Management's Discussion and Analysis of Financial Condition and Results of Operations

All financial information discussed in this section is derived from Toyota's consolidated financial statements that appear elsewhere in this annual report on Form 20-F. 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 is Toyota's most significant business segment, accounting for 88% of Toyota's total revenues before the elimination of intersegment revenues for fiscal 2009. Toyota's primary markets based on vehicle unit sales for fiscal 2009 were: Japan (26%), North America (29%), Europe (14%) and Asia (12%).

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 from year to year in different geographic markets and for different types of automobiles.

The automotive industry experienced a rapid contraction of markets globally during fiscal 2009 due to a severe downturn in the economy stemming from a global financial crisis, and resulted in an extremely severe condition. Particularly in Japan, the United States, and Europe, the markets declined severely in the second half of fiscal 2009. The markets in resource-rich countries and emerging countries, which were growing continuously, encountered a sudden slowdown in growth.

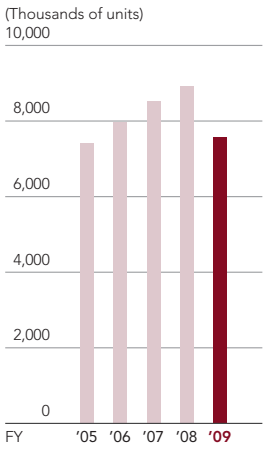
The following table sets forth Toyota's consolidated vehicle unit sales by geographic market based on location of customers for the past three fiscal years.

	Thousands of units		
	Years ended March 31,		
	2007	2008	**2009**
Japan	2,273	2,188	**1,945**
North America	2,942	2,958	**2,212**
Europe	1,224	1,284	**1,062**
Asia	789	956	**905**
Other*	1,296	1,527	**1,443**
Overseas total	6,251	6,725	**5,622**
Total	8,524	8,913	**7,567**

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

Toyota's consolidated vehicle unit sales in Japan decreased during fiscal 2008 and 2009 as compared to each of the respective prior years reflecting a decline in the overall domestic market. During fiscal 2009, however, Toyota and Lexus brands' market share excluding mini-vehicles, and Toyota's market share (including Daihatsu and Hino brands) including mini-vehicles represented a record high reflecting the sales efforts of domestic dealers. Overseas vehicle unit sales increased during fiscal 2008, but decreased during fiscal 2009. During fiscal 2008, vehicle unit sales increased in North America, Europe, Asia and Other reflecting the expansion of production sites, the introduction of vehicle models that effectively met customer needs and the implementation of various sales measures. During fiscal 2009, vehicle unit sales decreased, particularly in North America and Europe, where the contraction of automotive markets was especially pronounced.

Consolidated Vehicle Sales



Toyota's share of total vehicle unit sales in each market is influenced by the quality, price, design, performance, safety, reliability, 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 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 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. For a more detailed description of these proceedings, see note 23 to the consolidated financial statements.

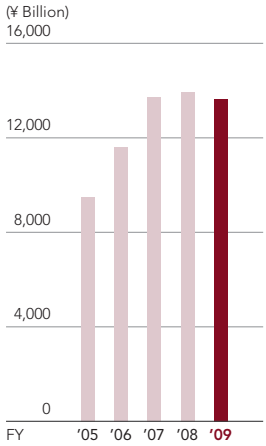
The worldwide automotive industry is in a period of global competition which may continue for the foreseeable future, and in general the competitive environment in which Toyota operates is likely to intensify. Toyota believes it has the resources, strategies and technologies in place to compete effectively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

Total Assets by Financial Services Operations



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 provide competition for Toyota's wholesale financing activities.

Toyota's financial assets decreased during fiscal 2009 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, 2008 and 2009.

	Yen in millions	
	March 31,	
	2008	**2009**
Finance Receivables		
Retail	¥ 6,959,479	**¥ 6,655,404**
Finance leases	1,160,401	**1,108,408**
Wholesale and other dealer loans	2,604,411	**2,322,721**
	10,724,291	**10,086,533**
Deferred origination costs	106,678	**104,521**
Unearned income	(437,365)	**(405,171)**
Allowance for credit losses	(117,706)	**(238,932)**
Total finance receivables, net	10,275,898	**9,546,951**
Less—Current portion	(4,301,142)	**(3,891,406)**
Noncurrent finance receivables, net	¥ 5,974,756	**¥ 5,655,545**
Operating Leases		
Vehicles	¥ 2,814,706	**¥ 2,729,713**
Equipment	107,619	**107,168**
	2,922,325	**2,836,881**
Less—Accumulated depreciation	(718,207)	**(795,767)**
Vehicles and equipment on operating leases, net	¥ 2,204,118	**¥ 2,041,114**

Toyota's finance receivables are subject to collectibility risks. These risks include consumer and dealer insolvencies and insufficient collateral values (less costs to sell) to realize the full carrying values of these receivables. See discussion in the Critical Accounting Estimates section regarding "Allowance for Doubtful Accounts and Credit Losses" and note 11 to the consolidated financial statements regarding the allowance for credit losses.

Toyota continues to originate leases to finance new Toyota vehicles. These leasing activities are subject to residual value risk. Residual value risk could arise when the lessee of a vehicle does not exercise the option to purchase the vehicle at the end of the lease term. See discussion in the Critical Accounting Estimates section regarding "Investment in Operating Leases" and note 2 to the consolidated financial statements regarding the allowance for residual values losses.

Toyota primarily enters into interest rate swap agreements and cross currency interest rate swap agreements to convert its fixed-rate debt to variable-rate functional currency debt. A portion of the derivative instruments are entered into to hedge interest rate risk from an economic perspective and are not designated to specific assets or liabilities on Toyota's consolidated balance sheet and accordingly, unrealized gains or losses related to derivatives that are not designated are recognized currently in operations. See discussion in the Critical Accounting Estimates section regarding "Derivatives and Other Contracts at Fair Value", further discussion in the Market Risk Disclosures section and note 20 to the consolidated financial statements.

In addition, aggregated funding costs can affect the profitability of Toyota's financial services operations. Funding costs are affected by a number of factors, some of which are not in Toyota's control. These factors include general economic conditions, prevailing interest rates and Toyota's financial strength. Funding costs increased during fiscal 2008 as a result of an increase in borrowings. Funding costs decreased during fiscal 2009 mainly as a result of lower interest rate.

Toyota launched its credit card business in Japan at the beginning of fiscal 2002. As of March 31, 2008, Toyota had 6.6 million cardholders, an increase of 0.5 million cardholders compared with March 31, 2007, and as of March 31, 2009, Toyota had 7.1 million cardholders, an increase of 0.5 million cardholders compared with March 31, 2008. The credit card receivables at March 31, 2008 increased by ¥24.5 billion from March 31, 2007 to ¥225.7 billion. The credit card receivables at March 31, 2009 decreased by ¥1.1 billion from March 31, 2008 to ¥224.6 billion.

Other Business Operations

Toyota's other business operations consist of housing, including the manufacture and sale of prefabricated homes; information technology related businesses, including information technology and telecommunications, intelligent transport systems, GAZOO; others.

Toyota does not expect its other business operations to materially contribute to Toyota's consolidated results of operations.

Currency Fluctuations

Toyota is sensitive to fluctuations in foreign currency exchange rates. In addition to the Japanese yen, Toyota is principally exposed to fluctuations in the value of 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.

Translation risk is the risk that Toyota's consolidated financial statements for a particular period or for a particular date will be affected by changes in the prevailing exchange rates of the currencies in those countries in which Toyota does business compared with the Japanese yen. Even though the fluctuations of currency exchange rates to the Japanese yen can be substantial, and, therefore, significantly impact comparisons with prior periods and among the various geographic markets, the translation risk is a reporting consideration and does not reflect Toyota's underlying results of operations. Toyota does not hedge against translation risk.

Transaction risk is the risk that the currency structure of Toyota's costs and liabilities will deviate from the currency structure of sales proceeds and assets. Transaction risk relates primarily to sales proceeds from Toyota's non-domestic operations from vehicles produced in Japan.

Toyota believes that the location of its production facilities in different parts of the world has significantly reduced the level of transaction risk. As part of its globalization strategy, Toyota has continued to localize production by constructing production facilities in the major markets in which it sells its vehicles. In calendar 2007 and 2008, Toyota produced 61.4% and 64.1% of Toyota's non-domestic sales outside Japan, respectively. In North America, 57.2% and 57.4% of vehicles sold in calendar 2007 and 2008 were produced locally, respectively. In Europe, 64.0% and 60.9% of vehicles sold in calendar 2007 and 2008 were produced locally, respectively. Localizing production enables Toyota to locally purchase many of the supplies and resources used in the production process, which allows for a better match of local currency revenues with local currency expenses.

Toyota also enters into foreign currency transactions and other hedging instruments to address a portion of its transaction risk. This has reduced, but not eliminated, the effects of foreign currency exchange rate fluctuations, which in some years can be significant. See notes 20 and 21 to the consolidated financial statements for additional information regarding the extent of Toyota's use of derivative financial instruments to hedge foreign currency exchange rate risks.

