for Toyota s financial services operations. Toyota continues to work towards improving its risk management measures in connection with credit and control of residual value risk.

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 strengthen the financial services it currently offers in 33 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 32 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 services including retail financing, retail leasing and wholesale financing.

In July 2007, Toyota established the financial services company ZAO Toyota Bank in Russia, and in October 2008, Toyota established Toyota Financial Services Vietnam Company Limited in Vietnam.

Net finance receivables for all of Toyota s dealer and customer financing operations were approximately ¥9.8 trillion as of March 31, 2010, representing a increase of approximately 3.1% as compared to the amount as of March 31, 2009. The majority of Toyota s financial services are provided in North America. As of March 31, 2010, approximately 61.9% of Toyota s finance receivables were derived from financing operations in North America, 12.8% from Japan, 10.3% from Europe, 4.7% from Asia and 10.3% from other areas.

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Approximately 47% of Toyota s unit sales in the United States during fiscal 2010 included a finance or lease arrangement with Toyota. Because the majority of Toyota s financial services operations is related to the sale of Toyota vehicles, the decrease in vehicle unit sales may lead to the contraction of Toyota s financial services operations.

The worldwide financial services market is highly competitive. Toyota s competitors in retail financing and retail leasing include commercial banks, credit unions and other finance companies. Commercial banks and other automobile finance subsidiary companies serving their parent automobile companies are competitors of Toyota s wholesale financing activities. Competitors in Toyota s insurance operations are primarily national and regional insurance companies.

The following table provides information for Toyota s finance receivables and operating leases as of March 31, 2009 and 2010.

	Yen in millions March 31,		US dollars in millions March 31,
	2009	2010	2010
Finance Receivables			
Retail	¥ 6,655,404	¥ 6,810,144	$ 73,196
Finance leases	1,108,408	1,232,508	13,247
Wholesale and other dealer loans	2,322,721	2,403,239	25,830
	10,086,533	10,445,891	112,273
Deferred origination costs	104,521	109,747	1,180
Unearned income	(405,171)	(482,983)	(5,191)
Allowance for credit losses			
Retail	(157,359)	(148,503)	(1,596)
Finance leases	(7,776)	(36,917)	(397)
Wholesale and other dealer loans	(73,797)	(47,059)	(506)
	(238,932)	(232,479)	(2,499)
Total finance receivables, net	9,546,951	9,840,176	105,763
Less Current portion	(3,891,406)	(4,209,496)	(45,244)
Noncurrent finance receivables, net	¥ 5,655,545	¥ 5,630,680	$ 60,519
Operating Leases			
Vehicles	¥ 2,729,713	¥ 2,516,948	$ 27,052
Equipment	107,168	96,300	1,035
	2,836,881	2,613,248	28,087
Less Accumulated depreciation	(795,767)	(791,169)	(8,503)
Vehicles and equipment on operating leases, net	¥ 2,041,114	¥ 1,822,079	$ 19,584

Retail Financing

Toyota s finance subsidiaries acquire new and used vehicle installment contracts primarily from Toyota dealers. 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 held approximately 34% of the voting rights in leading domestic insurance company Aioi Insurance Company, Limited (Aioi) until Aioi s business integration with the Mitsui Sumitomo Insurance Group (Mitsui Sumitomo Insurance Group Holdings, Inc. and Mitsui Sumitomo Insurance Company, Limited) and Nissay Dowa General Insurance Company, Limited in April 2010. As a result of the share transfer effecting the business integration, Toyota now holds approximately 8% of the voting rights in the combined holding company MS&AD Insurance Group Holdings, Inc.

Other Financial Services

Toyota Finance Corporation launched its credit card business in April 2001 and began issuing Lexus credit cards in 2005 when the Lexus brand was introduced in Japan. As of March 31, 2010, Toyota Finance Corporation has over 7.7 million card holders (including Lexus credit card holders).

As part of Toyota s restructuring of its domestic financial services businesses, Toyota assigned all of the stock of Toyota Financial Services Securities Corporation (TFSS), a subsidiary of Toyota Financial Services Corporation (TFSC), to Tokai Tokyo Financial Holdings, Inc. (TTFH) and agreed to the merger of TFSS

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with Tokai Tokyo Securities Co., Ltd., a subsidiary of TTFH. In order to ensure the smooth implementation of the merger and to support the new company after the merger, TFSC made a 5% investment in TTFH.

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 ¥948 billion in fiscal 2010, ¥1,185 billion in fiscal 2009 and ¥1,347 billion in fiscal 2008. Sales to external customers of all other operations represented 2.8% of Toyota s net revenues for fiscal 2010. Substantially all of Toyota s revenues from other operations were derived in Japan.

Housing

Toyota is also engaged in the manufacture and sale of housing. Toyota has adapted the core production systems and methodologies used in its automotive operations to this business. Toyota established its subsidiary Toyota Housing Corporation in April 2003 and has transferred to it the product planning and sales operations. Furthermore, in order to quickly and accurately grasp clients needs and to plan, develop and sell products on a timely basis, in April 2008, Toyota transferred the product development operation to Toyota Housing Corporation. In October 2010, Toyota plans to spin-off its housing operations (project planning, technology development and manufacturing) through a statutory demerger and integrate them into Toyota Housing Corporation. Toyota believes that in the vastly changing housing market environment, the integration of the development, manufacture and sales functions will expedite decision making and lead to flexible business operations that will enable Toyota to better respond to the needs of even more customers. In March 2005, Toyota, together with institutional investors, agreed to jointly invest in Misawa Home Holdings, Inc. (Misawa ; renamed Misawa Homes Co., Ltd.) pursuant to its request for assistance in its rehabilitation. In April 2010, determining that a stronger collaboration with Misawa would be desirable in order to achieve further growth in the difficult operating environment of the housing industry, Toyota Housing Corporation agreed to purchase Misawa shares from an institutional investor. 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

See Increase Vehicles Functionality and Intelligent Transport Systems for a description of Toyota s information technology.

