Positioned for the Future

WITH A FOCUS ON GROWTH AND EFFICIENCY

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To heighten its value in markets worldwide, Toyota will put into effect product and brand strategies that reflect local needs and market environments.

**Strengthening Product Lineups That Match Local Needs**

Drawing from our extensive lineup of vehicles, we are creating regional product strategies aimed at motivating as many customers as possible around the world to choose Toyota vehicles.

Toyota is taking steps to tap local demand in markets worldwide. For example, to draw young, first-time Toyota customers, we have begun full-scale marketing of Scion-marque vehicles in North America. And, local production of a full-size pickup truck is scheduled to increase beginning in 2006. In Europe, we began joint manufacturing of small passenger cars with a local automaker in February 2005. In China, Toyota is steadily assembling a full model lineup that ranges from compact cars and SUVs to high-end sedans. Further, as the IMV project got under way, other regions, centered on ASEAN countries, saw the rollout of a series of five new models—three pickup trucks, an SUV, and a minivan.

**Developing Hybrid Vehicles and Other Market-Creating Products**

Toyota helps expand the automotive market through tireless development of vehicles that create markets by offering new value. Launched in 2003, the new Prius earned resounding endorsement the world over. In fiscal 2005, hybrid sales surged 2.5 times year on year, to approximately...
151,000 vehicles. And, March 2005 witnessed the unveiling of two SUVs, the Harrier and the Kluger, powered by hybrid systems. We will continue filling out our team of hybrid vehicles, including the introduction of hybrid Lexus models.

Also, we made efforts to invigorate Japan’s market by introducing the Porte new-concept vehicle, the Isis midsize minivan, and the Mark X luxury sedan.

**Bringing a New Global, Premium Lexus Brand to Japan**

In 1989, Toyota began marketing the Lexus as its premium brand in North America. Since then, the success of Lexus-brand automobiles has been breathtaking. For the past five years, the Lexus has been the best-selling high-end car in the U.S. In fiscal 2005, Lexus sales grew an impressive 3.7% year on year, to approximately 358,000 vehicles.

In August 2005, the Lexus will debut in Japan. In every aspect of product development, sales, marketing, and customer service, we are determined to clearly differentiate Lexus from the Toyota brand. Lexus will strive to become the premium brand of the 21st century and beyond through the relentless pursuit of perfection and the true meaning of luxury. Lexus will continuously make efforts to provide its customers with the finest products and the most satisfying automobile ownership experience.

<table>
<thead>
<tr>
<th>Lexus Vehicle Sales by Model (FY 2005)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>(Thousands of units)</strong></td>
</tr>
<tr>
<td>LS</td>
</tr>
<tr>
<td>GS</td>
</tr>
<tr>
<td>ES</td>
</tr>
<tr>
<td>IS</td>
</tr>
<tr>
<td>SC</td>
</tr>
<tr>
<td>LX</td>
</tr>
<tr>
<td>RX</td>
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<tr>
<td>GX</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>

**Overview of Lexus Operations in Japan**

- **Operational start-up**: August 2005
- **Dealer network**: 180 dealers\(^1\)
- **Models**: GS, SC, IS, LS\(^2\)
- **Sales plan**: 50,000 – 60,000 vehicles annually

\(^1\) At the launch of operations, there will be 143 dealers. Plans call for the creation of a 150-dealer network by the end of 2005.

\(^2\) Initially, the GS, the SC, and the IS will be marketed, with the introduction of the LS scheduled for summer 2006.

In response to growing regional sales, we upgraded our product development capabilities in Asia and Oceania in 2005 by establishing new research and development facilities in Australia in March and in Thailand in May. The new facilities reflect local demand by tailoring the bodywork and specifications of vehicle platforms and basic models developed in Japan.
By consistently devising out-of-the-box technologies and vehicles that are one or two steps ahead of the times, Toyota will continue its role as the global automobile industry’s pathfinder.