Generally, a weakening of the Japanese yen against other currencies has a positive effect on Toyota's revenues, operating income and net income. A strengthening of the Japanese yen against other currencies has the opposite effect. In fiscal 2008, the Japanese yen was on average and at the end of the fiscal year stronger against the U.S. dollar in comparison to the prior fiscal year. In fiscal 2008, the Japanese yen was on average and at the end of the fiscal year weaker against the euro in comparison to the prior fiscal year. In fiscal 2009, the Japanese yen was on average and at the end of the fiscal year stronger against the U.S. dollar and the euro in comparison to the prior fiscal year. See further discussion in the Market Risk Disclosures section regarding "Foreign Currency Exchange Rate Risk".

During fiscal 2008 and 2009, the average value of the Japanese yen fluctuated against the major currencies including the U.S. dollar and the euro compared with the average value of the previous fiscal year, respectively. The operating results excluding the impact of currency fluctuations described in the "Results of Operations—Fiscal 2009 Compared with Fiscal 2008" and the "Results of Operations—Fiscal 2008 Compared with Fiscal 2007," show results of net revenues obtained by applying the Japanese yen's average exchange rate in the previous fiscal year to the local currency-denominated net revenues for fiscal 2008 and 2009, respectively, as if the value of the Japanese yen had remained constant for the comparable periods. Results excluding the impact of currency fluctuations year-on-year are not on the same basis as Toyota's consolidated financial statements and do not conform with U.S. GAAP. Furthermore, Toyota does not believe that these measures are a substitute for U.S. GAAP measures. However, Toyota believes that such results excluding the impact of currency fluctuations year-on-year provide additional useful information to investors regarding the operating performance on a local currency basis.

Segmentation

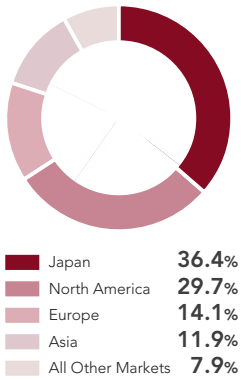
Toyota's most significant business segment is its automotive operations. Toyota carries out its automotive operations as a global competitor in the worldwide automotive market. Management allocates resources to, and assesses the performance of, its automotive operations as a single business segment on a worldwide basis. Toyota does not manage any subset of its automotive operations, such as domestic or overseas operations or parts, as separate management units.

The management of the automotive operations is aligned on a functional basis with managers having oversight responsibility for the major operating functions within the segment. Management assesses financial and non-financial data such as units of sale, units of production, market share information, vehicle model plans and plant location costs to allocate resources within the automotive operations.

Geographic Breakdown

The following table sets forth Toyota's net revenues in each geographic market based on the country location of the parent company or the subsidiary that transacted the sale with the external customer for the past three fiscal years.

Revenues by Market
FY2009



	Yen in millions		
	For the years ended March 31,		
	2007	2008	**2009**
Japan	¥8,152,884	¥8,418,620	**¥7,471,916**
North America	8,771,495	9,248,950	**6,097,676**
Europe	3,346,013	3,802,814	**2,889,753**
Asia	1,969,957	2,790,987	**2,450,412**
Other*	1,707,742	2,027,869	**1,619,813**

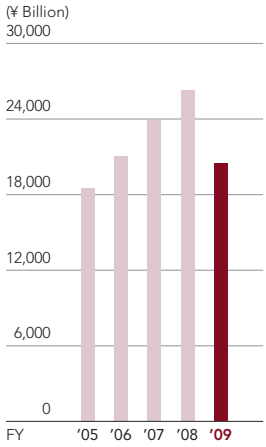
* "Other" consists of Central and South America, Oceania and Africa.

Results of Operations—Fiscal 2009 Compared with Fiscal 2008

Net Revenues

Toyota had net revenues for fiscal 2009 of ¥20,529.5 billion, a decrease of ¥5,759.7 billion, or 21.9%, compared with the prior year. This decrease principally reflects the impact of decreased vehicle unit sales and changes in sales mix, the unfavorable impact of fluctuations in foreign currency translation rates, and decreased parts sales during fiscal 2009. Eliminating the difference in the Japanese yen value used for translation purposes, net revenues would have been approximately ¥22,560.7 billion during fiscal 2009, a 14.2% decrease compared with the prior year.

Net Revenues



Toyota's net revenues include net revenues from sales of products that decreased by 22.8% during fiscal 2009 compared with the prior year to ¥19,173.7 billion and net revenues from financial services operations that decreased by 7.7% during fiscal 2009 compared with the prior year to ¥1,355.8 billion. Eliminating the difference in the Japanese yen value used for translation purposes, net revenues from sales of products would have been approximately ¥21,011.3 billion, a 15.3% decrease during fiscal 2009 compared with the prior year, while net revenues from financial services operations would have been approximately ¥1,549.4 billion, a 5.5% increase during fiscal 2009 compared with the prior year. Geographically, net revenues for fiscal 2009 decreased by 11.2% in Japan, 34.1% in North America, 24.0% in Europe, 12.2% in Asia and 20.1% in Other compared with the prior year. Eliminating the difference in the Japanese yen value used for translation purposes, net revenues in fiscal 2009 would have decreased by 11.2% in Japan, 24.9% in North America, 13.1% in Europe, and 0.4% in Other and increased by 0.9% in Asia compared with the prior year.

The following is a discussion of net revenues for each of Toyota's business segments. The net revenue amounts discussed are amounts before the elimination of intersegment revenues.

• Automotive Operations Segment

Net revenues for Toyota's automotive operations segment, which constitute the largest percentage of Toyota's net revenues, decreased during fiscal 2009 by ¥5,612.6 billion, or 23.2% compared with the prior year to ¥18,564.7 billion. The decrease resulted primarily from the approximate ¥3,400 billion impact attributed to the decrease in vehicle unit sales and the changes in sales mix, the ¥1,833.8 billion impact of fluctuations in foreign currency translation rates, and the decreased parts sales. Eliminating the difference in the Japanese yen value used for translation purposes, net revenues for its automotive operations segment would have been approximately ¥20,398.5 billion during fiscal 2009, a 15.6% decrease compared to the prior year. In fiscal 2009, net revenues in Japan were unfavorably impacted primarily by the decrease in vehicle unit sales in the export markets and the changes in sales mix compared to fiscal 2008. Net revenues in North America, Europe, Asia and Other were unfavorably impacted primarily by the decrease in vehicle unit sales and the impact of fluctuations in foreign currency translation rates.

• Financial Services Operations Segment

Net revenues in fiscal 2009 for Toyota's financial services operations decreased by ¥120.8 billion, or 8.1% compared to the prior year to ¥1,377.5 billion. This decrease resulted primarily from the impact of fluctuations in foreign currency translation rates, partially offset by the impact of a higher volume of financings. Eliminating the difference in the Japanese yen value used for translation purposes, net revenues for its financial services operations would have been approximately ¥1,572.5 billion during fiscal 2009, a 5.0% increase compared with the prior year.

• All Other Operations Segment

Net revenues for Toyota's other operations segment decreased by ¥162.0 billion, or 12.0%, to ¥1,184.9 billion during fiscal 2009 compared with the prior year.

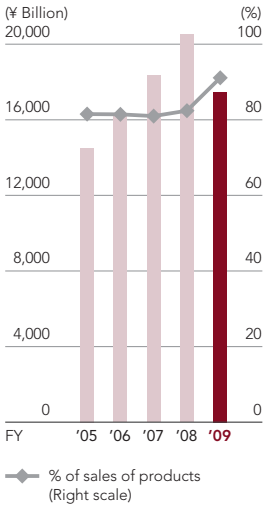
Operating Costs and Expenses

Operating costs and expenses decreased by ¥3,028.4 billion, or 12.6%, to ¥20,990.5 billion during fiscal 2009 compared with the prior year. This decrease resulted primarily from the approximate ¥2,100 billion impact on costs of products attributable to the decrease in vehicle unit sales and the changes in sales mix, the ¥2,062.1 billion impact of fluctuations in foreign currency translation rates, decreased costs corresponding to the decrease in parts sales, and the ¥54.8 billion decrease in research and development expenses, partially offset by increases in expenses.

Cost reduction efforts were offset by increases in the prices of steel, precious metals, non-ferrous alloys including aluminum, plastic parts and other production materials and parts. These cost reduction efforts related to ongoing value engineering and value analysis activities, the use of common parts that result in a reduction of part types and other manufacturing initiatives designed to reduce the costs of vehicle production.

Cost of products sold decreased by ¥2,984.0 billion, or 14.6%, to ¥17,468.4 billion during fiscal 2009 compared with the prior year. This decrease (before the elimination of intersegment amounts) reflects a decrease of ¥2,939.2 billion, or 14.9%, for the automotive operations segment and a decrease of ¥131.2 billion, or 11.2%, for all other operations segment. The decrease in cost of products sold for automotive operations is primarily attributed to the decrease in vehicle unit sales and the changes in sales mix, the impact of fluctuations in foreign currency translation rates, the impact of the decrease in parts sales, and the decrease in research and development expenses, partially offset by increases in expenses. Cost of financing operations decreased by ¥80.6 billion, or 7.5%, to ¥987.4 billion during fiscal 2009 compared with the prior year. The decrease resulted primarily from the impact of fluctuations in foreign currency translation rates, partially offset by an increase in allowance for residual value losses and an increase in valuation losses on interest rate swaps stated at fair value.

