

CORPORATE GOVERNANCE

[TOYOTA'S BASIC APPROACH TO CORPORATE GOVERNANCE]

- Toyota's top management priority is to steadily increase shareholder 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. Putting 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 at the beginning of 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 of 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. 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.

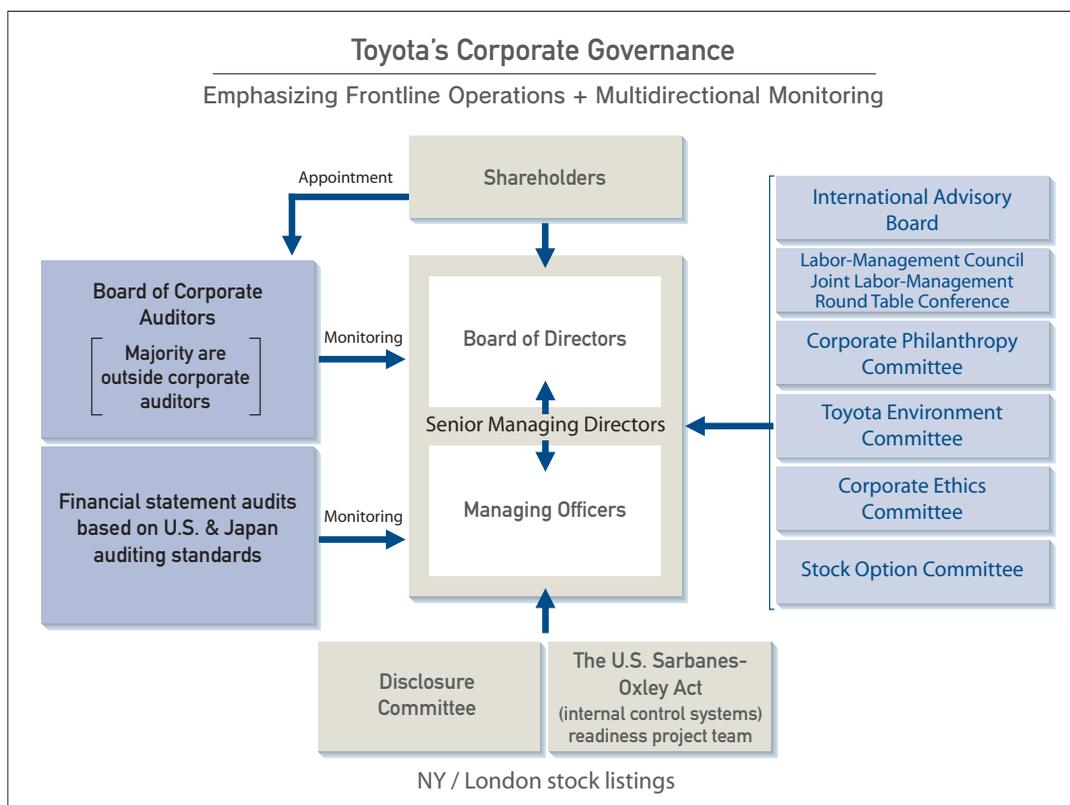
[TOYOTA'S MANAGEMENT SYSTEM]

- In June 2003, Toyota introduced a new management system that includes a streamlined Board of Directors and the new position of non-board managing officers with responsibility for specific operational functions. A distinctive feature of Toyota's management system is that senior managing directors do not focus exclusively on management. They also serve as the highest authorities in the specific operational functions and as the link created between management and on-site operations. Retaining an emphasis on developments on the site—one of Toyota's perennial strengths—helps closely coordinate decision making with actual operations. Management decisions can be swiftly reflected in operations, while overall management strategy is able to readily incorporate feedback from frontline operations.
-

To monitor the management, Toyota has adopted an auditor system that is based on the Japanese Commercial Code. 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.

[SYSTEMS FOR ENSURING APPROPRIATE MANAGEMENT]

- As a system to ensure appropriate management, Toyota has convened meetings of its International Advisory Board (IAB) annually 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 Corporate Philanthropy Committee, and the Stock Option Committee.