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 to incur 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 Control Law of Japan and the Road Vehicle Law and the Law Concerning Special Measures for Total Emission Reduction of Nitrogen Oxides from Automobiles in Specified Areas regulate vehicle emissions in Japan. In addition, both the Noise Regulation Law and the Road Vehicles 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.

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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-duty vehicles. The EPA decided in February 2000 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 April 2007, EPA regulations that further restrict emissions from passenger cars and light trucks operating at cold temperatures became effective. The new emissions standards set by these regulations will be phased in from 2010 to 2013. Similar standards that further restrict emissions from heavy vehicles operating at cold temperatures will be phased in from 2012 to 2015.

Furthermore, in April 2007 the U.S. Supreme Court ruled that the EPA has the authority to regulate automobile emissions of greenhouse gases. In response to this ruling, on April 1, 2010 the EPA and the federal National Highway Traffic Safety Administration (NHTSA) issued a joint final rule to reduce the emission of greenhouse gases from passenger cars, light-duty trucks and medium-duty passenger vehicles for model years 2012 through 2016. These vehicles are required to meet an estimated combined average emissions level of 250 grams of carbon dioxide per mile, equivalent to 35.5 miles per gallon if the requirements were met through fuel economy standards. The NHTSA also set Corporate Average Fuel Economy (CAFE) standards for passenger cars and light trucks that will require manufacturers of those vehicles to meet an estimated combined average fuel economy level of 34.1 miles per gallon in model year 2016.

California Standards

Under the federal Clean Air Act, states are permitted to establish their own vehicle emission control standards if they receive a waiver from the EPA. As a result, the California Air Resources Board (CARB) established the Low Emission Vehicle Program and set emission standards for certain regulated pollutants that were phased in beginning in the 2004 model year. Under these standards most light trucks and passenger cars are required to meet the same emissions standards, which were stricter than the federal standards. As part of the original Low Emission Vehicle Program, the CARB also required that a specified percentage of a manufacturer s passenger cars and light trucks sold in California for all model years 1998 and after be zero-emission vehicles (vehicles producing no emissions of regulated pollutants). The CARB subsequently eliminated the zero-emission vehicles mandate for model years before 2005, and decided to adopt a zero-emission vehicles requirement for model years 2005 and beyond. This zero-emission vehicles requirement also permitted certain advanced technology vehicles such as PHV (Plug-in Hybrid Vehicles), hybrid cars and alternative fuel vehicles that meet partial zero-emission vehicles requirements to be granted partial qualification as EV (Electronic Vehicles) or FC (Fuel Cells). Toyota s battery-powered RAV4 EV compact sport-utility vehicle and the Toyota FCHV qualify as zero-emission vehicles. The 2004 model Prius, which underwent a model change in 2003, and the 2007 Camry Hybrid qualify as partial zero-emission vehicles under the zero-emission vehicles requirement adopted by the CARB. Toyota intends to continue to develop additional advanced technologies and alternative fuel technologies that 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 required the CARB to develop and adopt, by the end of 2004, regulations that achieved the maximum feasible reduction in greenhouse gas emissions from vehicles. In September 2004, the CARB adopted regulations that required a 20 to 30 percent reduction of greenhouse gas emissions from passenger vehicles, light trucks and other noncommercial vehicles to be phased in between the 2009 and 2016 model years.

In December 2007, the EPA denied California s request for a waiver under the Clean Air Act that would have allowed the state to enforce these regulations to control greenhouse gas emissions from motor vehicles. However, the EPA reconsidered its decision pursuant to a direction issued by the U.S. President in January 2009, and in July 2009, decided to allow the state to enforce such regulations.

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In February 2010, the CARB enacted regulations that deem manufacturers that manufacture vehicles produced in model years 2012 through 2016 that are in compliance with the greenhouse gas emission regulations of the EPA, to be in compliance with California s greenhouse gas emission regulations. Toyota is currently developing plans to comply with the EPA regulations.

Other States

The states of New York, Massachusetts, Arizona, Connecticut, Maine, Maryland, New Jersey, New Mexico, Oregon, Pennsylvania, Rhode Island, Vermont, Washington, Colorado and Florida have either adopted, or plan to adopt, regulations substantially similar to California s zero-emission vehicles requirement and greenhouse gas emissions regulations.

Canadian and Mexican Standards

Canada has established vehicle emission standards equivalent to the federal standards in the United States, including the heightened requirements that became applicable to passenger cars and light trucks in model years 2004 and beyond. In April 2010, the Canadian government also announced its proposed greenhouse gas emission regulations that are similar to those enacted by the EPA. Furthermore, certain Canadian provinces are currently considering enacting their own regulations on vehicle emissions of greenhouse gases. Mexico s emission control standards are similar to those applicable in the United States after the 1994 model year, however, emission regulations have become tighter for model years 2007 and beyond. Further regulations on emission are scheduled to match the improved fuel property.

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 standards adopted in 2005, manufacturers are obligated to meet the more stringent standards for five years or 100,000 kilometers, whichever occurs first. In 2007, the European Parliament adopted more stringent emission standards for passenger vehicles and light commercial vehicles. The effective dates for phasing in these stricter standards for passenger cars were September 2009 for Euro 5 and September 2014 for Euro 6. For light commercial vehicles, the effective dates are September 2010 for Euro 5 and September 2015 for Euro 6. Euro 5 provides for lower emission levels for gasoline and diesel powered vehicles and also extends the manufacturers responsibility for emission performance to 160,000 kilometers. The primary focus of Euro 6 is to limit further emissions of diesel powered vehicles and bring them down to a level equivalent to gasoline powered vehicles.

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 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 Law Concerning the Rational Use of Energy (the Act) requires automobile manufacturers to improve their vehicles to meet specified fuel economy standards. Fuel economy standards are established according to the types of vehicles specified below, and are required to be met by either fiscal 2011(April 2010- March 2011) or fiscal 2016 (April 2015- March 2016).

