Message from the Executive Vice President Responsible for Finance & Accounting*

Performance Overview

In fiscal 2006, ended March 31, 2006, Toyota recorded its highest-ever revenues and earnings, with year-on-year increases of 13.4% in consolidated net revenues, to ¥21.04 trillion; 12.3% in operating income, to ¥1.88 trillion; and 17.2% in net income, to ¥1.37 trillion. Operating income was up significantly because marketing efforts, cost reductions, and the effect of changes in currency exchange rates counteracted increased expenses resulting from active investment for future growth. Further, the Company was able to post net income above ¥1 trillion for the third successive fiscal year.

In view of those results, I think we performed well in fiscal 2006. Despite increasing production capacity in response to strong worldwide demand and moving forward with the development of technologies and products for the future, Toyota achieved higher earnings for the full year, with a strong second-half performance compensating for a decline in income in the first half. Also, I am pleased with the progress we made toward a globally balanced earnings structure by increasing revenues from Asia and Other Regions. Toyota will continue targeting stable, long-term growth by enhancing its capabilities in technology, supply, and marketing and by taking opportunities in all product segments and regions while minimizing risks.

Financial Strategy

The three key strategies of Toyota's financial strategy are Growth, Efficiency, and Stability. We believe that the balanced pursuit of those three priorities over the medium-to-long term will achieve steady and sustainable growth as well as increase corporate value.

1. Growth: Enhancing products, technology, and supply through continued forward-looking investment

In our view, enhancing products to reflect market demand accurately, developing technology to create new markets, and strengthening supply to cater to global demand require continued active investment in research and development and property, plant and equipment. In fiscal 2006, the fruits of its forward-looking investments to date enabled Toyota to maintain positive free cash flow while implementing investments in property, plant and equipment of more than ¥1.5 trillion (excluding vehicles and equipment on operating leases) and recording research and development expenses of approximately ¥810 billion. That positive free cash flow will allow active investment for future growth in the next fiscal year.

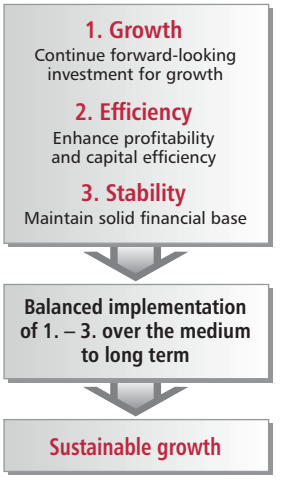
2. Efficiency: Maintaining and enhancing profitability and capital efficiency

In fiscal 2006, Toyota's operating income margin was 8.9% and ROE was 14.0%. In comparison with fiscal 2001's operating income margin of 6.1% and ROE of 9.6%, the Company achieved significant improvement. We will simultaneously pursue growth and efficiency and maintain our operating income margin at approximately 9% by introducing products efficiently through the development of core global models, advancing innovative VI Activity cost reductions, starting up overseas plants steadily, and managing fixed costs globally.

3. Stability: Maintaining a solid financial base

Toyota maintains a solid financial base by ensuring sufficient liquidity and stable shareholders' equity. At fiscal 2006 year-end, liquid assets** were approximately ¥3.8 trillion while shareholders' equity stood at roughly ¥10.5 trillion. Toyota's sound financial position enables the Company to continue flexible, forward-looking investment—even during sharp fluctuations in operating and market conditions—and underpins the high credit ratings that give access to low-cost, stable financing. Given the expected growth in

Financial Strategy



automotive markets worldwide, I believe that maintaining adequate liquid funds is essential for the implementation of forward-looking investment to enhance products, develop next-generation technology, and establish production and sales systems in Japan and overseas for the global expansion of operations.

Dividends and Acquisition of Shares

Toyota believes that actively returning profits to its shareholders is an important management policy and will endeavor to continue increasing consolidated net income per share. The Company's dividend policy is to reflect favorable consolidated results more closely in profit distribution in light of each fiscal year's performance and new investment plans. Accordingly, we are targeting a consolidated dividend payout ratio of approximately 30% in the medium-to-long term. Reflecting its dividend policy, in fiscal 2006 the Company paid a significantly higher annual dividend of ¥90.00 per share, up ¥25.00 per share from the previous fiscal year. The annual dividend was Toyota's highest to date and marked the seventh consecutive year of increased dividends. Furthermore, the consolidated payout ratio rose from the previous fiscal year's 18.3% to 21.3%.

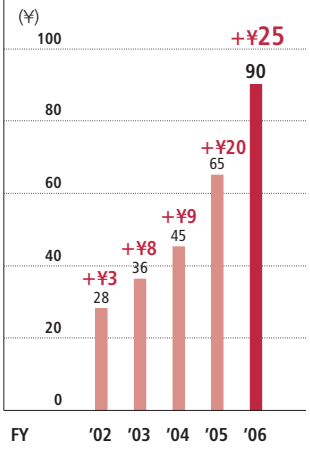
In addition, to respond to changes in business conditions and enhance capital efficiency, Toyota intends to continue acquiring shares of its own stock. In fiscal 2006, the Company acquired a total of ¥133.6 billion, or 27.57 million shares of its own stock. Moreover, in the period from April 1, 2006, to June 30, 2006, Toyota acquired a further ¥162.5 billion, or 26.00 million shares of its own stock. As a result, excluding treasury stock, a total of 3.22 billion shares were issued and outstanding as of June 30, 2006. Between fiscal 1997 and June 30, 2006, Toyota acquired a total of ¥2.34 trillion, or 653.72 million shares of its own stock. Also, the Company received authorization to acquire up to 30 million shares of its own stock, for a maximum aggregate purchase price of ¥200 billion, from the Ordinary General Shareholders' Meeting in June 2006.

Consolidated Results Outlook for Fiscal 2007

From fiscal 2006, Toyota began disclosing projections of consolidated results for subsequent fiscal years in response to the larger share of consolidated earnings accounted for by subsidiaries as global operations expand. Moreover, the Company has facilitated such projections by establishing an enhanced in-house revenue management system that includes subsidiaries.

In fiscal 2007, ending March 31, 2007, we project consolidated net revenues of ¥22.30 trillion, operating income of ¥1.90 trillion, and net income of ¥1.31 trillion. These projections assume currency exchange rates of ¥110=US$1 and ¥135=Euro1. Further, we anticipate investment in property, plant and equipment of ¥1.55 trillion, depreciation*** of ¥930 billion, and research and development expenses of ¥920 billion. We feel that releasing projections of consolidated results is an important part of investor relations activities and heightens management transparency for all stakeholders. Accordingly, we aim to continue strengthening our communication with the market and society.

Dividends per Share



July 2006

Mitsuo Kinoshita,
Executive Vice President

* Responsibilities include finance and accounting related operational areas (see Directors and Auditors on page 50)
** Excluding finance subsidiaries
*** Excluding leased assets