**Pursuing the “Zero-nize” and “Maxi-mize” Vision**

“Zero-nize” and “Maxi-mize” are the terms we use to sum up the vision and philosophy that guide our technology development initiatives. Under the vision of “Zero-nize,” we are persistently seeking to eliminate the negative aspects of car society, such as environmental problems, traffic accidents, and congestion, while fully maximizing, under the vision of “Maxi-mize”-ing, the positive aspects, including fun, comfort, and convenience.

We believe that the mission of automakers in the 21st century is to offer vehicles that inspire and excite customers by simultaneously pursuing both “Zero-nize”-ing and “Maxi-mize”-ing. That is why we are committed to stepping up our development of highly original technologies.

**Marrying Advanced Environmental and Driving Performance in Hybrid Technology**

Since launching the inaugural Prius in 1997, we have continued to innovate hybrid technology based on the belief that it will become a central part of eco car manufacturing in the 21st century. That conviction was borne out by the worldwide reverberations caused by the launch of the new Prius in September 2003. Powered by a leading-edge second-generation hybrid system based on the hybrid synergy drive concept, the latest Prius achieves dramatically improved environmental and driving performance.

### Achieving Both Acceleration and Fuel Economy

<table>
<thead>
<tr>
<th>Fuel Consumption (km/l)</th>
<th>Acceleration from 0 to 100kmh (seconds)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harrier Hybrid</td>
<td>8.2</td>
</tr>
<tr>
<td>Harrier (V6 3.0 l)</td>
<td>10.4</td>
</tr>
<tr>
<td>Corolla (1.5 l)</td>
<td>10.9</td>
</tr>
</tbody>
</table>

In-house data

Note: Fuel consumption is based on Japanese 10-15 test mode, which combines city and highway driving.
Furthermore, in March 2005 we took the wraps off two SUVs (Harrier Hybrid and Kluger Hybrid) that incorporate a newly developed high-power hybrid system, which, in tandem with a brawny motor, realizes acceleration and power that surpass those of conventional cars. At the same time, the vehicles boast fuel efficiency on a par with compact-class cars and cleaner exhaust emissions. The evolution of Toyota’s fleet of hybrid vehicles under the visions of “Zero-nize” and “Maxi-mize” has only just begun.

**Simultaneous Pursuit of “Zero-nize” and “Maxi-mize” in Safety Technology**

Safety is no exception to our efforts in pursuit of both “Zero-nize” and “Maxi-mize.” The Crown Majesta unveiled in July 2004 features a VDIM (Vehicle Dynamic Integrated Management) system that provides excellent steering performance and stability by employing highly sophisticated technology to seamlessly correct overall vehicle behavior before reaching performance limits. As a result, the vehicle simultaneously realizes active safety that provides additional support to the driver in keeping control of the vehicle and driving pleasure through outstanding dynamic performance that corresponds very closely to the driver’s intended vehicle behavior.

Also, at the 11th World Congress on Intelligent Transport Systems held in Nagoya in October 2004, we showcased our development pipeline, which includes a next-generation driving support system that controls vehicles and prevents collisions by using a laser sensor to warn the driver and the vehicle of a range of potential dangers.

Launched in April 2005, the G-BOOK ALPHA is the latest evolutionary stage of the telematics system that we are preparing for the advent of the 21st century’s ubiquitous society. In line with the basic concept of developing technology that is reliable, safe, and comfortable, the new system includes HELPNET as standard, which enables drivers to contact emergency services to request help in the event of an accident or sudden illness. Moreover, the system has a new-paradigm car audio system, G-DRM* (Digital Rights Management). We intend to evolve telematics further as a technology that enhances automotive convenience.

* G-DRM is a leading-edge digital copyright protection system that stores and manages encrypted musical data on hard disks. When vehicles are shipped, more than 10,000 musical titles are encrypted and stored in digital format on the navigation system’s hard disk. Customers download and purchase the licenses and decrypt keys of titles that they want to listen to from a network.
Through relentless production engineering innovation, Toyota is building a lean production system that allows the efficient manufacturing of high-quality vehicles anywhere in the world.