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Among certain qualifying passenger vehicles:

- Vehicles which are designated in Article 75, Paragraph 1 of the Road Vehicles Law as type-designated vehicles (type-designated vehicles) with 10 seats or less using gasoline, gas oil or LPG;
- Type-designated vehicles with 11 seats or more that are 3.5 tons or less in vehicle weight using gasoline or gas oil;
- Type-designated vehicles with 11 seats or more that are over 3.5 tons in vehicle weight using gas oil, or designated carbon monoxide emission control vehicles (designated carbon monoxide emission control vehicles) which are designated in Article 75-2 Paragraph 1 of the Road Vehicles Law.

Among certain qualifying cargo vehicles:

- Type-designated vehicles that are 3.5 tons or less in vehicle weight using gasoline, gas oil or LPG;
- Type-designated vehicles that are over 3.5 tons in vehicle weight using gas oil or LPG, or designated carbon monoxide emission control vehicles.

Toyota is promoting the improvement of its vehicles in order to achieve compliance with these standards.

Japan is a signatory to the Framework Convention on Climate Change and has agreed to take measures to reduce its greenhouse gas emissions. Improved vehicle fuel economy is contributing to the reduction in carbon dioxide emissions.

U.S. Standards

The Federal Motor Vehicle Information and Cost Savings Act requires automobile manufacturers to comply with CAFE standards. Under this law, limits are imposed on the amount of regulated pollutants that may be emitted by new motor vehicles in the United States. A manufacturer is subject to substantial civil penalties if, in any model year, its vehicles do not meet the CAFE standards. Manufacturers that exceed the CAFE standards earn credits determined by the difference between the average fuel economy performance of their vehicles and the CAFE standards. Credits earned for the five model years preceding the current model year, and credits projected to be earned for the next three model years, can be used to meet CAFE standards in a current model year.

In April 2006, the NHTSA established CAFE standards applicable to light trucks for model year 2008 and beyond. These CAFE standards aimed 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 were changed so that the CAFE standards are now determined by a sales rate based on vehicle size (measured by the area of the wheel and wheel base) for each manufacturer.

In addition to the CAFE standards, there are multiple standards in the United States including the EPA s emission regulations and the California standard. Automobile manufacturers had called for uniform standards, as they would need to comply with standards that varied by state if all standards became effective. On April 1, 2010 the EPA and the NHTSA issued a joint final rule to reduce the emission of greenhouse gases from passenger cars, light-duty trucks and medium-duty passenger vehicles for model years 2012 through 2016. These vehicles are required to meet an estimated combined average emissions level of 250 grams of carbon dioxide per mile, equivalent to 35.5 miles per gallon if the requirements were met through fuel economy standards. The NHTSA also set CAFE standards for passenger cars and light trucks that will require manufacturers of those vehicles to meet an estimated combined average fuel economy level of 34.1 miles per gallon in model year 2016. Furthermore, the EPA and NHTSA joint final rule allows the two agencies and California standards to act in a unified way, and creates a regulatory framework that makes compliance less burdensome for the manufacturers. However, the standards of fuel economy are stringent, and Toyota strives to meet the fuel economy standards by further developing fuel-efficient technology, alternative fuel technology and other advanced technology.

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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 Commission and the European Automotive Manufacturers Association (ACEA) agreed on a voluntary agreement 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 voluntary agreement applied to the 15 states who were members of the European Union at that time). The Japan Automobile Manufacturers Association and the Korean Automobile Manufacturers Association have also agreed on a voluntary agreement, similar to that entered into by the European Commission, with the year 2009 as a target year. In December 2008, the European Parliament approved a new regulation that establishes an average emission standard of 130 grams of carbon dioxide per kilometer by 2012 for passenger vehicles sold in member states. The regulation will phase in gradually, initially requiring 65% of new cars to comply with the new standards in 2012 and increasing to 100% of new cars in 2015. As a result of the new regulations, different targets will apply to each manufacturer, based on their respective fleets of vehicles and weight. Penalties will apply to those manufacturers who fail to meet their targets from 2012, in amounts corresponding to the degree of shortfall. Manufacturers failing to meet their targets between 2012 and 2018 will incur penalties of between 5 and 95 per each gram of carbon dioxide per kilometer shortfall for each non-compliant vehicle, and such penalties will rise to 95 in 2019 and beyond. Furthermore, a medium- to long-term target of reducing emissions to 95 grams of carbon dioxide per kilometer by 2020 has also been proposed. This represents a remarkably ambitious target, even in comparison to other fuel efficiency requirements worldwide. Furthermore, in October 2009, the European Commission proposed carbon dioxide emission regulations applicable to small commercial vehicles (with the same basic regulatory framework as passenger vehicles with a proposal to establish an average emissions target of 175 grams of carbon dioxide per kilometer by 2014, and as a longer term objective, 135 grams of carbon dioxide per kilometer by 2020).

An increasing number of European Union member states are introducing vehicle tax laws based on carbon dioxide emission levels, pursuant to the directive issued by the European Commission in 2005. This trend is expected to continue, in accordance with the recent increases in environmental awareness.

Vehicle Safety

Japanese Standards

Standards requiring protection against electrocution will apply to hybrid vehicles and electric vehicles manufactured on and after July 1, 2012. In addition, guidelines on proximity warning devices will be introduced and a volume requirement for alarms is expected to be standardized. Furthermore, establishment of standards for event data recorders (EDR) and the standardization of the brake-override system are currently under consideration.

For the purpose of harmonizing with the international standards, frontal offset collision standards already apply to passenger vehicles, and will be applied to new cargo vehicles models manufactured after April 2011 and cargo vehicles continued to be manufactured after April 2016. In addition, seatbelt anchorage and seatbelt standards are also expected to be combined with the Economic Commission for Europe (ECE) and cars manufactured after July 2012 are required to meet these standards. Furthermore, electronic stability control standards and brake assist system standards will be applied to new vehicle models manufactured after November 2011 and to vehicles continued to be manufactured after November 2013. Standards relating to interference are currently under consideration.

