

Toyota's Basic Approach to Corporate Governance

Toyota's top management priority is to steadily increase corporate value over the long term. Further, our fundamental management philosophy is to remain a trusted corporate citizen in international society through open and fair business activities that honor the language and spirit of the law of every nation. In order to put that philosophy into practice, Toyota builds favorable relationships with all of its stakeholders, including shareholders, customers, business partners, local communities, and employees. We are convinced that providing products that fully cater to customer needs is essential to achieve stable, long-term growth. That philosophy is outlined in the "Guiding Principles at Toyota." Further, to explain those principles in more detailed terms, we prepared and issued the "Contribution towards Sustainable Development" statement in January 2005. Through such initiatives, Toyota is taking concrete measures to reinforce its corporate governance functions and to become an even more competitive global company.

Specifically, we have introduced a unique management system focused on prompt decision making for developing our global strategy and speeding up operations. Furthermore, we have a range of long-standing in-house committees and councils responsible for monitoring and discussing management and corporate activities from the viewpoints of various stakeholders to ensure heightened transparency and the fulfillment of social obligations.

Ultimately, however, a well-developed awareness of ethics among individuals is the key to successful governance systems. Without such awareness—regardless of the governance structure of a company—corporate governance cannot function effectively. Toyota has a unique corporate culture that places emphasis on problem solving and preventative measures, such as problem solving based on the actual situation on the site and highlighting problems by immediately flagging and sharing them. In other words, because Toyota's approach is to build in quality through manufacturing processes, enhancing the quality of everyday operations strengthens governance. Toyota's management team and employees conduct operations and make decisions founded on that common system of checks and balances and on high ethical standards.

Toyota's Management System

Toyota introduced its current management system in 2003. The main differences between the current system and the former system are that the current system set a new non-board position of Managing Officers and reduced the number of directors. Under the current system, with respect to various operational functions across the entire Company, in principle the Senior Managing Directors, who are Directors, serve as the highest authorities of their specific operational functions while non-board Managing Officers implement the actual operations. The distinctive feature of this system is that, based on Toyota's philosophy of emphasizing developments on the site, the Senior Managing Directors serve as the link between management and on-site operations, instead of focusing exclusively on management. As a result, this system enables the management to make decisions directly with on-site operations by reflecting on-site personnel opinions on management strategy and swiftly implementing management decisions into actual operations.

Systems for Ensuring Appropriate Management

As a system to ensure appropriate management, Toyota has convened meetings of its International Advisory Board (IAB) annually in principle since 1996. The IAB consists of approximately 10

distinguished advisors from overseas with backgrounds in a wide range of fields, including politics, economics, the environment, and business. Through the IAB, we receive advice on a diversity of business issues from a global perspective. In addition, Toyota has a wide variety of conferences and committees for deliberations and the monitoring of management and corporate activities that reflect the views of a range of stakeholders, including the Labor-Management Council, the Joint Labor-Management Round Table Conference, the Toyota Environment Committee, and the Stock Option Committee. Moreover, Toyota established the CSR Committee by integrating the Corporate Ethics Committee and the Corporate Philanthropy Committee in October 2007.

Accountability

Toyota has engaged in timely and fair disclosure of corporate and financial information as stated in "CSR Policy: Contribution towards Sustainable Development." In order to ensure the accuracy, fairness, and timely disclosure of information, Toyota has established the Disclosure Committee chaired by an officer of the Accounting Division. The Committee holds regular meetings for the purpose of preparation, reporting and assessment of its annual securities report, quarterly report under the Financial Instruments and Exchange Law of Japan and Form 20-F under the U.S. Securities Exchange Act, and also holds extraordinary committee meetings from time to time whenever necessary.

Compliance

To firmly establish corporate ethics and ensure strict compliance, Toyota's CSR Committee, consisting of Directors at the executive vice president level and above as well as representatives of Corporate Auditors, to deliberate important issues and measures relating to corporate ethics, compliance and risk management.