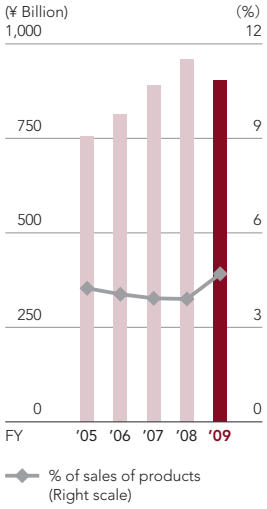
Cost of Products Sold



Selling, general and administrative expenses increased by ¥36.2 billion, or 1.5%, to ¥2,534.7 billion during fiscal 2009 compared with the prior year. This increase mainly reflects an increase for the financial services operations. The increase for the financial services operations is primarily due to an increase in provision for credit losses, net charge-offs.

Research and development expenses (included in cost of products sold and selling, general and administrative expenses) decreased by ¥54.8 billion, or 5.7%, to ¥904.0 billion during fiscal 2009 compared with the prior year. This decrease primarily relates to an overall decrease in expenditures while maintaining a focus on the development of environmentally conscious technologies including hybrid and fuel-cell technology, and the developments in advanced technologies relating to collision safety and vehicle stability controls to further build up competitive strength in the future.

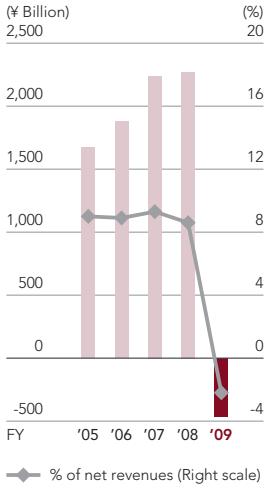
R&D Expenses



Operating Income and Loss

Toyota's operating income decreased by ¥2,731.3 billion to an operating loss of ¥461.0 billion during fiscal 2009 compared with the prior year. This operating loss was unfavorably affected by the decrease in vehicle unit sales, the changes in sales mix, the increased expenses and the impact of the decrease in parts sales, partially offset by the decrease in research and development expenses.

Operating Income (Loss)



During fiscal 2009, operating income (before the elimination of intersegment profits) for significant geographic regions decreased by ¥1,677.8 billion in Japan, decreased by ¥695.5 billion in North America, decreased by ¥284.8 billion in Europe, decreased by ¥80.3 billion, or 31.3%, in Asia, and decreased by ¥56.3 billion, or 39.1% in Other compared with the prior year. The decrease in Japan was mainly due to decreases in both production volume and vehicle unit sales in the export markets, partially offset by the decrease in research and development expenses. The decrease in North America was mainly due to decreases in both production volume and vehicle unit sales, the increases in the provision for credit losses, net charge-offs and allowance for residual value losses in sales finance subsidiaries in the United States, partially offset by the impact of the fluctuations in foreign currency translation rates. The decrease in Europe was mainly due to decreases in both production volume and vehicle unit sales, partially offset by the impact of fluctuations in foreign currency translation rates. The decrease in Asia was mainly due to decreases in both production volume and vehicle unit sales, and the impact of the fluctuations in foreign currency translation rates. The decrease in Other was primarily due to the decrease in vehicle unit sales.

The following is a discussion of operating income for each of Toyota's business segments. The operating income amounts discussed are before the elimination of intersegment profits.

• Automotive Operations Segment

Operating income from Toyota's automotive operations decreased by ¥2,566.7 billion to an operating loss of ¥394.8 billion during fiscal 2009 compared with the prior year. This decrease was primarily attributed to the decrease in vehicle unit sales, the changes in sales mix, the increased expenses, and the impact of the decrease in parts sales, partially offset by the decrease in research and development expenses.

• Financial Services Operations Segment

Operating income from Toyota's financial services operations decreased by ¥158.5 billion to an operating loss of ¥72.0 billion during fiscal 2009 compared with the prior year. This decrease was primarily due to the increases in the provision for credit losses, net charge-offs and allowance for residual value losses, and the increase in valuation losses on interest rate swaps stated at fair value in sales finance subsidiaries, partially offset by the impact of a higher volume of financing activities.

• All Other Operations Segment

Operating income from Toyota's other operations segment decreased by ¥23.1 billion, or 70.0% to ¥9.9 billion during fiscal 2009 compared with the prior year.

Other Income and Expenses

Interest and dividend income decreased by ¥27.3 billion, or 16.4%, to ¥138.4 billion during fiscal 2009 compared with the prior year mainly due to a decrease in interest income from marketable securities.

Interest expense increased by ¥0.8 billion, or 1.7%, to ¥46.9 billion during fiscal 2009 compared with the prior year.

Foreign exchange gains, net decreased by ¥11.0 billion to a loss of ¥1.8 billion during fiscal 2009 compared with the prior year. Foreign exchange gains and losses include the differences between the value of foreign currency denominated sales translated at prevailing exchange rates and the value of the sales amounts settled during the year, including those settled using forward foreign currency exchange contracts.

Other income, net decreased by ¥227.2 billion to a loss of ¥189.1 billion during fiscal 2009 compared with the prior year. This decrease was mainly due to the recognition of impairment losses on available-for sale securities.

Income Taxes

The provision for income taxes decreased by ¥968.0 billion to a tax benefit of ¥56.5 billion during fiscal 2009 compared with the prior year primarily due to the decrease in income before income taxes. The effective tax rate was 10.1%, which was lower than its statutory tax rate in Japan primarily due to a recognition of valuation allowance for deferred tax assets at domestic and overseas subsidiaries.

Minority Interest in Consolidated Subsidiaries and Equity in Earnings of Affiliated Companies

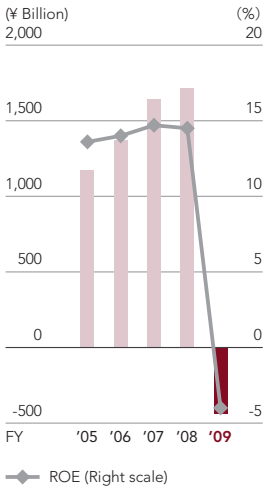
Minority interest in consolidated subsidiaries decreased by ¥102.2 billion to a loss of ¥24.2 billion during fiscal 2009 compared with the prior year. This decrease was mainly due to a decrease in net income at consolidated subsidiaries.

Equity in earnings of affiliated companies during fiscal 2009 decreased by ¥227.4 billion, or 84.2%, to ¥42.7 billion compared with the prior year. This decrease was due to a decrease in net income at the affiliated companies.

Net Income and Loss

Toyota's net income decreased by ¥2,154.8 billion to a loss of ¥437.0 billion during fiscal 2009 compared with the prior year.

Net Income (Loss), and ROE



Other Comprehensive Income and Loss

Other comprehensive losses decreased by ¥76.0 billion to losses of ¥866.5 billion for fiscal 2009 compared with the prior year. This decrease in losses resulted primarily from favorable foreign currency translation adjustments in fiscal 2009 to losses of ¥381.3 billion compared with losses of ¥461.1 billion in the prior year, and a decrease in unrealized holding losses on securities in fiscal 2009 to ¥293.1 billion compared with ¥347.8 billion in the prior year. The decrease in unrealized holding losses on securities was mainly due to the recognition of impairment losses on available-for sale securities.

Results of Operations— Fiscal 2008 Compared with Fiscal 2007

Net Revenues

Toyota had net revenues for fiscal 2008 of ¥26,289.2 billion, an increase of ¥2,341.2 billion, or 9.8%, compared with the prior year. This increase principally reflects the impact of increased vehicle unit sales, increased financings operations, increased parts sales and the favorable impact of fluctuations in foreign currency translation rates during fiscal 2008. Eliminating the difference in the Japanese yen value used for translation purposes, net revenues would have been approximately ¥26,011.5 billion during fiscal 2008, an 8.6% increase compared with the prior year. Toyota's net revenues include net revenues from sales of products that increased by 9.5% during fiscal 2008 compared with the prior year to ¥24,820.5 billion and net revenues from financing operations that increased by 14.9% during fiscal 2008 compared with the prior year to ¥1,468.7 billion. Eliminating the difference in the Japanese yen value used for translation purposes, net revenues from sales of products would have been approximately ¥24,540.1 billion, an 8.2% increase during fiscal 2008 compared with the prior year, while net revenues from financing operations would have increased by approximately 15.1% during fiscal 2008 compared to the prior year to ¥1,471.4 billion. Geographically, net revenues for fiscal 2008 increased by 3.3% in Japan, 5.4% in North America, 13.7% in Europe, 41.7% in Asia and 18.7% in Other compared with the prior year. Eliminating the difference in the Japanese yen value used for translation purposes, net revenues in fiscal 2008 would have increased by 3.3% in Japan, 7.6% in North America, 6.8% in Europe, 34.2% in Asia, and 13.6% in Other compared with the prior year.

