Toyota’s Global Strategy
Attaining global growth and improved efficiency

Toyota Motor Corporation
October 21, 2003
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Fujio Cho
President
Toyota Motor Corporation
Agenda

Part Ⅰ  TOYOTA NOW
Global Manufacturing and Marketing in 2002

Part Ⅱ  TOYOTA NEXT
a. Sales Strategy – Regional Strategies:
   North America, Europe, Asia, China, and Japan
b. Building Global Development and Optimum Production Systems
c. Future Growth through Market Creation

Part Ⅲ  Financial Strategy
Global Manufacturing and Marketing in 2002

Production and Sales

Number of vehicles (thousands of units)

- Overseas production
- Overseas sales
- Domestic production
- Domestic sales

* Total units including Toyota/Lexus, Daihatsu, and Hino brands
Global Manufacturing and Marketing in 2002

Overseas Production and Operating Income

- **Operating income (US GAAP)*2**
- **Overseas production volume (calendar year) *1**
- **Exchange rate (yen/dollar)**

*1. Output including Toyota, Daihatsu, and Hino brands

*2. FY92-96 : Japan GAAP

- **131 yen/$**
- **122 yen/$**
- **12,715,000 units**
- **1,271 billion yen**
- **2,175 billion yen**
Part Ⅱ TOYOTA NEXT

Attaining global growth and improved efficiency
a. Sales Strategy: North America

Steadily expanding sales towards the 2 million target

Number of vehicles (thousands of units)

- Units manufactured in North America
- Units imported from Japan

- Target for 2003–2004
- Projection for 2005

* Market share in the US (%)

Expanding local production
a. Sales Strategy: North America

Creating markets through new product launches

The U.S. market:

- **Passenger vehicle market**
  - Corolla
  - Camry
  - Scion (from June 2003)
  - Next-generation Prius (from October 2003)
  - No. 1 in 2002 passenger vehicle sales

- **Commercial vehicle (light truck) market**
  - Lexus RX330 (from March 2003)
  - Tundra Double Cab (scheduled launch: fall 2003)

Number of vehicles (millions of units)

1990 2002
a. Sales Strategy: Europe

Achieving 800 thousand sales target ahead of time
Renewal of strategic core models completed

European core models

Number of vehicles (thousands of units)

Market share (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Toyota sales units (thousands of units)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>2.9%</td>
</tr>
<tr>
<td>1999</td>
<td>2.9%</td>
</tr>
<tr>
<td>2000</td>
<td>3.4%</td>
</tr>
<tr>
<td>2001</td>
<td>3.9%</td>
</tr>
<tr>
<td>2002</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

Target for 2005: 800

Toyota sales units
Market share

Toyota
a. Sales Strategy: Europe

**Improve products (diesel-powered vehicles)**

- Expanding lineup for diesel-powered vehicles
- Expanding local production of diesel engines
- DPNR launch

**Diesel Engines**
Rapid expansion of local production
From Jan.03: TMUK 50,000 units
TMMF 30,000 units
From 2005: Poland 150,000 units

**DPNR/launch in 2003**
DPNR : Diesel Particulate
- NOx Reduction system

**Diesel sales ratio**

- 1998: 16%
- 2001: 22%
- 2002: 31%*
a. Sales Strategy: Asia

Establish a solid position as a top-brand in major markets

- Expand faster than the market

Number of vehicles (thousands of units)

Year-on-year growth (%)

Projection for 2005

Toyota sales units
Year-on-year growth: market
Year-on-year growth: Toyota

* excluding China
a. Sales Strategy: China

Manufacturing and marketing to be strengthened in response to market growth

- Establish full product lineup
- Establish Toyota brand

### Product lineup
- **Luxury SUV**: Land Cruiser/Prado
- **VIOS**
- **Daihatsu (compact)**
- **Compact**: Vios, Corolla
- **Large & luxury**: Crown

### Production capacity
- **2002**: 50,000 units/Year
- **2003**: 25,000 units/Year → 115,000 units/Year
- **2004**: 30,000 units/Year
- **2005**: 100,000 units/Year
- **2006**
- **2007**
- **2008**: Several hundred thousand units/Year
- **2009**
- **2010**
a. Sales Strategy: Japan

Domestic market and Toyota sales

- Toyota’s share: maintaining and expanding high-level over 40%

Number of vehicles (thousands of units)

- Total market excluding minivehicles
- Toyota’s share (%)

