MESSAGE FROM THE EXECUTIVE VICE PRESIDENT RESPONSIBLE FOR FINANCE & ACCOUNTING*

Performance Overview

In fiscal 2005, ended March 31, 2005, Toyota posted record results across the board, with increases of 7.3% in consolidated net revenues, to ¥18.55 trillion; 0.3% in operating income, to ¥1.67 trillion; and 0.8% in net income, to ¥1.17 trillion. Among those results, operating income remained at the previous fiscal year's high level, absorbing such income-reducing factors as ¥140.0 billion for the effect of currency exchange rate changes and a ¥59.8 billion decrease in net gains on the transfer of the substitutional portion of the employee pension funds to the government. Further, net income was above ¥1 trillion for the second consecutive year.

I believe that we were able to maintain high annual earnings while investing for future growth. Toyota has been able to realize long-term growth by continuously evolving the quality of its business strategy. To establish a foundation for further growth, the Company believes that it is critical to develop market-creating products while increasing self-reliance of overseas operations by making capital expenditures to advance global operations worldwide and to build research and development. We aim to heighten management efficiency through the creation of a more balanced profit structure among the four regions: Japan, North America, Europe, and Other Regions including Asia.

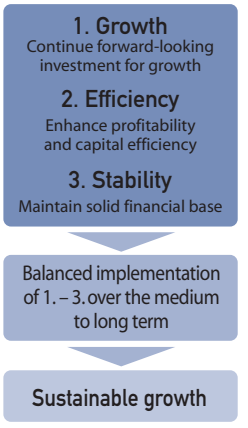
Financial Strategy

The three key strategies of Toyota's financial strategy are "growth," "efficiency," and "stability." In other words, our financial strategy is founded on continued forward-looking investment for growth, the enhancement of profitability and capital efficiency, and the maintenance of a solid financial position. In the medium-to-long term, Toyota will balance its pursuit of those three priorities to achieve steady and sustainable growth.

Regarding "growth," I believe we have to continue investing effectively, regardless of such factors as currency exchange rate fluctuations and corporate performance. It is essential to implement capital expenditures for operations worldwide as well as prior investment in environmental and safety technologies, which will become the key drivers of sustainable growth. Further, our management policy emphasizes cash flows in order to steadily raise corporate value for our shareholders. Guided by that policy, in fiscal 2005 Toyota was able to maintain positive free cash flow while implementing investments in property, plant and equipment of more than ¥1 trillion (excluding vehicles and equipment on operating leases) and recording approximately ¥750 billion in research and development expenses. In fiscal 2006, aiming to realize further growth through effective investment, we will continue to earmark free cash flow generated through our efforts to maximize earnings for stepped-up investment in property, plant and equipment and in research and development.

Regarding "efficiency" in fiscal 2005, the Company recorded an operating income margin of 9.0% and ROE of 13.6%. In comparison with fiscal 2000's operating income margin of 5.6% and ROE of 7.1%, the Company achieved substantial improvement, and has balanced both "growth" and "efficiency." In order to advance cost reduction activities, —one of Toyota's perennial strengths—the Company has launched the "VI Activity," in pursuit of "value innovation" and strives to promote cost reduction on a new level. Toyota is making a concerted effort to take profitability and efficiency to new heights.

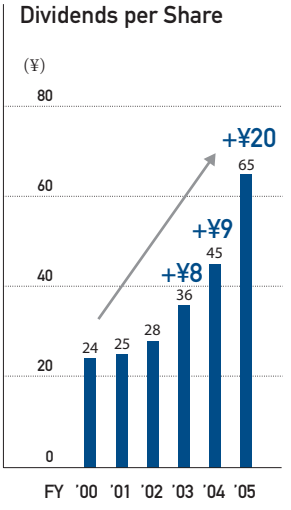
Financial Strategy



Regarding "stability," the Company maintained its solid financial base by ensuring sufficient liquidity and stable shareholders' equity. At fiscal 2005 year-end, liquid assets were approximately ¥3.5 trillion while shareholders' equity stood at roughly ¥9.0 trillion. A sound financial position is a prerequisite in order to continue flexible, forward-looking investment even during sharp fluctuations in operating and market conditions. In addition, a solid financial position underpins the high credit ratings that allow Toyota to continuously access low-cost, stable financing. In past years, the creation of new earnings opportunities by globalizing operations, investing in research and development and expanding financial services operations has required considerable amounts of capital. As a result, while total assets have grown from around ¥16 trillion in fiscal 2000 to roughly ¥24 trillion in fiscal 2005, total liquidity has remained stable overall at approximately ¥3 trillion to ¥4 trillion. Toyota's relative cash levels have in fact decreased. Despite the backdrop of expected growth in automotive markets worldwide, I believe that maintaining current cash levels is crucial for the implementation of forward-looking investment to enhance product appeal, to develop next-generation technology, to establish production and sales systems in Japan and overseas for the global expansion of operations and to create businesses in new fields.

Dividends and Repurchases of Shares

Toyota believes that actively returning profits to its shareholders is an important management policy and will make an effort to continue increasing consolidated net income per share. In fiscal 2005, the Company's dividend policy was to more closely reflect favorable consolidated results in profit distribution in order to realize a substantial increase in consolidated dividend payout ratios. Consequently, the Company paid a significantly higher annual dividend of ¥65.00 per share, which was up ¥20.00 per share from the previous fiscal year. That annual dividend was Toyota's highest ever and marked the sixth consecutive year of increased dividends. Furthermore, the consolidated dividend payout ratio rose sharply year on year from 13.0% to 18.3%.



In addition, Toyota intends to repurchase shares of treasury stock flexibly with a view to enhance capital efficiency and to improve the balance of share supply and demand. In fiscal 2005, the Company repurchased a total of ¥266.2 billion, or 63.08 million shares of treasury stock. As a result, excluding treasury stock, a total of 3.25 billion shares were issued and outstanding as of June 30, 2005. Toyota has acquired treasury stock since the first year of the recognition of stock repurchase under the Japanese Commercial Code in fiscal 1997. As of June 30, 2005, the Company had repurchased a total of ¥2,107.5 billion, or 616.14 million shares of treasury stock. Further, we received authorization to repurchase up to 65 million shares of treasury stock, for a maximum aggregate purchase price of ¥250 billion, from the Ordinary General Shareholders' Meeting in June 2005.

Toyota is committed to maintaining the strong financial position that is the source of its stable, long-term growth. At the same time, we will endeavor to reflect the fruits of that growth in the distribution of profits to our shareholders.

July 2005

Mitsuo Kinoshita,
Executive Vice President

* Responsibilities include finance and accounting related operational areas (See Members of the Board of Directors and Auditors, page 132)