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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 regulate the dynamic rollover standards and to upgrade federal motor vehicle safety standards relating to tires. It also required 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 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 requirements in 2002, and strengthened regulations regarding tire-pressure monitoring systems in 2005.

Legislation on transportation budget plan promoting a safe and efficient vehicle safety program for drivers, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was passed in August 2005. The legislation requires the National Highway Traffic Safety Administration to propose and issue safety standards to reduce rollover accidents, to complete the creation of standards for reduction of vehicle passenger release from cars at the time of rollover accidents, to upgrade door lock standards, to complete the upgrade of roof crash standards, to decide on the standard on side impact for the improvement of protection performance of vehicle passengers in all seats location, to review a seat belt wearing technology and to complete a study including proposal for improving the rate of seat belt usage, to establish standards to display New Car Assessment Program rating to new cars label, and to complete the upgrade of the standard for power windows that will require pulling up switches. Some actions have already been taken and completed in response to the above requirements.

In February 2008, legislation to prevent non-traffic related injuries to young children caused by vehicles, the Cameron Gulbransen Kids Transportation Safety Act , was passed. The legislation requires the National Highway Traffic Safety Administration to make rules to ensure safety on all passenger vehicles, including the following: (1) to consider requiring features that will prevent children from getting caught in power windows and decide on the standards or on the discontinuance of the establishment of standards (by August 30, 2010); (2) to begin drafting standards for rearward visibility to prevent children from being struck by backing vehicle and finalize the standards (by February 28, 2011); and (3) to require brake shift interlock systems, currently a voluntary regulation, after September 1, 2010.

In April 2010, the Motor Vehicle Safety Act of 2010 (the 2010 Safety Act), which includes the brake-override standard, was proposed to Congress. The House Committee on Energy and Commerce and the U.S. Senate Committee on Commerce, Science and Transportation have already passed the 2010 Safety Act, which is expected to be enacted as a congressional legislation once it has been deliberated by the U.S. Senate Committee on Commerce, Science and Transportation and the U.S. Congress (including at the joint committee). Upon the enactment of the 2010 Safety Act, NHTSA is expected to proceed with the revision of Federal Motor Vehicle Safety Standards and Regulations.

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.

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European, Canadian and Other Standards

In Europe, following the White Paper European transport policy for 2010: time to decide adopted in 2001, which targets halving 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 system (CRS) and seat belt reminders.

The European Commission and the ACEA have established CARS 21, a 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. The plans called to make it mandatory for all passenger vehicles to be equipped with ISOFIX CRS by 2009. The plans further contemplated making it mandatory for cars to be equipped with Daytime Running Lamp (DRL), Electric Stability Control, Seatbelt Reminder and Tire Pressure Monitoring System. And finally, the plans mentioned 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 automatic collision mitigation braking system. The European Commission carried out a mid-term review of CARS 21 in October 2008 and confirmed that active safety systems and intelligent transport systems should be utilized.

In 2009, based on the CARS 21 final report, the European Commission enacted a new regulation and established a simplified framework, repealing more than 50 existing European Commission directives and replacing them with a single regulation aimed at incorporating the United Nations standards. The new regulation also requires the adoption of advanced safety systems. The incorporation of the United Nations standards will commence in 2012, and as to new regulations on advanced safety systems, the European Commission plans to require new model cars from 2011 to have electronic stability control systems, to introduce regulations relating to low rolling resistance tires in 2013, to require tire pressure monitoring systems starting in 2012 and to require heavy vehicles to have advanced emergency braking systems and lane departure warning systems from 2013. The United Nations is currently evaluating the technical requirements for these advanced safety systems.

From April 2009, the criteria for whole vehicle type approval were extended to cover all new road vehicles, to be phased in over five years depending on vehicle category. The extension clarifies the criteria applicable to small commercial vehicles. It is expected that, following the extension, small commercial vehicles will be further categorized within the applicable criteria (with a possibility that vehicles currently classified as small commercial vehicles will no longer qualify as small commercial vehicles under certain circumstances).

The European Commission is currently working to promote eCall, the automated emergency calling system, and the European Commission may in time require that vehicles be equipped with eCall. Details on how the regulation will be enforced and to which vehicles the requirement will apply are still under consideration and have yet to be determined.

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 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 country will require 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.

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Environmental Matters

Japanese Standards

Toyota s automotive operations in Japan are subject to substantial environmental regulation under laws such as 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 substances that are environmental burdens or causes 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 requires that land owners conduct contamination testing and submit a report at the time they cease to use hazardous substances, such as in connection with the sale of a former factory, or if there is a possibility of health hazards due to land contamination. If it is found that land contamination exceeds a certain level, the relevant prefectural authority designates the area considered to be contaminated and orders the land owner to take necessary measures. 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 specified materials (automotive shredder residues, air bags and fluorocarbons) 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 2010, Toyota achieved a recycling rate of 81% 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 including Europe, Canada and other countries.

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;

- automotive manufacturers may not use certain hazardous materials in vehicles sold after July 1, 2003;

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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 and/or recycling of 80% and re-use and/or recovery of 85%, respectively, of vehicle weight by 2006, rising respectively to 85% and 95% by 2015.

Laws to implement this directive came into effect in each of the European Union member states. 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, the 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. Toyota is planning to accommodate, in offering its products, any measures the European Union member states will choose to take in order to comply with this 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, 2010. The amount of estimated liability may change depending on the legislation that will be enacted and subject to other circumstances. 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 cross-border sales actively within the European Union and open additional facilities for sales and services. Additionally, dealers may no longer be required by manufacturers to operate both sales and service facilities side by side.