Projection for 2005
### a. Sales Strategy: Japan

#### Toyota Sales by Category (excluding minivehicles)

**Toyota’s share (overall):**

- **January to September, 2003:** 42.1% (+0.1%*)
- (*changes year-on-year)

<table>
<thead>
<tr>
<th>Category</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 Box Large &amp; Luxury</td>
<td>76.5</td>
</tr>
<tr>
<td>Minivan, Cab Wagon</td>
<td>57.2</td>
</tr>
<tr>
<td>2 BOX</td>
<td>37.7</td>
</tr>
</tbody>
</table>

- **Toyota’s share: for the year 2002**
- **Toyota’s share: January to September, 2003**
a. Sales Strategy: Japan

Reorganization of sales channel and Lexus introduction
- Lexus brand: New introduction
- Toyota brand: 5 → 4 channels

Future positioning

Toyota dealers: Luxury vehicles
Toyopet dealers: Medium-sized vehicles
Corolla dealers: Compact vehicles

New Netz:
Develop new market segment
(from spring of 2004)

From August 2005, 180 dealers / 4 models

Tradition

Price range

Advanced / originality

Areas to be changed
b. Building Global Development and Optimum Production Systems

Pursue optimum product lineups by region

- **Core models**
  - Camry
  - Corolla
  - Yaris/Vitz
  - Hilux
  - Avensis

- **Region-specific models**
  - Tacoma
  - Previa/Estima

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**Note:**
- Toyota vehicles are displayed as an example of how different models can be categorized and marketed globally.
b. Building Global Development and Optimum Production Systems

Research and development system:

Global network through linkage between Japan (core technology) and regional bases (local needs)

- Toyota Technical Center in the US
- THEM R&D Group
- CALTY (Design Center in the US)
- ED2 (Design Center in France)
- Higashifuji Technical Center
- Toyota Technical Center/Design Headquarters (Head Office)

New R&D Centers in Asia and Australia (Thailand and Australia)
b. Building Global Development and Optimum Production Systems

Domestic/overseas outputs

Number of vehicles (thousands of units)

- UK plant
- Kentucky plant expansion, USA
- Canadian plant expansion
- West Virginia plant, USA
- Indiana plant, USA
- Chengdu plant, China
- French plant
- Polish plant
- Tianjin plant, China
- Indiana plant, USA
- Chengdu plant, China
- French plant
- Polish plant
- Tianjin plant, China

Expanding Overseas production
Maintaining Domestic production

* Total output including Toyota/Lexus, Daihatsu and Hino brands
b. Building Global Development and Optimum Production Systems

Strengthen production in major regions

< North America >
- New factory in Texas (from 2006)

< Europe >
- Local production expansion of engines
  - Start of production of TMMAL engines (from April 2003) and capacity expansion (from 2005)
  - TABC engine assembly (from 2005) etc.
- Capacity expansion through the first 3 work-shifts in the UK and French factories
- JV with PSA Peugeot (from 2005)

< China >
- Diesel-powered engine production at the new factory in Poland (from early 2005)
- Production in cooperation with China FAW Group (from the fall of 2003)
b. Building Global Development and Optimum Production Systems

**IMV Project** (from 2004)

A network base for manufacturing and export of pickup trucks and multipurpose vehicles.

- Consolidating production output on a global scale and creating a mutual supply network

To over 80 countries and regions

- South Africa / Argentina: Interregional production bases
- To South America
- To Europe / Africa
- Thailand: global production base
- Other Asian countries: Engines and main components production bases
- Argentina
- Japan
- Indonesia
- The Philippines

: Pickup truck / multipurpose vehicles
: Engines and main components
b. Building Global Development and Optimum Production Systems

UMR activity (Unit and Material Manufacturing Reform)

Attain “cost reductions,” “quality improvement” & global deployment through standardization and simplification

- Development ~ production preparation process
- Product structure, production facilities
- Next-generation production method

Goals:
- Lead time and costs: 50% reduction
- Quality: the world’s best

Example: Process innovation in engine development – the use of digital engineering –

1. Synchronize product and process designs
2. Verification on prototype model line and creation of data base
3. Distribute 3D solid data globally

Reduce number of initial design changes
Shorten lead time for production preparation
Reduce the man-hour of overseas support processes

Existing Process: 32 months ⚫ After innovation: 16 months
The automobile industry still holds great growth potential.
c. Future Growth through Market Creation