[ACCOUNTABILITY]

- ▶ Toyota considers the appropriate disclosure of corporate and financial information as a critical responsibility in corporate governance, and we work to enhance our accountability to shareholders and other investors.

With respect to financial information, in addition to quarterly reporting of financial statements, we made financial statements timelier, more transparent, and more comprehensive by only issuing consolidated financial statements in accordance with U.S. GAAP from fiscal 2004. In response to the enactment of the U.S. Sarbanes-Oxley Act, Toyota has established the Disclosure Committee. The committee works to ensure the appropriate, timely and fair disclosure of material information.

[COMPLIANCE]

- ▶ To firmly establish corporate ethics and ensure strict compliance, Toyota's Corporate Ethics Committee, which is comprised of members drawn from the executive vice president level and above and representative corporate auditors, deliberates issues and measures relating to corporate ethics, compliance, and risk management.

For employees, an outside attorney provides the Compliance Hotline. Also, we are reexamining the compliance risks within each division, implementing countermeasures, and entrenching them. Toyota will implement the tenets of ethical business practice by further promoting the "Guiding Principles at Toyota" and the "Code of Conduct for Toyota Employees" and by educating and training employees at all levels and in all areas of operations.

Furthermore, Toyota has established a readiness project team that is taking steps to enhance internal control systems in compliance with Section 404 of the U.S. Sarbanes-Oxley Act, to which the Company will be subject, beginning in fiscal 2007. A specialized independent organization has increased the number of personnel to verify the effectiveness of internal controls over financial reporting. In order to enhance the reliability of the financial reporting of the Company, the three auditing functions, namely, independent accountants, corporate auditors, and internal auditors, have meetings periodically and as necessary to share information through discussion on audit plans and results that aids conducting an effective and efficient audit.

[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 Corporate Philanthropy Committee and the Toyota Environment Committee.
-

Significant Differences in Corporate Governance Practices between Toyota and U.S. Companies Listed on the NYSE

Pursuant to home country practices exemptions granted by the New York Stock Exchange (the “NYSE”), Toyota Motor Corporation (the “Company”) is permitted to follow certain corporate governance practices complying with Japanese laws, regulations and stock exchange rules in lieu of NYSE’s listing standards. The United States Securities and Exchange Commission (the “SEC”) approved changes to the NYSE’s listing standards related to corporate governance practices of listed companies (the “NYSE Corporate Governance Rules”) in November 2003, as further amended in November 2004. The Company is exempted from the approved changes, except for requirements that (a) the Company’s board of corporate auditors satisfies the requirements of Rule 10A-3 under the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”), (b) the Company must disclose significant differences in the corporate governance practices followed by the Company as compared to those followed by domestic companies under the NYSE listing standards, (c) the Company’s principal executive officer must notify the NYSE of material non-compliance with (a) and (b), and (d) the Company must submit annual and interim written affirmations to the NYSE. The Company’s corporate governance practices and those followed by domestic companies under the NYSE Corporate Governance Rules have the following significant differences:

- **1. Directors** The Company currently does not have any directors who will be deemed as an “independent director” as required under the NYSE Corporate Governance Rules for U.S. listed companies. Unlike the NYSE Corporate Governance Rules, the Commercial Code of Japan (the “Code”) and the Law concerning Exceptional Measures to the Commercial Code with respect to Auditing, etc. of Joint Stock Corporations (the “Special Exception Law”) do not require Japanese companies with a board of corporate auditors such as the Company to have any independent directors on its board of directors. While the NYSE Corporate Governance Rules require that the non-management directors of each listed company meet at regularly scheduled executive sessions without management, the Company currently has no non-management director on its board of directors. Unlike the NYSE Corporate Governance Rules, the Code and the Special Exception Law do not require, and accordingly the Company does not have, an internal corporate organ or committee comprised solely of independent directors.
- **2. Committees** Under the Code and the Special Exception Law, the Company has elected to structure its corporate governance system as a company with corporate auditors, who are under a statutory duty to monitor, review and report on the management of the affairs of the Company. The Company, as with other Japanese companies with a board of corporate auditors, but unlike U.S. listed companies subject to the NYSE Corporate Governance Rules, does not have specified committees, including those that are responsible for director nomination, corporate governance and executive compensation.