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 research
Toyota Research Institute of North America (TRI-NA)	Advanced research relating to energy and environment , safety and mobility infrastructure
Europe	
Toyota Motor Europe NV/SA	Development of the upper body part for a portion of European manufactured vehicles, adapting vehicles sold in Europe to the market, 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 motor sports vehicles
Asia Pacific	
Toyota Motor Asia Pacific Engineering and Manufacturing Co., Ltd.	Design, development and evaluation of portions of vehicles that are exclusively sold in Australia and Asia
Toyota Technical Center Asia Pacific Australia PTY, Ltd.	Design of portions of vehicles that are exclusively 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 multiple from several competing suppliers located around the world. Toyota works closely with its suppliers to purchase most favorably. Toyota believes that this policy encourages technological innovation, cost reduction and other measures to strengthen its vehicle competitiveness. No single supplier accounted for more than 5% of Toyota s consolidated purchases of raw materials, parts and equipment during fiscal 2010, except for Denso Corporation, an affiliate of Toyota, which supplied approximately 10% of Toyota s purchases during fiscal 2010. Toyota plans to continue purchases based on the same principle and does not anticipate any difficulty in obtaining stable supplies in the foreseeable future.

Because Toyota had more than 50 overseas operations in 26 countries and regions as of March 31, 2010, procurement of parts and components are being carried out not only locally in the country of the production site but also from third-countries, and the distribution network has become increasingly more complex. 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 aims at implementing parts procurement that meets changes in vehicle 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 market price of some raw materials such as steel has again shown an upward tendency. Toyota is continuously promoting cost reduction efforts, such as reducing the amount of raw materials it uses.

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 patents, trademark, design patents and some utility model registrations. It also has a number of applications pending for Japanese and foreign patents. While Toyota considers all of its intellectual property to be important, it does not consider any one or group of patents, trademarks, design patents 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, 2007 and March 31, 2010, 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 technology and products by Toyota Motor Corporation	1,029.9	Japan	Internal funds, proceeds from issuance of bonds, etc.
Investment primarily in technology and products by Toyota Motor Kyushu, Inc.	124.2	Japan	Internal funds

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Description of Activity	Total Cost (billions of yen)	Location	Method of Financing
Investment primarily in technology and products by Hino Motors, Ltd.	106.8	Japan	Internal funds
Investment primarily in technology and products by Daihatsu Motor Co., Ltd.	88.3	Japan	Internal funds
Investment primarily in technology and products by Panasonic EV Energy Co., Ltd.*	84.9	Japan	Internal funds
Investment primarily in technology and products by Toyota Auto Body Co., Ltd.	79.1	Japan	Internal funds
Investment primarily in technology and products by Toyota Motor Hokkaido, Inc.	38.9	Japan	Internal funds
Investment primarily in technology and products by Kanto Auto Works, Ltd.	29.9	Japan	Internal funds
Investment primarily in technology and products by Central Motor Co., Ltd.	24.5	Japan	Internal funds
Investment to promote localization by Toyota Motor Manufacturing Canada Inc.	226.7	Canada	Internal funds
Investment to promote localization by Toyota Motor Manufacturing, Indiana, Inc.	119.7	United States	Internal funds
Investment to promote localization by Toyota Motor Manufacturing, Kentucky, Inc.	72.7	United States	Internal funds
Investment to promote localization by Toyota Motor Europe NV/SA	71.1	Belgium	Internal funds
Investment to promote localization by Toyota Motor Thailand Co., Ltd.	53.3	Thailand	Internal funds
Investment to promote localization by Toyota Motor Manufacturing (UK) Ltd.	43.8	United Kingdom	Internal funds
Investment to promote localization by Toyota Motor Corporation Australia, Ltd.	24.0	Australia	Internal funds
Investment primarily in leased automobiles by Toyota Motor Credit Corporation	2,577.0	United States	Internal funds and borrowings

* Panasonic EV Energy Co., Ltd. has changed its name to Primearth EV Enegy Co., Ltd. on June 2, 2010

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Set forth below is information with respect to Toyota s material plans to construct, expand or improve its facilities between April 2010 and March 2011, 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	209.4	Japan	Internal funds
Investment primarily in manufacturing facilities by Toyota Kirloskar Motor Private Ltd.	54.2	India	Internal funds
Investment primarily in manufacturing facilities by Toyota Motor Manufacturing, Kentucky, Inc.	34.5	United States	Internal funds
Investment primarily in manufacturing facilities by Toyota Motor Manufacturing, Mississippi, Inc.	30.0	United States	Internal funds
Investment primarily in manufacturing facilities by Hino Motors, Ltd.	28.3	Japan	Internal funds
Investment primarily in manufacturing facilities by Daihatsu Motor Co., Ltd.	25.0	Japan	Internal funds

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.

Mississippi Plant. In June 2010, Toyota announced that it will commence production at Toyota Motor Manufacturing, Mississippi, Inc. (TMMMS), its new Mississippi plant, in fall of 2011. The construction of TMMMS was announced in February 2007. In December 2008, Toyota postponed the commencement of production; however, with the June 2010 announcement, Toyota will resume the construction of TMMMS. TMMMS is expected to produce the Corolla with an annual production capacity of 150 thousand units. Production of the Corolla will be launched at TMMMS in order to move production of the Corolla for the North American market, a part of which had been moved to Japan in April 2010, back to the United States as quickly as possible.

Tohoku Region Plant. In April 2008, Toyota decided to build an engine plant in Kurokawa, Miyagi Prefecture, Japan. However, the commencement of production at this plant, which was initially expected to occur at the end of 2010, has been postponed. Toyota will determine the timing for commencement of production in consideration of fluctuations in demand.

Second India Plant. In April 2008, Toyota decided to construct a second vehicle plant in India. This plant is expected to produce the newly designed compact vehicle, Etios. The plant is expected to have an annual production capacity of 70 thousand units and to constitute a substantial portion of the expected investment in manufacturing facilities by Toyota Kirloskar Motor Private Ltd. The plant is expected to commence production in late 2010.