Toyota has also created a number of facilities for employees to make inquiries concerning compliance matters, including the Compliance Hotline, which enables them to consult with an outside attorney, and takes measures to ensure that Toyota is aware of significant information concerning legal compliance as quickly as possible.

Toyota will implement the tenets of ethical business practice by further promoting the "Guiding Principles at Toyota" and the "Toyota Code of Conduct" and by educating and training employees at all levels and in all areas of operations.

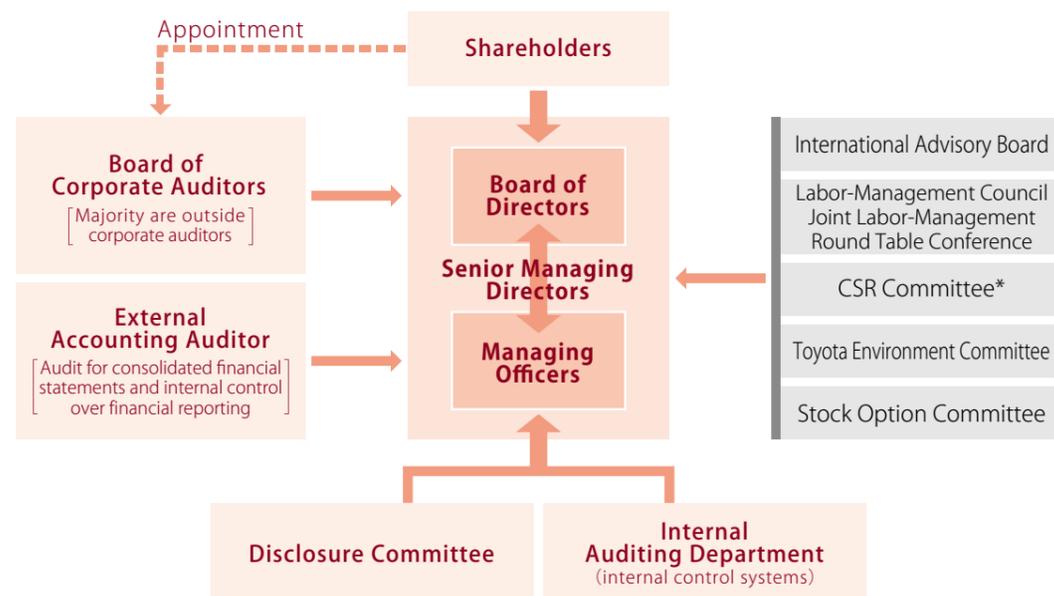
To monitor the management, Toyota has adopted an auditor system that is based on the Japanese Corporation Act. In order to increase transparency of corporate activities, four of Toyota's seven Corporate Auditors are outside Corporate Auditors. Corporate Auditors support the Company's corporate governance efforts by undertaking audits in accordance with the audit policies and plans determined by the Board of Corporate Auditors.

Toyota has secured the personnel and framework supporting the audit by Corporate Auditors. The Outside Corporate Auditors advise Toyota from a fair and neutral perspective, based on their broad experiences and insight in their respective field of expertise. The state of internal controls and internal audit are reported to Corporate Auditors (including Outside Corporate Auditors) through the Board of Corporate Auditors and the "CSR Committee", and the status of accounting audits is reported by independent External Auditors to the Corporate Auditors (including Outside Corporate Auditors) through the Board of Corporate Auditors.

For internal audit, the management and a specialized independent organization evaluate the effectiveness of internal controls over financial reporting in accordance with Article 404 of the U.S. Sarbanes–Oxley Act, applicable to Toyota from the year ended March 31, 2007 to establish a solid system. In addition, in accordance with Article 24-4-4-1 of the Financial Instruments and Exchange Law, which is applicable to Toyota starting with the year ended March 31, 2009, there is an assessment system to ensure that financial statements and other financial information are prepared properly. In order to enhance the reliability of the financial reporting of Toyota, the three auditing functions, audit by Corporate Auditors, internal audit, and accounting audit by Independent External Auditors, aid in conducting an effective and efficient audit through meetings held periodically and as necessary to share information and come to understandings through discussion on audit plans and results.