Supporting Rapidly Expanding Overseas Production

Toyota’s worldwide consolidated vehicle production reached 7.23 million units in fiscal 2005—up approximately 2.2 million vehicles from five years ago. Further, we project that by the 2010s ever-increasing local production will nearly double the roughly 2.7 million vehicles that we currently build overseas.

Rocketing output is not the only challenge. As vehicle manufacturing operations spread over more countries and regions, the number of models and vehicle body shapes is increasing. Therefore, the amount of work devoted to model changeovers is mounting rapidly. Given that situation, Toyota must enhance efficiency dramatically without sacrificing quality. Meeting that challenge is one of the main tasks of production engineering innovation.

Evolving the Ultimate Lean Production System

Toyota has taken decades to develop the much-studied Toyota Production System, or TPS. By further evolving TPS, our production engineering innovation aims to establish the ultimate lean production system. Locked on to that target, we are revolutionizing existing production engineering to achieve improvements on a different order of magnitude from anything tried before.
Seeking to simplify and downsize molds and other production equipment, UMR (Unit & Material Manufacturing Reform) has already realized remarkable benefits in a range of operational areas and is now being rolled out globally. Other innovations include our digital engineering technology V-Comm, which raises operational efficiency and radically reduces costs by enabling engineers to use virtual vehicles to simulate development, design, and production preparation.

Creating Next-Generation Production Engineering

To emerge successful from the tough competition in the 21st century’s automobile industry, automakers must take on next-generation production innovation that embraces a broad spectrum of technological fields, including material technology, recognition technology, weight reduction technology, and information control technology. To gain an edge in markets, in-house development of those technologies is key.

To take one example, in the past several years Toyota has channeled resources into the development of industrial robots. Conventionally, robots are used for spot welding at vehicle production plants. However, we are creating next-generation robots that will perform a much wider range of tasks. Already, we have developed and introduced new robots that assemble various components and rapid-transportation robots for stamping lines.

Set Parts System Assembly Improves Efficiency

On a typical vehicle assembly line, production personnel choose parts one by one from shelves alongside the line and attach them to the vehicle body. In the Set Parts System, a work box prepared beforehand with all of the parts needed is positioned inside the vehicle body. Because that system completely separates component carrying and assembly, cumbersome shelves disappear, operational efficiency increases, and production lines shorten.
Taking on the challenge of building a global production and supply system, the IMV* project is providing vehicles with enhanced appeal to growth markets the world over.

* Innovative International Multi-purpose Vehicle

**Building a Globally Optimal Production and Supply System**

Production of the IMV series started in August 2004. Setting its sights on constructing a globally optimal production and supply system that will bring vehicles to the markets of more than 140 countries and regions, the IMV project has begun developing pickup trucks and other vehicles exclusively for overseas demand. IMVs built in four main assembly nations—Thailand, Indonesia, South Africa, and Argentina—will be shipped to countries in Asia, Europe, Africa, Oceania, Central and South America, and the Middle East. In addition, such countries as India, the Philippines, and Malaysia manufacture vehicles for their respective domestic markets.

Also, plants in Thailand, Indonesia, the Philippines, and India split the production of such major components as engines for supply to vehicle-producing countries. For Toyota, IMV is a groundbreaking initiative because vehicles and components are built and supplied by a global operating platform that consists entirely of bases outside Japan and because production starts up almost simultaneously in the four main vehicle assembly nations mentioned.

**Overview of the IMV Project**

Toyota activated production of the IMV series in Thailand in August 2004. In response to the immediate popularity of the Hilux VIGO and the other models, Toyota has upwardly revised production plans. The IMV series has already begun expanding shipments to markets worldwide.
Marketing More Attractive and Affordable Products

The IMV project’s starting lineup comprises five models: three pickup trucks, a minivan, and an SUV. To ensure that as many people as possible can enjoy those vehicles, we have sought to make everything about them “global best,” including quality, performance, and pricing.