China Changchun Plant. Toyota decided to construct a second vehicle plant in Changchun, and in October 2008 held a groundbreaking ceremony for the construction of the new plant. Toyota subsequently postponed construction due to the economic crisis, but in April 2010, decided to recommence construction in light of China s economic recovery. This plant is expected to produce the Corolla with an annual production capacity of 100 thousand units. The plant is expected to commence production in late 2012.

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 or expense 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.

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Seasonality

Toyota has historically experienced slight seasonal fluctuations in unit sales. Generally, Toyota s unit sales levels are highest in March. In fiscal 2008 and fiscal 2010, Toyota s unit sales levels were highest in March of each year, with approximately 10% to 11% of annual unit sales generated during that month, and for each of the remaining months, its unit sales have generated approximately 6% to 9% of its annual unit sales. Fiscal 2009 was an exception, as the rapid contraction of automotive markets had a greater impact on sales than seasonal fluctuations.

Legal Proceedings

Product Recalls

From time-to-time, Toyota issues vehicle recalls and takes other safety measures including safety campaigns in its vehicles. In November 2009, Toyota announced a safety campaign in North America for certain models of Toyota and Lexus vehicles related to floor mat entrapment of accelerator pedals, and later expanded it to include additional models. In January 2010, Toyota announced a recall in North America for certain models of Toyota vehicles related to sticking and slow-to-return accelerator pedals. Also in January 2010, Toyota recalled in Europe and China certain models of Toyota vehicles related to sticking accelerator pedals. In February 2010, Toyota announced a worldwide recall related to the software program that controls the antilock braking system (ABS) in certain vehicles models including the Prius. Set forth below is a description of the various claims, lawsuits and government investigations against Toyota in the United States relating to recalls and other safety measures.

Class Action Litigation

There are approximately 200 putative class actions that have been filed since November 2009 alleging that certain Toyota, Lexus and Scion vehicles contain defects that lead to unintended acceleration. Many of the putative class actions allege that malfunctions involving the floor mats and accelerator pedals do not cover the full scope of possible defects related to unintended acceleration. Rather, they allege that Electronic Throttle Control-intelligent (ETCS-i) is the true cause and that Toyota has failed to inform consumers despite its awareness of the problem. In general, these cases seek recovery for the alleged diminution in value of the vehicles, injunctive and other relief. In April 2010, the approximately 190 federal cases were consolidated for most purposes into a single multi-district litigation in the United States District Court for the Central District of California. In addition, around half of the approximately 125 individual product liability personal injury cases relating to unintended acceleration pending against Toyota have been consolidated into the federal class action suit. (The remaining individual product liability personal injury cases relating to unintended acceleration remain pending in various state courts in the United States.) This consolidated federal class action suit is in its very early stages and currently activity centers around case organization and scheduling.

Additionally, there are approximately ten putative class actions in various state courts, including California. The claims are similar to the class actions in federal court. One of the putative California class actions was filed by the Orange County District Attorney and, among other things, seeks statutory penalties alleging that Toyota sold and marketed defective vehicles and that consumers have been harmed as a result of diminution in value of their vehicles.

Beginning in February 2010, Toyota has also been sued in nine putative class actions in federal and state courts alleging defects in the braking systems in various hybrid vehicles that causes the vehicles to fail to stop in a timely manner when driving in certain road conditions. The plaintiffs claim that while a remedy for this braking issue has been implemented on vehicles in production since January 2010 and has been offered to current owners of certain of the vehicles, that owners and lessees of all of the vehicles should recover for diminution in the value of the vehicles. They also seek injunctions ordering Toyota to repair the vehicles and to take other actions, punitive damages and other relief.

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From February through April 2010, Toyota has also been sued in the United States District Court for the Central District of California in six putative shareholder class actions on behalf of investors in Toyota American Depository Shares and common stock, and in a putative bondholder class action. The complaints of these securities class action lawsuits allege that defendants made statements that were false or misleading in that they failed to disclose problems with, or the causes of, sudden unintended acceleration in a number of vehicle models. Plaintiffs seek monetary damages in an amount to be proven at trial, interest and attorneys fees and costs.

On May 21, 2010, a shareholder derivative action was filed against certain officers and directors of Toyota in the Superior Court of the State of California, County of Los Angeles. The complaint alleges that the defendants breached their fiduciary duties of care and loyalty as well as wasted corporate assets and unjustly enriched themselves, with respect to and as a result of their handling of design defects in Toyota vehicles, alleging facts similar to those alleged in the securities class actions. The plaintiff seeks to recover on behalf of Toyota amounts spent by Toyota as a result of the defendants alleged mishandling of the problem of unintended acceleration and of the alleged failure to make accurate and timely public disclosure.

Toyota believes that it has meritorious defenses to all of the cases and will vigorously defend against them.

Government Investigations

In February 2010, Toyota received a subpoena from the U.S. Attorney for the Southern District of New York and a voluntary request and subpoena from the U.S. Securities and Exchange Commission (SEC). The subpoenas and the voluntary request primarily request documents related to unintended acceleration and certain financial records. This is a coordinated investigation and has included interviews of Toyota and non-Toyota witnesses, as well as production of documents. On June 23, 2010, Toyota received a voluntary request and subpoena from the SEC that primarily requested production of documents related to the steering relay rod.

During the first quarter of calendar year 2010, Toyota received three formal inquires from the National Highway Traffic Safety Administration (NHTSA) related to the recalls related to floor mat entrapment and sticking accelerator pedals. The first two, TQ10-001 and TQ10-002, address the timing of the announcement of the recalls related to floor mat entrapment and sticking accelerator pedals, respectively. The third, RQ10-003, addresses the scope of the recalls and unintended acceleration generally. On April 19, 2010, Toyota and the Department of Transportation announced a settlement resolving TQ10-002 pursuant to which Toyota paid $16.4 million to the U.S. Treasury. Toyota denied the allegations that it violated the Motor Vehicle Safety Act or its implementing regulations but agreed to the settlement to avoid a protracted dispute and possible litigation. TQ10-001 is still pending, and on June 4, Toyota filed its final response to RQ10-003.