■ Toyota's Corporate Governance

Emphasizing Frontline Operation + Multidirectional Monitoring



* Review issues relating to corporate ethics, legal compliance, risk management, nurturing society and environmental management

integrate the principles of problems identification (“Mondai Hakken”) and continuous improvements (“Kaizen”) into our business operation processes and make continuous efforts to train our employees who put these principles into practice.

With the above understanding, internal control has been developed under the following basic policies.

(1) System to ensure that the Directors execute their responsibilities in compliance with relevant laws and regulations and the Articles of Incorporation

- 1) Toyota will ensure that Directors act in compliance with relevant laws and regulations and the Articles of Incorporation, based on the Code of Ethics and other explanatory documents that include necessary legal information, presented on occasions such as trainings for new Directors.
- 2) Toyota will make decisions regarding business operations after comprehensive discussions at the Board meetings and other meetings of various cross-sectional decision-making bodies. Matters to be decided are properly submitted and discussed at the meetings of those decision-making bodies in accordance with the relevant rules.
- 3) Toyota will appropriately discuss significant matters and measures relating to issues such as corporate ethics, compliance, and risk management at the CSR Committee and other meetings. Toyota will also discuss and decide at the meetings of various cross-sectional decision-making bodies policies and systems to monitor and respond to risks relating to organizational function.

(2) System to retain and manage information relating to performance of duties by Directors

Information relating to exercising duties by Directors shall be appropriately retained and managed by each division in charge pursuant to the relevant internal rules and laws and regulations.

(3) Rules and systems related to the management of risk of loss

- 1) Toyota will properly manage the capital fund through its budgeting system and other forms of control, conduct business operations, and manage the budget, based on the authorities and responsibilities in accordance with the “Ringi” system (effective consensus-building and approval system). Significant matters will be properly submitted and discussed at the Board meetings and other meetings of various bodies in accordance with the standards stipulated in the relevant rules.
- 2) Toyota will ensure accurate financial reporting by issuing documentation on the financial flow and the control system etc., and by properly and promptly disclosing information through the Disclosure Committee.
- 3) Toyota will manage various risks relating to safety, quality, the environment and compliance by establishing rules or preparing and delivering manuals, as necessary, in each relevant division.
- 4) As a precaution against events such as natural disasters, Toyota will prepare manuals, conduct emergency drills, arrange risk diversification and insurance as needed.

(4) System to ensure that Directors exercise their duties efficiently

- 1) Toyota will manage consistent policies by specifying the policies at each level of the organization based on the medium- to long-term management policies and the Company’s policies for each fiscal term.
- 2) The Chief Officer, as a liaising officer between the management and operational functions, will direct and supervise Managing Officers based on the management policies and delegate the

Corporate Social Responsibility

To maintain stable, long-term growth in international society, companies have to earn the respect and trust of society and individuals. Rather than simply contributing to economic development through operational activities, growing in harmony with society is a must for good corporate citizens. Mindful of the foregoing, Toyota has a range of committees that are tasked with monitoring corporate activities and management in relation to social responsibilities, including the CSR Committee and the Toyota Environment Committee.

Toyota’s Basic Approach to Internal Control System

Based on the “Guiding Principles at Toyota” and the “Toyota Code of Conduct,” we, together with our subsidiaries, have created and maintained a sound corporate climate. In our actual operations, we

executive authority over each division to the Managing Officers so that flexible and timely decision making can be achieved.

3) Toyota from time to time will make opportunities to listen to the opinions of various stakeholders, including external experts, and reflect those opinions in Toyota's management and corporate activities.

(5) System to ensure that employees conduct business in compliance with relevant laws and regulations and the Articles of Incorporation

1) Toyota will clarify the responsibilities of each organization unit and maintain a basis to ensure continuous improvements in the system.

2) Toyota will continuously review the legal compliance and risk management framework to ensure effectiveness. For this purpose, each organization unit shall confirm the effectiveness by conducting self-checks among others, and report the result to the CSR Committee.