The following is a discussion of net revenues for each of Toyota's business segments. The net revenue amounts discussed are amounts before the elimination of intersegment revenues.

• Automotive Operations Segment

Net revenues from Toyota's automotive operations segment, which constitute the largest percentage of Toyota's net revenues, increased during fiscal 2008 by ¥2,249.3 billion, or 10.3% compared with the prior year to ¥24,177.3 billion. The increase resulted primarily from the approximate ¥1,600 billion impact attributed to the vehicle unit sales growth and changes in sales mix, the ¥277.5 billion impact of fluctuations in foreign currency translation rates during fiscal 2008, and the impact of increased parts sales. Eliminating the difference in the Japanese yen value used for translation purposes, automotive operations segment net revenues would have been approximately ¥23,899.8 billion during fiscal 2008, a 9.0% increase compared to the prior year. In fiscal 2008, net revenues in Japan were favorably impacted primarily by vehicle unit sales growth in the export markets, which was partially offset by changes in sales mix compared to fiscal 2007. Net revenues in North America were favorably impacted primarily by vehicle unit sales growth partially offset by fluctuations in foreign currency translation rates during fiscal 2008. Net revenues in Europe and Asia were favorably impacted primarily by vehicle unit sales growth and fluctuations in foreign currency translation rates during fiscal 2008. Net revenues in Other were favorably impacted primarily by vehicle unit sales growth.

• Financial Services Operations Segment

Net revenues in fiscal 2008 for Toyota's financial services operations increased by ¥197.8 billion or 15.2% compared to the prior year to ¥1,498.3 billion. This increase resulted primarily from the impact of a higher volume of financings mainly in North America, partially offset by the impact of fluctuations in foreign currency translation rates during fiscal 2008. Eliminating the difference in the Japanese yen value used for translation purposes, financial services operations net revenues would have been approximately ¥1,500.5 billion during fiscal 2008, a 15.4% increase compared with the prior year.

• All Other Operations Segment

Net revenues for Toyota's other businesses increased by ¥23.2 billion, or 1.8%, to ¥1,346.9 billion during fiscal 2008 compared with the prior year.

Operating Costs and Expenses

Operating costs and expenses increased by ¥2,309.5 billion, or 10.6%, to ¥24,018.9 billion during fiscal 2008 compared with the

prior year. The increase resulted primarily from the approximate ¥1,300 billion impact on costs of products attributed to vehicle unit sales growth and changes in sales mix, the ¥252.1 billion impact of fluctuations in foreign currency translation rates, the ¥68.1 billion increase in research and development expenses, increased expenses in expanding business operations and increased costs corresponding to the increase in parts sales. These increases were partially offset by the approximate ¥120 billion impact attributed to the net impact of cost reduction efforts, responding to the rise in prices of production materials and parts in fiscal 2008.

Continued cost reduction efforts reduced operating costs and expenses in fiscal 2008 by approximately ¥120 billion, partially offset by increases in the prices of steel, precious metals, nonferrous alloys including aluminum, plastic parts and other production materials and parts, over what would have otherwise been incurred. These cost reduction efforts relate to ongoing value engineering and value analysis activities, the use of common parts that result in a reduction of part types and other manufacturing initiatives designed to reduce the costs of vehicle production.

Cost of products sold increased by ¥2,096.1 billion, or 11.4%, to ¥20,452.4 billion during fiscal 2008 compared with the prior year. This increase (before the elimination of intersegment amounts) reflects an increase of ¥2,107.7 billion, or 11.9%, for the automotive operations and an increase of ¥33.4 billion, or 2.9%, for all other operations segment. The increase in cost of products sold for automotive operations is primarily attributed to the increased vehicle unit sales and changes in sales mix, the impact of the increase in parts sales, the impact of the increase in research and development expenses and the impact of fluctuations in foreign currency translation rates during fiscal 2008, which were partially offset by the impact of continued cost reduction efforts. The increase in cost of products sold for all other operations primarily related to the increase in net revenues.

Cost of financing operations increased by ¥195.9 billion, or 22.5%, to ¥1,068.0 billion during fiscal 2008 compared with the prior year. The increase resulted primarily from the impact of increased interest expenses caused primarily by an increase in borrowings attributed to business expansion. The increase is also attributed to the impact of losses due to changes in the fair value of derivative financial instruments that are not designated as hedges and are marked-to-market at the end of each period.

Selling, general and administrative expenses increased by ¥17.5 billion, or 0.7%, to ¥2,498.5 billion during fiscal 2008 compared with the prior year. This increase mainly reflects an increase for the financial services operations. The increase for the financial services operations is primarily attributed to the impact of increased expenses.

Research and development expenses (included in cost of products sold and selling, general and administrative expenses) increased by ¥68.1 billion, or 7.6%, to ¥958.8 billion during fiscal 2008 compared with the prior year. This increase primarily relates to expenditures attributed to the development of environmentally conscious technologies including hybrid and fuel-cell technology, aggressive developments in advanced technologies relating to collision safety and vehicle stability controls and the impact of expanding new models to promote Toyota's strength in a global market to further build up competitive strength in the future.

Operating Income

Toyota's operating income increased by ¥31.7 billion, or 1.4%, to ¥2,270.3 billion during fiscal 2008 compared with the prior year. Operating income was favorably affected by the vehicle unit sales growth, the changes in sales mix, the impact of increased parts sales, continued cost reduction efforts and the favorable impact of fluctuations in foreign currency translation rates. These increases were partially offset by increases in research and development expenses and the increases in expenses due to business expansion. As a result, operating income decreased to 8.6% as a percentage of net revenues for fiscal 2008 compared to 9.3% in the prior year.

During fiscal 2008, operating income (before the elimination of intersegment profits) for significant geographic regions decreased by ¥16.9 billion, or 1.2%, in Japan, decreased by ¥144.3 billion, or 32.1%, in North America, increased by ¥4.2 billion, or 3.0% in Europe, increased by ¥138.8 billion, or 118.0%, in Asia, and increased by ¥60.4 billion, or 72.4% in Other compared with the prior year. The decrease in Japan was mainly due to an increase in expenses including research and development expenses, partially offset by the vehicle unit sales growth in the export markets and continued cost reduction efforts. The decrease in North America was mainly due to an increase in valuation losses on interest rate swaps stated at fair value and the impact of fluctuations in foreign currency translation rates partially offset by the increase in production volume and vehicle unit sales and continued cost reduction efforts in the manufacturing operations. The increases in Europe were mainly due to the impact of an increase in production volume and vehicle unit sales, continued cost reduction efforts in the manufacturing operations and the favorable impact of fluctuations in foreign currency translation rates. The increases in Asia were mainly due to the impact of an increase in production volume and vehicle unit sales. The increase in Other was primarily due to the impact of the increase in production volume and vehicle unit sales.

The following is a discussion of operating income for each of Toyota's business segments. The operating income amounts discussed are before the elimination of intersegment profits.

• Automotive Operations Segment

Operating income from Toyota's automotive operations increased by ¥133.1 billion, or 6.5%, to ¥2,171.9 billion during fiscal 2008 compared with the prior year. This increase is primarily attributed to the increase in vehicle unit sales, the increase in parts sales, the impact of continued cost reduction efforts and the favorable impact of fluctuations in foreign currency translation rates. This increase was partially offset by the increase in

research and development expenses and the increase in expenses due to business expansion.

• Financial Services Operations Segment

Operating income from Toyota's financial services operations decreased by ¥72.0 billion, or 45.4%, to ¥86.5 billion during fiscal 2008 compared with the prior year. This decrease is primarily due to an increase in valuation losses on interest rate swaps stated at fair value, partially offset by the impact of a higher volume of financing activities.

• All Other Operations Segment

Operating income from Toyota's other businesses decreased by ¥6.6 billion, or 16.6% to ¥33.0 billion during fiscal 2008 compared with the prior year.

Other Income and Expenses

Interest and dividend income increased by ¥33.7 billion, or 25.6%, to ¥165.7 billion during fiscal 2008 compared with the prior year mainly due to an increase in interest income reflecting an increase in marketable securities.

Interest expense decreased by ¥3.2 billion, or 6.5%, to ¥46.1 billion during fiscal 2008 compared with the prior year due to a decrease in borrowings in the automotive operations segment.

Foreign exchange gains, net decreased by ¥23.8 billion, or 72.2%, to ¥9.2 billion during fiscal 2008 compared with the prior year. Foreign exchange gains and losses include the differences between the value of foreign currency denominated sales translated at prevailing exchange rates and the value of the sales amounts settled during the year, including those settled using forward foreign currency exchange contracts.

Other income, net increased by ¥9.9 billion, or 35.1%, to ¥38.1 billion during fiscal 2008 compared with the prior year.