On May 10, 2010, NHTSA notified Toyota that it had also opened a Timeliness Query regarding the 2005 recall of certain pickup trucks and sport utility vehicles for a possible issue with the steering relay rod.

Toyota has also received subpoenas and formal and informal requests from various states attorneys general and certain local governmental agencies regarding various recalls, the facts underlying its recent recalls and customer handling related to those recalls.

Toyota is cooperating with the government agencies in their investigations, which generally are on-going.

The recalls and other safety measures described above have led to a number of claims, lawsuits and government investigations against Toyota in the United States as set forth in the preceding paragraphs. Amounts accrued as of March 31, 2010 related to these legal proceedings and governmental investigations are not material to Toyota s financial position, results of operations, or cash flow. Toyota cannot currently estimate its potential liability, damages or range of potential loss, if any, beyond the amounts accrued; however, the resolution of these matters could have an adverse effect on Toyota s financial position, results of operations or cash flows.

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United States Antitrust Proceedings

In February 2003, Toyota, General Motors, 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.

The nearly identical complaints allege that the defendants violated the Sherman Antitrust Act by conspiring among themselves and with their dealers to prevent the sale to United States citizens of vehicles produced for the Canadian market. The complaints allege that new vehicle prices in Canada are 10% to 30% lower than those in the United States and that preventing the sale of these vehicles to United States citizens resulted in United States consumers paying excessive prices for the same type of vehicles. The complaints seek permanent injunctions against the alleged antitrust violations and treble damages in an unspecified amount. In March 2004, the federal district court of Maine (i) dismissed claims against certain Canadian companies, including Toyota Canada, Inc., for lack of personal jurisdiction but denied or deferred to dismiss claims against certain other Canadian companies, and (ii) dismissed the claim for damages based on the Sherman Antitrust Act but did not bar the plaintiffs from seeking injunctive relief against the alleged antitrust violations. The plaintiffs have submitted an amended complaint adding a claim for damages based on state antitrust laws and Toyota has responded to the plaintiffs 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, other governmental proceedings and other claims pending against it, including other product liability claims in the United States. Although the claimants in some of these actions seek potentially substantial damages, Toyota cannot currently estimate its potential liability, damages or range of potential loss, if any, beyond the amounts accrued, 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, results of operations or cash flows.

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4.C ORGANIZATIONAL STRUCTURE

As of March 31, 2010, Toyota Motor Corporation had 279 Japanese subsidiaries and 243 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	50.21	50.66
Toyota Motor Kyushu, Inc.	Japan	100.00	100.00
Daihatsu Motor Co., Ltd.	Japan	51.35	51.66
Toyota Finance Corporation	Japan	100.00	100.00
Toyota Auto Body Co., Ltd.	Japan	56.28	56.66
Kanto Auto Works, Ltd.	Japan	50.47	50.83
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 Manufacturing, Texas, 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 Manufacturing France S.A.S.	France	100.00	100.00
Toyota Motor Italia S.p.A.	Italy	100.00	100.00
Toyota Kreditbank GmbH	Germany	100.00	100.00
Toyota Deutschland GmbH	Germany	100.00	100.00
Toyota France S.A.S.	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
OOO TOYOTA MOTOR	Russia	100.00	100.00
Toyota Motor (China) Investment Co., Ltd.	China	100.00	100.00
P.T. Toyota Motor Manufacturing Indonesia	Indonesia	95.00	95.00
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 Motor Asia Pacific Engineering and Manufacturing Co., Ltd.	Thailand	100.00	100.00
Toyota Motor Corporation Australia Ltd.	Australia	100.00	100.00
Toyota Finance Australia Ltd.	Australia	100.00	100.00
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, 2010, 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, Czech Republic, Thailand, China, Taiwan, South Africa, Australia, Argentina and Brazil.

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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.

The following table sets forth information, as of March 31, 2010, 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.	1,380	Research and Development
Tahara Plant	Tahara City, Aichi Pref.	1,180	Automobiles
Motomachi Plant	Toyota City, Aichi Pref.	990	Automobiles
Takaoka Plant	Toyota City, Aichi Pref.	730	Automobiles
Tsutsumi Plant	Toyota City, Aichi Pref.	620	Automobiles
Kamigo Plant	Toyota City, Aichi Pref.	570	Automobile parts
Honsha Plant	Toyota City, Aichi Pref.	490	Automobiles
Kinu-ura Plant	Hekinan City, Aichi Pref.	400	Automobile parts
Higashi-Fuji Technical Center	Susono City, Shizuoka Pref.	310	Research and Development
Nagoya Office	Nagoya City, Aichi Pref.	50	Office
Daihatsu Motor Co., Ltd.	Ikeda City, Osaka, etc.	1,030	Automobiles
Toyota Auto Body Co., Ltd.	Kariya City, Aichi Pref., etc.	1,000	Automobiles
Hino Motors, Ltd.	Hino City, Tokyo, etc.	960	Automobiles
Toyota Motor Kyushu, Inc.	Miyawaka City, Fukuoka Pref., etc.	700	Automobiles
Kanto Auto Works, Ltd.	Susono City, Shizuoka Pref., etc.	400	Automobiles
Outside Japan			
Toyota Motor Thailand Co., Ltd.	Samut Prakan, Thailand	2,490	Automobiles
Toyota Motor Sales, U.S.A., Inc.	California, U.S.A.	880	Sales facilities
Toyota Motor Manufacturing, Canada, Inc.	Ontario, Canada	450	Automobiles
Toyota Motor Manufacturing, Indiana, Inc.	Indiana, U.S.A.	370	Automobiles
Toyota Motor Corporation Australia, Ltd.	Victoria, Australia	230	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. To respond flexibly to fluctuations in demand in each of its production operations throughout the world, Toyota continuously reviews and implements appropriate production measures such as revising takt time and adjusting days of operation. 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.