For example, while we have curbed costs by using the same platform for the five models, we have realized class-leading power and fuel economy by putting newly developed gasoline engines and clean common-rail diesel engines under the hoods. Further, the vehicles’ distinctive shared traits include heading-turning styling; roomy, upmarket cabin interiors that afford passenger-car comfort; and the durability to cope with a wide variety of driving conditions. Toyota is able to produce such high-quality IMVs by working in close collaboration with local suppliers. For example, in Thailand the local purchasing ratio is now 96%.

Stepping Up Our Ability to Supply Growth Markets

The backdrop to our pursuit of the IMV project is the rapid growth of automotive markets in ASEAN countries centered on Thailand. Demand for pickup trucks and multipurpose vehicles is particularly robust. So strong in fact that we had to upwardly revise initial production plans for the IMV project from approximately 500,000 vehicles to about 700,000 vehicles.

To meet such demand, Toyota is expanding its production platform by building a new plant in Thailand and ramping up capacity in Indonesia.

In only three years, Toyota’s consolidated vehicle sales in Asia have more than tripled, clearing approximately 830,000 units in fiscal 2005. Markets in Africa and Central and South America are also trending toward expansion, and Toyota aims to make a large stride forward through decisive deployment of the IMV project.

Main Production Bases of the IMV Project

<table>
<thead>
<tr>
<th>Country</th>
<th>Production model</th>
<th>Start of production</th>
<th>Annual production capacity</th>
<th>Export destination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thailand</td>
<td>Pickup trucks</td>
<td>August 2004</td>
<td>Total 350,000 vehicles: 2007 (of which approximately 152,000 vehicles for export)</td>
<td>Asia, Europe, and other regions, including Oceania</td>
</tr>
<tr>
<td></td>
<td>SUV</td>
<td>November 2004</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>Minivan</td>
<td>September 2004</td>
<td>100,000 vehicles: 2006 (of which approximately 12,000 vehicles for export)</td>
<td>Asia and Middle East</td>
</tr>
<tr>
<td>South Africa</td>
<td>Pickup trucks / SUV</td>
<td>April 2005</td>
<td>120,000 vehicles: 2007 (of which approximately 60,000 vehicles for export)</td>
<td>Regions including Europe and Africa</td>
</tr>
<tr>
<td>Argentina</td>
<td>Pickup trucks / SUV</td>
<td>February 2005</td>
<td>65,000 vehicles: 2006 (of which approximately 45,000 vehicles for export)</td>
<td>Central and South America</td>
</tr>
</tbody>
</table>

The names of production bases in respective countries are as follows.

Thailand: Toyota Motor Thailand Co., Ltd.  Indonesia: PT. Toyota Motor Manufacturing Indonesia  South Africa: Toyota South Africa Motors (Pty) Ltd.  Argentina: Toyota Argentina S.A.
We are approaching cost reduction activities from a new angle in a bid to offer customers around the world better, more affordable cars.

**Shifting from Item-Based to Systems-Based Innovation**

Toyota has achieved outstanding results by working in partnership with component manufacturers and other suppliers to advance the CCC21 (Construction of Cost Competitiveness for the 21st Century) all-round cost reduction activity since 2000. Thanks to those efforts, we have seen annual cost savings of about ¥200 billion, peaking at almost ¥300 billion in fiscal 2003. Building on that proven track record, Toyota began the VI (Value Innovation) activity in April 2005.

As with its predecessor, the new project will require close coordination with suppliers. However, the new project will go one step beyond CCC21’s item-based cost innovation to focus on systems-based innovation. Adopting a revolutionary approach to designing, we will aim for comprehensive, breakthrough cost reductions by treating associated parts as integrated systems.

**Accelerating Cost Reduction Efforts Based on Mutual Trust**

A feature of Toyota’s cost reduction activities is that rather than focusing purely on price reductions, they initiate a chain of manufacturing innovation that reaches all the way back to the design and development stages. As a result, such initiatives involve collaboration among suppliers and a wide range of the Company’s divisions.