Income Taxes

The provision for income taxes increased by ¥13.2 billion, or 1.5%, to ¥911.5 billion during fiscal 2008 compared with the prior year primarily due to the increase in income before income taxes. The effective tax rate for fiscal 2008 remained relatively unchanged compared to the rate for fiscal 2007.

Minority Interest in Consolidated Subsidiaries and Equity in Earnings of Affiliated Companies

Minority interest in consolidated subsidiaries increased by ¥28.3 billion, or 56.9%, to ¥78.0 billion during fiscal 2008 compared with the prior year. This increase was mainly due to an increase in net income attributable to favorable results of operations at consolidated subsidiaries.

Equity in earnings of affiliated companies during fiscal 2008 increased by ¥60.6 billion, or 28.9%, to ¥270.1 billion compared with the prior year. This increase was mainly due to an increase in net income attributable to favorable results of operations at the affiliated companies.

Net Income

Toyota's net income increased by ¥73.8 billion, or 4.5%, to ¥1,717.8 billion during fiscal 2008 compared with the prior year.

Other Comprehensive Income and Loss

Other comprehensive income decreased by ¥1,115.5 billion, to losses of ¥942.5 billion for fiscal 2008 compared with the prior year. This decrease resulted primarily from a decrease in foreign currency translation adjustments in fiscal 2008 to losses of ¥461.1 billion compared with gains of ¥130.7 billion in the prior year and a decrease in unrealized holding gains on securities in fiscal 2008 to losses of ¥347.8 billion reflecting the decline in the Japanese stock market compared with unrealized holding gains of ¥38.8 billion in the prior year.

Outlook

Toyota perceives a risk of a further downturn in the world economy during fiscal 2010 resulting from a weakened economy coupled with the financial crisis.

Although Toyota expects that the automotive market is expected to expand over the medium- to long-term particularly in resource-rich countries and emerging countries, the automotive market is currently undergoing a rapid contraction because of the worldwide economic deceleration. In addition, the competition in the automotive market is more intense globally, as shown in the fierce competition with respect to compact cars and low-price cars, and the acceleration in the development of technologies and introduction of new products while environmental awareness is growing throughout the world. For purposes of this discussion, Toyota is assuming an average exchange rate of ¥95 to the U.S. dollar and ¥125 to the euro. With the foregoing external factors in mind, Toyota expects that net revenues for fiscal 2010 will decrease compared with fiscal 2009 as a result of a decrease in vehicle unit sales and the assumed exchange rate of a stronger Japanese yen against the U.S. dollar and the euro. Factors decreasing operating income include a decrease in vehicle unit sales and the assumed exchange rate of a stronger Japanese yen against the U.S. dollar and the euro. The foregoing factors are partially offset by factors increasing operating income including cost reduction efforts and decreases in fixed costs and expenses. As a result, Toyota expects that operating loss will increase in fiscal 2010 compared with fiscal 2009. Also, Toyota expects loss before income taxes and net loss will increase in fiscal 2010. Exchange rate fluctuations can materially affect Toyota's operating results. In particular, a strengthening of the Japanese yen against the U.S. dollar can have a material adverse effect on Toyota's operating results. Please see "Operating and Financial Review and Prospects—Operating Results—Overview—Currency Fluctuations." for further discussion.

The foregoing statements are forward-looking statements based upon Toyota's management's assumptions and beliefs regarding exchange rates, market demand for Toyota's products, economic conditions and others. Please see "Cautionary Statement Concerning Forward-Looking Statements". Toyota's actual results of operations could vary significantly from those described above as a result of unanticipated changes in the factors described above or other factors, including those described in "Risk Factors".

Liquidity and Capital Resources

Historically, Toyota has funded its capital expenditures and research and development activities primarily through cash generated by operations. In fiscal 2009, cash generated by operations decreased due to a decrease in vehicle unit sales that was attributed to the rapid contraction of the automotive market. Therefore, Toyota funded cash partially through additional loans and issuance of notes.

In fiscal 2010, Toyota expects to sufficiently fund its capital expenditures and research and development activities primarily through cash and cash equivalents on hand, cash generated by operations, loans and issuance of notes. Toyota will use its funds for the development of environment technologies, maintenance and replacement of manufacturing facilities, and the introduction of new products. See "Information on the Company—Business Overview—Capital Expenditures and Divestitures" in Toyota's annual report on Form 20-F for information regarding Toyota's material capital expenditures and divestitures for fiscal 2007, 2008 and 2009, and information concerning Toyota's principal capital expenditures and divestitures currently in progress.

Toyota funds its financing programs for customers and dealers, including loans and leasing programs, from both cash generated by operations and borrowings by its finance subsidiaries. Toyota seeks to expand its ability to raise funds locally in markets throughout the world by expanding its network of finance subsidiaries.

Net cash provided by operating activities was ¥1,476.9 billion for fiscal 2009, compared with ¥2,981.6 billion for the prior year. The decrease in net cash provided by operating activities resulted primarily from a decrease in cash collection received from sale of products due to a decrease in net revenue for the automotive operations, partially offset by a decrease in cash payments for cost of products sold within the automotive operations and a decrease in cash payments for income taxes.

Net cash used in investing activities was ¥1,230.2 billion for fiscal 2009, compared with ¥3,874.8 billion for the prior year. The decrease in net cash used in investing activities resulted primarily from a decrease in additions to finance receivables, a decrease in purchases of marketable securities and security investments, and an increase in proceeds from sales of marketable securities and security investments.

Net cash provided by financing activities was ¥698.8 billion for fiscal 2009, compared with ¥706.1 billion for the prior year. The decrease in net cash provided by financing activities resulted primarily from an increase in payments of long-term debt, partially offset by a decrease in repurchase of common stock.

Total capital expenditures for property, plant and equipment, excluding vehicles and equipment on operating leases, were ¥1,364.5 billion during fiscal 2009, a decrease of 7.8% over the ¥1,480.5 billion in total capital expenditures from the prior year. The decrease in capital expenditures resulted primarily from a decrease in investments by subsidiaries especially located in Asia and North America.

Total expenditures for vehicles and equipment on operating leases were ¥960.3 billion during fiscal 2009, a decrease of 24.9% over the ¥1,279.4 billion in expenditures from the prior year. The decrease in expenditures for vehicles and equipment on operating leases resulted primarily from a decrease in investments in the financial services operations.

Toyota expects investments in property, plant and equipment, excluding vehicles and equipment on operating leases, to be approximately ¥830.0 billion during fiscal 2010. Toyota's expected investments include approximately ¥530.0 billion in Japan, ¥140.0 billion in North America, ¥50.0 billion in Europe, ¥70.0 billion in Asia and ¥40.0 billion in Other.

Based on current available information, Toyota does not expect environmental matters to have a material impact on its financial position, results of operations, liquidity or cash flows during fiscal 2010. However, there exists a substantial amount of uncertainty with respect to Toyota's obligations under current and future environment regulations as described in "Information on the Company—Business Overview—Governmental Regulations, Environmental and Safety Standards" in Toyota's annual report on Form 20-F.

Cash and cash equivalents were ¥2,444.2 billion as of March 31, 2009. Most of Toyota's cash and cash equivalents are held in Japanese yen and in U.S. dollars. In addition, time deposits were ¥45.1 billion and marketable securities were ¥495.3 billion as of March 31, 2009.

Liquid assets, which Toyota defines as cash and cash equivalents, time deposits, marketable debt securities and its investment in monetary trust funds, decreased during fiscal 2009 by ¥251.8 billion, or 5.6%, to ¥4,229.1 billion.

Trade accounts and notes receivable, net decreased during fiscal 2009 by ¥647.5 billion, or 31.7%, to ¥1,392.7 billion, reflecting the impacts of decreased revenues and fluctuations in foreign currency translation rates.

Inventories decreased during fiscal 2009 by ¥366.4 billion, or 20.1%, to ¥1,459.3 billion, reflecting the impacts of decreased volumes and fluctuations in foreign currency translation rates.

Total finance receivables, net decreased during fiscal 2009 by ¥728.9 billion, or 7.1%, to ¥9,546.9 billion. The decrease in finance receivables, net resulted from a decrease in wholesale and other dealer loans and the impact of fluctuations in foreign currency

translation rates. As of March 31, 2009, finance receivables were geographically distributed as follows: in North America 63.6%, in Japan 14.1%, in Europe 11.0%, in Asia 3.8% and in Other 7.5%. Although Toyota maintains programs to sell finance receivables through special purpose entities, no sales of finance receivables were made during fiscal 2009.

Marketable securities and other securities investments, including those included in current assets, decreased during fiscal 2009 by ¥1,373.2 billion, or 34.6%, primarily reflecting sales of marketable securities and security investments, and a decrease in the fair values of these securities and investments.

Property, plant and equipment decreased during fiscal 2009 by ¥410.3 billion, or 5.3%, primarily reflecting the impacts of depreciation charges during the year and fluctuations in foreign currency translation rates, partially offset by the capital expenditures.

Accounts payable decreased during fiscal 2009 by ¥913.3 billion, or 41.3%, reflecting the impacts of a decrease in trading volumes and fluctuations in foreign currency translation rates.