As of March 31, 2010, property, plant and equipment having a net book value of approximately ¥82,866 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. 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 are Toyota s most significant business segment, accounting for 89% of Toyota s total revenues before the elimination of intersegment revenues for fiscal 2010. Toyota s primary markets based on vehicle unit sales for fiscal 2010 were: Japan (30%), North America (29%), Europe (12%) and Asia (14%). During fiscal 2010, as a result of announcements of recalls and other safety measures for several models of vehicles in several countries, the number of recalls and other safety measures increased. These recalls and other safety measures have impacted the financial results of the automotive and financial services operations and led to a number of claims, lawsuits and government investigations. As a result of the foregoing, the fiscal 2010 operating results of the automotive operations were principally affected by factors including but not limited to the accrued costs related to the recalls and other safety measures announced in fiscal 2010, a temporary decrease in sales mainly in North America and additional costs resulting from a change in the estimation model of expenses related to future recalls and other safety measures. In fiscal 2010, Toyota has employed an estimation model for recalls and other safety measures which takes into account Toyota s historical experience and individual occurrences of recalls and other safety measures to accrue recall costs at the time of vehicle sale. In addition, as a result of the above, the fiscal 2010 operating results of the financial services operations were principally affected by the evaluation for credit losses and residual value losses at March 31, 2010. Not all of the impacts described above are financially significant or are able to be precisely measured. Toyota has included in the following discussion and analysis, where relevant, significant impacts of these items.

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 in different geographic markets and for different types of automobiles.

The automotive industry generally experienced difficult market conditions during fiscal 2010 due to changes in market demand resulting from a shift in consumer preference towards small and low-price vehicles, despite the continuous growth in China, India and other emerging countries and the effects of government stimulus packages in developed countries.

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

	(Thousands of Units) Year Ended March 31,		
	2008	2009	2010
Japan	2,188	1,945	2,163
North America	2,958	2,212	2,098
Europe	1,284	1,062	858
Asia	956	905	979
Other*	1,527	1,443	1,139
Overseas total	6,725	5,622	5,074
Total	8,913	7,567	7,237

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

During fiscal 2009, Toyota s consolidated vehicle unit sales in Japan decreased due to weak market conditions as compared to the prior fiscal year. During fiscal 2010, sales in Japan increased as compared to the prior fiscal year reflecting frequent introduction of new products and sales efforts of domestic dealers on the sales of new products. In fiscal 2010, Toyota and Lexus brands market share excluding mini-vehicles was 48.2%, and Toyota s market share (including Daihatsu and Hino brands) including mini-vehicles was 44.3%, and both market shares represented record highs. Overseas vehicle unit sales decreased during fiscal 2009 and 2010, each compared to the prior fiscal year. During fiscal 2009, overseas vehicle unit sales decreased, particularly in North America and Europe, where the contraction of automotive markets was especially pronounced. During fiscal 2010, total overseas vehicle unit sales decreased, particularly in Europe, despite an increase in Asia.

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

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

- vehicle unit sales volumes,
- the mix of vehicle models and options sold,
- the level of parts and service sales,
- the levels of price discounts and other sales incentives and marketing costs,
- the cost of customer warranty claims and other customer satisfaction actions,

the cost of research and development and other fixed costs,

the prices of raw materials,

the ability to control costs,

the efficient use of production capacity, and

changes in the value of the Japanese yen and other currencies in which Toyota does business.

Changes in laws, regulations, policies and other governmental actions can also materially impact the profitability of Toyota s automotive operations. These laws, regulations and policies include those attributed to

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

Many governments also regulate local content, impose tariffs and other trade barriers, and enact price or exchange controls that can limit an automaker s operations and can make the repatriation of profits unpredictable. Changes in these laws, regulations, policies and other governmental actions may affect the production, licensing, distribution or sale of Toyota s products, cost of products or applicable tax rates. Toyota is currently one of the defendants in purported national class actions alleging violations of the U.S. Sherman Antitrust Act. Toyota believes that its actions have been lawful. In order to avoid a protracted dispute, 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. From time-to-time, Toyota issues vehicle recalls and takes other safety measures including safety campaigns in its vehicles. In November 2009, Toyota announced a safety campaign in North America for certain models of Toyota and Lexus vehicles related to floor mat entrapment of accelerator pedals, and later expanded it to include additional models. In January 2010, Toyota announced a recall in North America for certain models of Toyota vehicles related to sticking and slow-to-return accelerator pedals. Also in January 2010, Toyota recalled in Europe and China certain models of Toyota vehicles related to sticking accelerator pedals. In February 2010, Toyota announced a worldwide recall related to the software program that controls the antilock braking system (ABS) in certain vehicles models including the Prius. The recalls and other safety measures described above have led to a number of claims, lawsuits and government investigations against Toyota in the United States. For a more detailed description of these claims, lawsuits and government investigations, see note 23 to the consolidated financial statements.

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

Financial Services Operations

The worldwide automobile financial services industry has become highly competitive due to the contraction of automotive markets. As competition increases, margins on financing transactions may decrease and market share may also decline as customers obtain financing for Toyota vehicles from alternative sources.

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

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

Toyota reasonably estimated and recorded allowance for credit losses and residual value losses. This estimation includes the unfavorable impact of the recalls and other safety measures announced in fiscal 2010.

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Toyota s financial assets decreased during fiscal 2010 primarily due to the impact of fluctuations in foreign currency translation rates.

The following table provides information regarding Toyota s finance receivables and operating leases as of March 31, 2009 and 2010.

	Yen in millions March 31,