Pursuant to the Code, the Company’s board of directors nominates and submits a proposal for the appointment of directors for shareholder approval. The shareholders vote on such nomination at the Company’s general meeting of shareholders. The Code requires that the respective total amount of remuneration to be paid to all directors and all corporate auditors must be determined by a resolution of the general meeting of shareholders, unless their remuneration is provided for in the Articles of Incorporation. The distribution of remuneration among each director is broadly delegated to the Company’s board of directors and the distribution of remuneration among each corporate auditor is determined by consultation among the Company’s corporate auditors.

-
- ▶ **3. Audit Committee** The Company avails itself of paragraph (c)(3) of Rule 10A-3 of the Exchange Act, which provides a general exemption from the audit committee requirements to a foreign private issuer with a board of corporate auditors, subject to certain requirements which continue to be applicable under Rule 10A-3.

Pursuant to the requirements of the Code and the Special Exception Law, the Company elects its corporate auditors through a resolution adopted at a general meeting of shareholders. The Company currently has seven (7) corporate auditors, which exceeds the minimum number of corporate auditors required pursuant to the Code and the Special Exception Law.

Unlike the NYSE Corporate Governance Rules, the Code and the Special Exception Law, among others, do not require corporate auditors to establish an expertise in accounting nor are they required to present other special knowledge and experience. Under the Special Exception Law, the board of corporate auditors may determine the auditing policies and methods of investigating the conditions of the business and the assets of the Company, and may resolve other matters concerning the execution of the corporate auditor's duties. The board of corporate auditors also prepares auditors' reports and gives consent to proposals of the nomination of corporate auditors and accounting auditors.

The Company currently has four (4) outside corporate auditors under the Special Exception Law. Under the Special Exception Law, at least one of the corporate auditors of the Company must be an "outside" corporate auditor, which is such person who was not a director, executive officer, manager, or employee of the Company or its subsidiaries during the five-year period prior to such corporate auditor's election. Such qualifications for an "outside" corporate auditor are different from the audit committee independence requirement under the NYSE Corporate Governance Rules.

- ▶ **4. Corporate Governance Guidelines** Unlike the NYSE Corporate Governance Rules, the Company is not required to adopt or disclose corporate governance guidelines under Japanese laws and regulations including the Code and the Securities and Exchange Law of Japan, or stock exchange rules. However, the Company is required to disclose policies and the present status of its corporate governance in its annual securities report and certain other disclosure documents in accordance with the regulations under the Japanese Securities and Exchange Law and stock exchange rules in respect of timely disclosure.
- ▶ **5. Code of Business Conduct and Ethics** Unlike the NYSE Corporate Governance Rules, under Japanese laws and regulations including the Code and the Securities and Exchange Law of Japan, or stock exchange rules, the Company is not required to adopt a code of business conduct and ethics for directors, officers and employees. Accordingly, the Company is not required to adopt and disclose waivers of the code of business conduct and ethics for these individuals. However, the Company maintains guidelines and internal regulations such as "Guiding Principles at the Company" and "Code of Conduct for the Company Employees" and has also established a code of ethics pursuant to Section 406 of the Sarbanes-Oxley Act, which has been disclosed under the annual report on Form 20-F for the year ended March 31, 2003.
- ▶ **6. Shareholder Approval of Equity Compensation Plans** Unlike the NYSE Corporate Governance Rules, under which material revisions to equity-compensation plans of listed companies are subject to shareholder approval, pursuant to the Code, if the Company desires to adopt an equity-compensation plan under which stock acquisition rights are granted on specially favorable terms to the recipient (except where such rights are granted to all of its shareholders on a pro-rata basis at the same time), then the Company must obtain approval by super-majority (as defined in the Code) at the general meeting of shareholders. Such approval is applicable only to stock acquisition rights to be granted within one year from the date of the approval.
-