Accrued expenses decreased during fiscal 2009 by ¥66.2 billion, or 4.1%, reflecting the impact of fluctuations in foreign currency translation rates.

Income taxes payable decreased during fiscal 2009 by ¥254.2 billion, or 83.2%, primarily as a result of a decrease in income before income taxes.

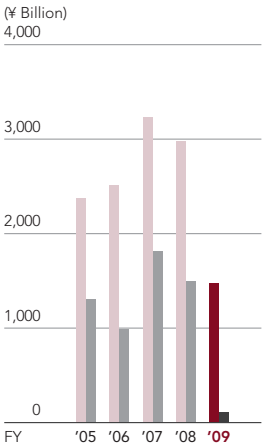
Toyota's total borrowings increased during fiscal 2009 by ¥408.5 billion, or 3.3%. Toyota's short-term borrowings consist of loans with a weighted-average interest rate of 2.44% and commercial paper with a weighted-average interest rate of 1.52%. Short-term borrowings increased during fiscal 2009 by ¥64.9 billion, or 1.8%, to ¥3,617.6 billion. Toyota's long-term debt consists of unsecured and secured loans, medium-term notes, unsecured notes and long-term capital lease obligations with interest rates ranging from 0.17% to 31.50%, and maturity dates ranging from 2009 to 2047. The current portion of long-term debt increased during fiscal 2009 by ¥24.1 billion, or 0.9%, to ¥2,699.5 billion and the non-current portion increased by ¥319.5 billion, or 5.3%, to ¥6,301.4 billion. The increase in total borrowings primarily resulted from funding obtained to maintain sufficient liquidity. As of March 31, 2009, approximately 28% of long-term debt was denominated in U.S. dollars, 21% in Japanese yen, 15% in euros and 36% in other currencies. Toyota hedges fixed rate exposure by entering into interest rate swaps. There are no material seasonal variations in Toyota's borrowings requirements.

As of March 31, 2009, Toyota's total interest bearing debt was 125.4% of total shareholders' equity, compared to 102.9% as of March 31, 2008.

Toyota's long-term debt was rated "AA" by Standard & Poor's Ratings Group, "Aa1" by Moody's Investors Services and "AAA" by Rating and Investment Information, Inc. as of May 31, 2009. A credit rating is not a recommendation to buy, sell or hold securities. A credit rating may be subject to withdrawal or revision at any time. Each rating should be evaluated separately of any other rating.

Toyota's unfunded pension liabilities increased during fiscal 2009 by ¥242.6 billion, or 59.0%, to ¥653.7 billion. The unfunded

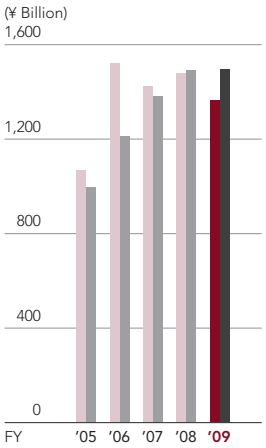
Net Cash Provided by Operating Activities and Free Cash Flow*



Net cash provided by operating activities
Free cash flow

* (Net cash provided by operating activities) – (Capital expenditures for property, plant and equipment, excluding vehicles and equipment on operating leases)

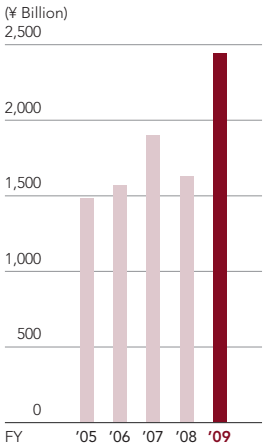
Capital Expenditures for Property, Plant and Equipment* and Depreciation



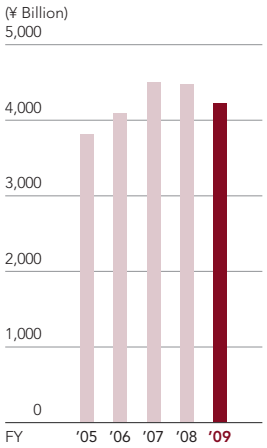
Capital expenditures
Depreciation

* Excluding vehicles and equipment on operating leases

Cash and Cash Equivalents at End of Year



Liquid Assets*



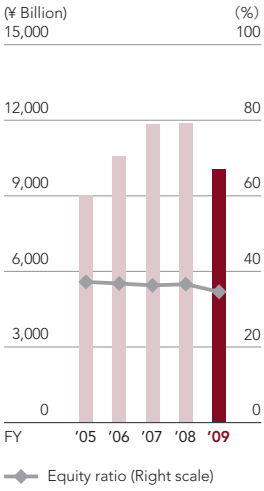
* Cash and cash equivalents, time deposits, marketable debt securities and investment in monetary trust funds

pension liabilities relate primarily to the parent company and its Japanese subsidiaries. The unfunded amounts will be funded through future cash contributions by Toyota or in some cases will be funded on the retirement date of each covered employee. The unfunded pension liabilities increased in fiscal 2009 compared to the prior year primarily due to a decrease in the market value of plan assets. See note 19 to the consolidated financial statements for further discussion.

Toyota's treasury policy is to maintain controls on all exposures, to adhere to stringent counterparty credit standards, and to actively monitor marketplace exposures. Toyota remains centralized, and is pursuing global efficiency of its financial services operations through Toyota Financial Services Corporation.

The key element of Toyota's financial policy is maintaining a strong financial position that will allow Toyota to fund its research and development initiatives, capital expenditures and financing operations on a cost effective basis even if earnings experience short-term fluctuations. Toyota believes that it maintains sufficient liquidity for its present requirements and that by maintaining its high credit ratings, it will continue to be able to access funds from external sources in large amounts and at relatively low costs. Toyota's ability to maintain its high credit ratings is subject to a number of factors, some of which are not within Toyota's control. These factors include general economic conditions in Japan and the other major markets in which Toyota does business, as well as Toyota's successful implementation of its business strategy.

Shareholders' Equity and Equity Ratio



Off-Balance Sheet Arrangements

Toyota uses its securitization program as part of its funding for its financial services operations. See note 7 to the consolidated financial statements regarding the impact of the securitization program on the consolidated financial statements.

Lending Commitments

Credit Facilities with Credit Card Holders

Toyota's financial services operation issues credit cards to customers. As customary for credit card businesses, Toyota maintains credit facilities with holders of credit cards issued by Toyota. These facilities are used upon each holders' requests up to the limits established on an individual holder's basis. Although loans made to customers through this facility are not secured, for the purposes of minimizing credit risks and of appropriately establishing credit limits for each individual credit card holder, Toyota employs its own risk management policy which includes an analysis of information provided by financial institutions in alliance with Toyota. Toyota periodically reviews and revises, as appropriate, these credit limits. Outstanding credit facilities with credit card holders were ¥1,816.7 billion as of March 31, 2009.

Credit Facilities with Dealers

Toyota's financial services operation maintains credit facilities with dealers. These credit facilities may be used for business acquisitions, facilities refurbishment, real estate purchases, and working capital requirements. These loans are typically collateralized with liens on real estate, vehicle inventory, and/or other dealership assets, as appropriate. Toyota obtains a personal guarantee from the dealer or corporate guarantee from the dealership when deemed prudent. Although the loans are typically collateralized or guaranteed, the value of the underlying collateral or guarantees may not be sufficient to cover Toyota's exposure under such agreements. Toyota prices the credit facilities according to the risks assumed in entering into the credit facility. Toyota's financial services operation also provides financing to various multi-franchise dealer organizations, referred to as dealer groups, often as part of a lending consortium, for wholesale inventory financing, business acquisitions, facilities refurbishment, real estate purchases, and working capital requirements. Toyota's outstanding credit facilities with dealers totaled ¥1,702.3 billion as of March 31, 2009.

Guarantees

Toyota enters into certain guarantee contracts with its dealers to guarantee customers' payments of their installment payables that arise from installment contracts between customers and Toyota dealers, as and when requested by Toyota dealers. Guarantee periods are set to match the maturity of installment payments, and as of March 31, 2009, ranged from one month to 35 years. However, they are generally shorter than the useful lives of products sold. Toyota is required to execute its guarantee primarily when customers are unable to make required payments.

The maximum potential amount of future payments as of March 31, 2009 is ¥1,570.4 billion. Liabilities for these guarantees of ¥5.3 billion have been provided as of March 31, 2009. Under these guarantee contracts, Toyota is entitled to recover any amounts paid by it from the customers whose obligations it guaranteed.

Contractual Obligations and Commitments

For information regarding debt obligations, capital lease obligations, operating lease obligations and other obligations, including amounts maturing in each of the next five years, see notes 13, 22 and 23 to the consolidated financial statements. In addition, as part of Toyota's normal business practices, Toyota enters into long-term arrangements with suppliers for purchases of certain raw materials, components and services. These arrangements may contain fixed/minimum quantity purchase requirements. Toyota enters into such arrangements to facilitate an adequate supply of these materials and services.