TECHNOLOGY DEVELOPMENT

- Nanotechnology
- Materials technology
- Biotechnology
- Energy technology

MARKETING

- Assessing customer needs
- Propose visions

Products focused on market creation

- Comfort
- Kindness
- Excitement
c. Future Growth through Market Creation

Next-generation technology development: Environment

Next-generation Prius and Next-generation hybrid system

Achieve both superior environmental and driving performance

Fuel cell hybrid vehicle
Toyota FCHV
(limited marketing launched since December 2002)
c. Future Growth through Market Creation

Next-generation technology development: Safety

Improvement of real safety performance

Passive Safety

- Earning Euro NCAP 5☆ (New Avensis)
- Addressing various types of crash situations
- Use of peripheral monitoring technology

- Radar/PreCrash safety system
  (commercialized in Japan in February 2003)

Active Safety

- Field of vision assistance
- Intelligent AFS*, etc.

The world’s first

* AFS: Adaptive Front-lighting System
c. Future Growth through Market Creation

1. Management: growth strategy
   - Speed and diversification

2. Competition: pursue efficiency
   - Optimum production and development systems
   - Continuous cost reductions

3. Value: technological innovation
   - Investments in a wide range of R&D
   - Establish global standard
   - Achieve both superior environmental and driving performance

Adapting to the markets

Market creation

Value chain
   - ITS / Finance, etc.

Passion
   - Enthusiasm and conviction

Sustainability
   - Social responsibility / building trust

Growth potential of auto industry in the diversified society

Improve customer satisfaction and realize growth
Part V Financial Strategy
Towards a long-term, stable growth
Ryuji Araki
Executive Vice President
Toyota Motor Corporation
Profit Earnings and Efficiency

Growth and targets in operating income ratio & ROE

Operating income ratio

<table>
<thead>
<tr>
<th>Year</th>
<th>ROE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY99</td>
<td>6.8%</td>
</tr>
<tr>
<td>FY00</td>
<td>7.1%</td>
</tr>
<tr>
<td>FY01</td>
<td>9.6%</td>
</tr>
<tr>
<td>FY02</td>
<td>7.8%</td>
</tr>
<tr>
<td>FY03</td>
<td>10.4%</td>
</tr>
<tr>
<td>FY04 (forecast)</td>
<td>10%</td>
</tr>
</tbody>
</table>

Target: 9%

IF: Forex rates in FY04 = Forex rates in FY03

Operational income (Billions of yen)

FY00: 500
FY01: 1,000
FY02: 500
FY03: 1,000
FY04 (forecast): 1,500

(US GAAP)
Cost Reduction

Enhanced cost reduction effects

Billions of yen

FY99 FY00 FY01 FY02 FY03 FY04 (forecast)

Unconsolidated Subsidiaries

* FY99 – FY02: Japan GAAP

(US GAAP)
Long-term, Stable Growth

Accumulated net income and growth in EPS

Trillions of yen

Accumulated net income
EPS (net income per share)

FY94  FY96  FY98  FY00  FY02

Accumulated net income (US GAAP)
EPS (net income per share) (US GAAP)

* FY94 – FY97: Japan GAAP
Free cash flow allocated to dividend payments and share buybacks

*1. Free cash flow = Current net income + Depreciation costs - Capital expenditures
See Annex ‡ for a reconciliation of free cash flow to net cash provided by operating activity
*2. R&D Expenses for FY99 – FY02: JAPAN GAAP

(Billions of yen)

- Capital expenditures
- R&D

Free cash flow
- Dividends & share buybacks

FY99 FY00 FY01 FY02 FY03

(US GAAP)
Change in Share Ownership

Shareholdings by banks VS

Increase in foreign shareholders (listed on NY and London Stock Exchanges in September 1999)

Increase in individual shareholders (reduction in stock unit in August 2000)

[Sept. 30, 1999]
Banks: 34%

[Dramatic drop]

[March 31, 2003]
Banks: 15%
Speedy Decision Making and Strengthened Corporate Governance

Faster operations/strengthened monitoring by various stakeholders

- General shareholders’ meeting
- Board of directors
- President
- Managing Officers

<Internal/external auditing>
- Accounting audits based on US & Japan auditing standards
- Board of statutory auditors (More than half are external auditors)

<Internal information management>
- NY/London stock listing - Disclosure based on SEC standards
- Identical information disclosure in New York, London and Tokyo

<Monitoring>
- International Advisory Board
- Labor-Management Council & Forum
- Social Contribution Program Committee
- Corporate Ethics Committee
- Stock Option Committee

Faster operations/strengthened monitoring by various stakeholders

More than half are external auditors
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