3) Toyota will promptly obtain information regarding legal compliance and corporate ethics and respond to problems and questions related to compliance through its corporate ethics inquiry office and other channels.

(6) System to ensure the appropriateness of business operations of the corporation and the business group consisting of the parent company and subsidiaries

1) Toyota will expand the "Guiding Principles at Toyota" and the "Toyota Code of Conduct" to its subsidiaries as TMC's common charter of conduct, and develop and maintain a sound environment of internal controls for TMC. Toyota will also promote the "Guiding Principles at Toyota" and the "Toyota Code of Conduct" through personal exchange.

2) Toyota will manage its subsidiaries in a comprehensive manner by clarifying the roles of the division responsible for the subsidiaries' financing and management and the roles of the division responsible for the subsidiaries' business activities. Those divisions will confirm the appropriateness and legality of the operations of the subsidiaries by exchanging information with those subsidiaries, periodically and as needed.

(7) System concerning employees who assist the Corporate Auditors when required

Toyota will establish a Corporate Auditors Department and assign a number of full-time staff to support this function.

(8) Independence of the employees described in the preceding item

Any changes in personnel in the Corporate Auditors Department will require prior consent of the Board of Corporate Auditors or a full-time Corporate Auditor selected by the Board of Corporate Auditors.

(9) System for Directors and employees to report to Corporate Auditors, and other relative systems

1) Directors, from time to time, will properly report to the Corporate Auditors any major business operations through the divisions in charge. If any fact that may cause significant damage to the Company is discovered, they will report the matter to the Corporate Auditors immediately.

2) Directors, Managing Officers, and employees will report to the Corporate Auditors on the business upon requests by the Corporate Auditors, periodically and as needed.

(10) Other systems to ensure that the Corporate Auditors conducted audits effectively

Toyota will ensure that the Corporate Auditors attend major Board meetings, inspect important Company documents, and make opportunities to exchange information between the Corporate Auditors and Accounting Auditor periodically and as needed, as well as appoint external experts.

Toyota's Basic Policy and Preparation towards the Elimination of Antisocial Forces

(1) Basic Policy for Elimination of Antisocial Forces

Based upon the "Guiding Principles at Toyota" and the "Toyota Code of Conduct," Toyota's basic policy is to have no relationship with antisocial forces. Toyota will take resolute action as an organization against any undue claims and actions by antisocial forces or groups, and has drawn the attention of such policy to its employees by means such as clearly stipulating it in the "Toyota Code of Conduct."

(2) Preparation towards Elimination of Antisocial Forces

1) Establishment of Divisions Overseeing Measures Against Antisocial Forces and Posts in Charge of Preventing Undue Claims

Toyota established divisions that oversee measures against antisocial forces ("Divisions Overseeing Measures Against Antisocial Forces") in its major offices as well as assigned persons in charge of preventing undue claims. Toyota also established a system whereby undue claims, organized violence and criminal activities conducted by antisocial forces are immediately reported to and consulted with Divisions Overseeing Measures Against Antisocial Forces.

2) Liaising with Specialist Organizations

Toyota has been strengthening its liaison with specialist organizations by joining liaison committees organized by specialists such as the police. It has also been receiving guidance on measures to be taken against antisocial forces from such committees.

3) Collecting and Managing Information concerning Antisocial Forces

By liaising with experts and the police, Divisions Overseeing Measures Against Antisocial Forces share up-to-date information on antisocial forces and utilize such information to call Toyota's employees' attention to antisocial forces.

4) Preparation of Manuals

Toyota compiles cases concerning measures against antisocial forces and distributes them to each department within Toyota.

5) Training Activities

Toyota promotes training activities to prevent damages caused by antisocial forces by sharing information on antisocial forces within the Company as well as holding lectures at Toyota and its Group companies.

Regarding significant differences in corporate governance practices between Toyota and U.S. companies listed on the New York Stock Exchange, please refer to the annual report on Form 20-F filed with the United States Securities and Exchange Commission. Form 20-F can be viewed at the Company's web site (<http://www.toyota.co.jp/en/ir/library/sec/index.html>).