The following tables summarize Toyota's contractual obligations and commercial commitments as of March 31, 2009:

	Yen in millions				
		Payments Due by Period			
	Total	Less than 1 year	1 to 3 years	3 to 5 years	5 years and after
Contractual Obligations:					
Short-term borrowings (note 13)					
Loans	¥ 1,115,122	¥1,115,122	¥ —	¥ —	¥ —
Commercial paper	2,502,550	2,502,550	—	—	—
Long-term debt* (note 13)	8,949,615	2,688,324	3,589,350	1,261,893	1,410,048
Capital lease obligations (note 13)	51,366	11,188	25,272	2,535	12,371
Non-cancelable operating lease obligations (note 22)	54,161	11,567	15,457	9,503	17,634
Commitments for the purchase of property, plant and other assets (note 23)	110,874	50,200	34,275	10,908	15,491
Total	¥12,783,688	¥6,378,951	¥3,664,354	¥1,284,839	¥1,455,544

* "Long-term debt" represents future principal payments.

Toyota is unable to make reasonable estimates of the period of cash settlement with respect to liabilities recognized for uncertain tax benefits, and accordingly such liabilities are excluded from the table above. See note 16 to the consolidated financial statements for further discussion.

Toyota expects to contribute ¥95,270 million to its pension plans in fiscal 2010.

	Yen in millions				
	Total Amounts Committed	Amount of Commitment Expiration Per Period			
		Less than 1 year	1 to 3 years	3 to 5 years	5 years and after
Commercial Commitments:					
Maximum potential exposure to guarantees given in the ordinary course of business (note 23)	¥1,570,497	¥446,638	¥724,503	¥314,472	¥84,884
Total Commercial Commitments	¥1,570,497	¥446,638	¥724,503	¥314,472	¥84,884

Related Party Transactions

Toyota does not have any significant related party transactions other than transactions with affiliated companies in the ordinary course of business. See note 12 to the consolidated financial statements for further discussion.

Legislation Regarding End-of-Life Vehicles

In October 2000, the European Union enforced a directive that requires member states to promulgate regulations implementing the following:

- manufacturers shall bear all or a significant part of the costs for taking back end-of-life vehicles put on the market after July 1, 2002 and dismantling and recycling those vehicles. Beginning January 1, 2007, this requirement will also be applicable to vehicles put on the market before July 1, 2002;
- manufacturers may not use certain hazardous materials in vehicles sold after July 2003;
- vehicles type-approved and put on the market 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 recoverable to a minimum of 95% by weight per vehicle; and
- end-of-life vehicles must meet actual re-use of 80% and re-use as material or energy of 85%, respectively, of vehicle weight by 2006, rising to 85% and 95%, respectively, by 2015.

See note 23 to the consolidated financial statements for further discussion.

Recent Accounting Pronouncements in the United States

In December 2007, FASB issued FAS No. 141(R), *Business Combinations* ("FAS 141(R)"). FAS 141(R) establishes principles and requirements for how the acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, any noncontrolling interest, and the goodwill acquired in a business combination or a gain from a bargain purchase. Also, FAS 141(R) provides several new disclosure requirements that enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141(R) is effective to business combinations on and after the beginning of fiscal year beginning on or after December 15, 2008. The impact of adopting FAS 141(R) on Toyota's consolidated financial statements will depend on the nature and significance of any acquisitions in the future period.

In December 2007, FASB issued FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51* ("FAS 160"). FAS 160 amends the guidance in Accounting Research Bulletins No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. FAS 160 is effective for fiscal year, and interim period within the fiscal year, beginning on or after December 15, 2008. The presentation and disclosure requirements shall be applied retrospectively for all periods presented in the consolidated financial statements in which FAS 160 is initially applied. Management is evaluating the impact of adopting FAS 160 on Toyota's consolidated financial statements.

In December 2008, FASB issued FASB Staff Position No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets* ("FSP FAS 132(R)-1"). FSP FAS 132(R)-1 requires additional disclosures about postretirement benefit plan assets including investment policies and strategies, categories of plan assets, fair value measurements of plan assets, and significant concentrations of risk. FSP FAS 132(R)-1 is effective for fiscal year ending after December 15, 2009. Management does not expect this Statement to have a material impact on Toyota's consolidated financial statements.

In April 2009, FASB issued FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ("FSP FAS 115-2 and FAS 124-2"). FSP FAS 115-2 and FAS 124-2 revises the recognition and presentation requirements for other-than-temporary impairments of debt securities, and contains additional disclosure requirements related to debt and equity securities. FSP FAS 115-2 and FAS 124-2 is effective for interim period and fiscal year ending after June 15, 2009. Management does not expect this Statement to have a material impact on Toyota's consolidated financial statements.

In May 2009, FASB issued FAS No. 165, *Subsequent Events* ("FAS 165"). FAS 165 is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. FAS 165 is effective for interim period or fiscal year ending after June 15, 2009. Management does not expect this Statement to have a material impact on Toyota's consolidated financial statements.

Critical Accounting Estimates

The consolidated financial statements of Toyota are prepared in conformity with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires the use of estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Toyota believes that of its significant accounting policies, the following may involve a higher degree of judgments, estimates and assumptions:

Product Warranty

Toyota generally warrants its products against certain manufacturing and other defects. Product warranties are provided for specific periods of time and/or usage of the product and vary depending upon the nature of the product, the geographic location of the sale and other factors. All product warranties are consistent with commercial practices. Toyota includes a provision for estimated product warranty costs as a component of cost of sales at the time the related sale is recognized. The accrued warranty costs represent management's best estimate at the time of sale of the total costs that Toyota will incur to repair or replace product parts that fail while still under warranty. The amount of accrued estimated warranty costs is primarily based on historical experience of product failures as well as current information on repair costs. The amount of warranty costs accrued also contains an estimate of warranty claim recoveries to be received from suppliers. The foregoing evaluations are inherently uncertain, as they require material estimates and some products' warranties extend for several years. Consequently, actual warranty costs will differ from the estimated amounts and could require additional warranty provisions. If these factors require a significant increase in Toyota's accrued estimated warranty costs, it would negatively affect future operating results of the automotive operations.

Allowance for Doubtful Accounts and Credit Losses

• Natures of Estimates and Assumptions

Sales financing and finance lease receivables consist of retail installment sales contracts secured by passenger cars and commercial vehicles. Collectibility risks include consumer and dealer insolvencies and insufficient collateral values (less costs to sell) to realize the full carrying values of these receivables. As a matter of policy, Toyota maintains an allowance for doubtful accounts and credit losses representing management's estimate of the amount of asset impairment in the portfolios of finance, trade and other receivables. Toyota determines the allowance for doubtful accounts and credit losses based on a systematic, ongoing review and evaluation performed as part of the credit-risk evaluation process, historical loss experience, the size and composition of the portfolios, current economic events and conditions, the estimated fair value, adequacy of collateral and other pertinent factors. This evaluation is inherently judgmental and requires material estimates, including the amounts and timing of future cash flows expected to be received, which may be susceptible to significant change. Although management considers the allowance for doubtful accounts and credit losses to be adequate based on information currently available, additional provisions may be necessary due to (i) changes in management estimates and assumptions about asset impairments, (ii) information that indicates changes in expected future cash flows, or (iii) changes in economic and other events and conditions. To the extent that sales incentives remain an integral part of sales promotion with the effect of reducing new vehicle prices, resale prices of used vehicles and, correspondingly, the collateral value of Toyota's sales financing and finance lease receivables could experience further downward pressure. If these factors require a significant increase in Toyota's allowance for doubtful accounts and credit losses, it could negatively affect future operating results of the financial services operations. The level of credit losses, which has a greater impact on Toyota's results of operations, is influenced primarily by two factors: frequency of occurrence and severity of loss. For evaluation purposes, exposures to credit loss are segmented into the two primary categories of "consumer" and "dealer". Toyota's consumer portfolio consists of smaller balances that are homogenous retail finance receivables and lease earning assets. The dealer portfolio consists of wholesale and other dealer financing receivables. The overall allowance for credit losses is evaluated at least quarterly, considering a variety of assumptions and factors to determine whether reserves are considered adequate to cover probable losses.

• Sensitivity Analysis

The level of credit losses, which could significantly impact Toyota's results of operations, is influenced primarily by two factors: frequency of occurrence and severity of loss. The overall allowance for credit losses is evaluated at least quarterly, considering a variety of assumptions and factors to determine whether reserves are considered adequate to cover probable losses. The following table illustrates the effect of an assumed change in expected severity of loss, which we believe is one of the key critical estimates for determining the allowance for credit losses, assuming all other assumptions are held consistent. The table below represents the impact on the allowance for credit losses in Toyota's financial services operations as any change impacts most significantly on the financial services operations.

	Yen in millions
	Effect on the allowance for credit losses as of March 31, 2009
10 percent increase in expected severity of loss ···	¥16,404

Investment in Operating Leases

• Natures of Estimates and Assumptions

Vehicles on operating leases, where Toyota is the lessor, are valued at cost and depreciated over their estimated useful lives using the straight-line method to their estimated residual values. Toyota utilizes industry published information and its own historical experience to determine estimated residual values for these vehicles. Toyota evaluates the recoverability of the carrying values of its leased vehicles for impairment when there are indications of declines in residual values, and if impaired, Toyota recognizes an allowance for its residual values. In addition, to the extent that sales incentives remain an integral part of sales promotion with the effect of reducing new vehicle prices, resale prices of used vehicles and, correspondingly, the fair value of Toyota's leased vehicles could be subject to downward pressure. If resale prices of used vehicles decline, future operating results of the financial services operations are likely to be adversely affected by incremental charges to reduce estimated residual values. Throughout the life of the lease, management performs periodic evaluations of estimated end-of-term market values to determine whether estimates used in the determination of the contractual residual value are still considered reasonable. Factors affecting the estimated residual value at lease maturity include, but are not limited to, new vehicle incentive programs, new vehicle pricing, used vehicle supply, projected vehicle return rates, and projected loss severity. The vehicle return rate represents the number of leased vehicles returned at contract maturity and sold by Toyota during the period as a percentage of the number of lease contracts that, as of their origination dates, were scheduled to mature in the same period. A higher rate of vehicle returns exposes Toyota to higher potential losses incurred at lease termination. Severity of loss is the extent to which the end-of-term market value of a lease is less than its carrying value at lease end.

• Sensitivity Analysis

The following table illustrates the effect of an assumed change in the vehicle return rate, which we believe is one of the critical estimates, in determining the residual value losses, holding all other assumptions constant. The following table represents the impact on the residual value losses in Toyota's financial services operations as those changes have a significant impact on financing operations.

	Yen in millions
	Effect on the residual value losses over the remaining terms of the operating leases on and after April 1, 2009
1 percent increase in vehicle return rate ·····	¥1,965

Impairment of Long-Lived Assets

Toyota periodically reviews the carrying value of its long-lived assets held and used and assets to be disposed of, including goodwill and other intangible assets, when events and circumstances warrant such a review. This review is performed using estimates of future cash flows. If the carrying value of a long-lived asset is considered impaired, an impairment charge is recorded for the amount by which the carrying value of the long-lived asset exceeds its fair value. Management believes that the estimates of future cash flows and fair values are reasonable. However, changes in estimates of such cash flows and fair values would affect the evaluations and negatively affect future operating results of the automotive operations.

Pension Costs and Obligations

• Natures of Estimates and Assumptions

Pension costs and obligations are dependent on assumptions used in calculating such amounts. These assumptions include discount rates, benefits earned, interest costs, expected rate of return on plan assets, mortality rates and other factors. Actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect recognized expense in future periods. While management believes that the assumptions used are appropriate, differences in actual experience or changes in assumptions may affect Toyota's pension costs and obligations.

The two most critical assumptions impacting the calculation of pension costs and obligations are the discount rates and the expected rates of returns on plan assets. Toyota determines the discount rates mainly based on the rates of high quality fixed income bonds or fixed income governmental bonds currently available and expected to be available during the period to maturity of the defined benefit pension plans. Toyota determines the expected rates of return for pension assets after con-

sidering several applicable factors including, the composition of plan assets held, assumed risks of asset management, historical results of the returns on plan assets, Toyota's principal policy for plan asset management, and forecasted market conditions. A weighted-average discount rate of 2.8% and a weighted-average expected rate of return on plan assets of 3.6% are the results of assumptions used for the various pension plans in calculating Toyota's consolidated pension costs for fiscal 2009. Also, a weighted-average discount rate of 2.8% is the result of assumption used for the various pension plans in calculating Toyota's consolidated pension obligations for fiscal 2009.

• Sensitivity Analysis

The following table illustrates the effects of assumed changes in weighted-average discount rate and the weighted-average expected rate of return on plan assets, which we believe are critical estimates in determining pension costs and obligations, assuming all other assumptions are consistent.

	Yen in millions	
	Effect on pre-tax income for the year ending March 31, 2010	Effect on PBO as of March 31, 2009
Discount rates		
0.5% decrease	¥(10,749)	¥120,771
0.5% increase	10,197	(111,712)
Expected rate of return on plan assets		
0.5% decrease	¥(4,895)	
0.5% increase	4,895	

Derivatives and Other Contracts at Fair Value

Toyota uses derivatives in the normal course of business to manage its exposure to foreign currency exchange rates and interest rates. The accounting is complex and continues to evolve. In addition, there are significant judgments and estimates involved in the estimating of fair value in the absence of quoted market values. These estimates are based upon valuation methodologies deemed appropriate under the circumstances. However, the use of different assumptions may have a material effect on the estimated fair value amounts.

Marketable Securities and Investments in Affiliated Companies

Toyota's accounting policy is to record a write-down of such investments to net realizable value when a decline in fair value below the carrying value is other-than-temporary. In determining if a decline in value is other-than-temporary, Toyota considers the length of time and the extent to which the fair value has been less than the carrying value, the financial condition and prospects of the company and Toyota's ability and intent to retain its investment in the company for a period of time sufficient to allow for any anticipated recovery in fair value.

Market Risk Disclosures

Toyota is exposed to market risk from changes in foreign currency exchange rates, interest rates, certain commodity and equity security prices. In order to manage the risk arising from changes in foreign currency exchange rates and interest rates, Toyota enters into a variety of derivative financial instruments.

A description of Toyota's accounting policies for derivative instruments is included in note 2 to the consolidated financial statements and further disclosure is provided in notes 20 and 21 to the consolidated financial statements.

Toyota monitors and manages these financial exposures as an integral part of its overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effects on Toyota's operating results.

The financial instruments included in the market risk analysis consist of all of Toyota's cash and cash equivalents, marketable securities, finance receivables, securities investments, long-term and short-term debt and all derivative financial instruments. Toyota's portfolio of derivative financial instruments consists of forward foreign currency exchange contracts, foreign currency options, interest rate swaps, interest rate currency swap agreements and interest rate options. Anticipated transactions denominated in foreign currencies that are covered by Toyota's derivative hedging are not included in the market risk analysis. Although operating leases are not required to be included, Toyota has included these instruments in determining interest rate risk.

Foreign Currency Exchange Rate Risk

Toyota has foreign currency exposures related to buying, selling and financing in currencies other than the local currencies in which it operates. Toyota is exposed to foreign currency risk related to future earnings or assets and liabilities that are exposed due to operating cash flows and various financial instruments that are denominated in foreign currencies. Toyota's most significant foreign currency exposures relate to the U.S. dollar and the euro.

Toyota uses a value-at-risk analysis ("VAR") to evaluate its exposure to changes in foreign currency exchange rates. The VAR of the combined foreign exchange position represents a potential loss in pre-tax earnings that was estimated to be ¥44.3 billion as of March 31, 2008 and ¥114.1 billion as of March 31, 2009. Based on Toyota's overall currency exposure (including derivative positions), the risk during the year ended March 31, 2009 to pre-tax cash flow from currency movements was on average ¥126.0 billion, with a high of ¥158.9 billion and a low of ¥97.1 billion.

The VAR was estimated by using a Monte Carlo Simulation Method and assumed 95% confidence level on the realization date and a 10-day holding period.

Interest Rate Risk

Toyota is subject to market risk from exposures to changes in interest rates based on its financing, investing and cash management activities. Toyota enters into various financial instrument transactions to maintain the desired level of exposure to the risk of interest rate fluctuations and to minimize interest expense. The potential decrease in fair value resulting from a hypothetical 100 basis point upward shift in interest rates would be approximately ¥110.6 billion as of March 31, 2008 and ¥55.8 billion as of March 31, 2009.

There are certain shortcomings inherent to the sensitivity analyses presented. The model assumes that interest rate changes are instantaneous parallel shifts in the yield curve. However, in reality, changes are rarely instantaneous. Although certain assets and liabilities may have similar maturities or periods to repricing, they may not react correspondingly to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate with changes in market interest rates, while interest rates on other types of assets may lag behind changes in market rates. Finance receivables are less susceptible to prepayments when interest rates change and, as a result, Toyota's model does not address prepayment risk for automotive related finance receivables. However, in the event of a change in interest rates, actual loan prepayments may deviate significantly from the assumptions used in the model.

Commodity Price Risk

Commodity price risk is the possibility of higher or lower costs due to changes in the prices of commodities, such as nonferrous alloys (e.g., aluminum), precious metals (e.g., palladium, platinum and rhodium) and ferrous alloys, which Toyota uses in the production of motor vehicles. Toyota does not use derivative instruments to hedge the price risk associated with the purchase of those commodities and controls its commodity price risk by holding minimum stock levels.

Equity Price Risk

Toyota holds investments in various available-for-sale equity securities that are subject to price risk. The fair value of available-for-sale equity securities was ¥1,177.0 billion as of March 31, 2008 and ¥798.2 billion as of March 31, 2009. The potential change in the fair value of these investments, assuming a 10% change in prices, would be approximately ¥117.7 billion as of March 31, 2008 and ¥79.8 billion as of March 31, 2009.