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Toyota has grown market support through unflinching cost reduction efforts focused on all of its models, including Toyota’s signature global car: the Corolla. Our quest to make better products less expensively goes on.
including design, production engineering, and purchasing. By significantly improving efficiency and lowering costs, that dynamic, multi-faceted cooperation is a driver of our products’ growing competitiveness.

Toyota pursues its cost reduction efforts based on long-term relationships of mutual trust with suppliers. We work toward challenging targets as partners. And, the improvements gained through those initiatives strengthen the corporate organizations and market competitiveness of Toyota and its suppliers.

**Returning Cost Reduction Benefits to Customers**

Toyota’s cost reduction programs generate far more benefits than just cost savings. We return the benefits of cost reductions to customers by ploughing the freed-up resources back into product upgrades or price repositioning. In other words, bottom-line cost savings amounts only show a part of the overall benefits generated by cost reduction activities. That process of converting savings into higher quality enables us to offer new models with markedly improved functionality and performance at prices that are the same or lower than before.

In recent years, the figures for cost savings have been declining. However, that decrease reflects the impact of higher raw materials costs and a change in the distribution balance of the freed-up resources rather than a slackening of cost reduction activities. We remain committed to the resolute implementation of cost reduction activities that provide customers with better vehicles at affordable prices.

**Toyota’s Distribution of Cost Reduction Benefits**

<table>
<thead>
<tr>
<th>Total cost reduction benefits</th>
<th>Cost Savings Amounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product capability improvements</td>
<td>Cost savings</td>
</tr>
<tr>
<td>Price repositioning</td>
<td>Other</td>
</tr>
<tr>
<td>Change in balance of distribution</td>
<td>(¥ Billion)</td>
</tr>
<tr>
<td>FY 99</td>
<td>'00</td>
</tr>
<tr>
<td>5</td>
<td>100</td>
</tr>
</tbody>
</table>

**Four-Phase Integrated Reforms**

- Toyota technology departments
- Toyota production technology departments
- Toyota procurement departments
- Suppliers

**Discussions with suppliers**

**IMV cost reduction activities**
Since its foundation, Toyota has developed human resources based on Toyota Way values, and this approach will be the wellspring of the Company’s future competitiveness.

Promoting Human Resources Development and Diversity

In the achievement of sustainable growth, personnel are the most precious management resource that a company has. Put another way, the quality of personnel impacts companies’ progress. One of Toyota’s strengths is a management approach that fully brings out the talents of each employee. Therefore, even as our business expands geographically and our portfolio of businesses grows, we are implementing thorough employee training programs.

Further, we are working to increase the diversity of our workforce. Employing more than 260,000 people worldwide, Toyota is enhancing personnel systems and workplace environments to enable individual employees to maximize their skills and contribute to operations.

Sharing Toyota Way Values in the Manufacturing Workplace and in Management

In April 2001, Toyota explicitly identified the Toyota Way management values that had traditionally been based on implicit knowledge. The Toyota Way is based on the dual pillars of Respect for People and Continuous Improvement, which comprise five principles: Challenge; Kaizen, or improvement; Genchi Genbutsu, or go and see; Teamwork; and

Toyota’s overseas plants roll out more than 600,000 Camry models a year. No matter where a vehicle is built, it must satisfy a uniform set of quality benchmarks. By training employees on a truly global scale, Toyota is able to meet those requirements.

In 2001, the Toyota Way was explicitly identified so that it could be adopted by employees around the world.
Respect. We use those guidelines to motivate all Toyota employees involved in manufacturing and to create a sense of solidarity among them.

Further, with a view to fostering managers capable of putting the Toyota Way into practice, we established the Toyota Institute at our head office in 2002. Many of our overseas production and sales companies are now steered by local managers. Also, six of the Company’s managing officers are from overseas.

**Training Professionals Rapidly through GPC**

In July 2003, Toyota established GPC, or Global Production Center, to swiftly equip large numbers of personnel with the skills to manage plants in Japan and overseas. In addition to training multiskilled, resilient personnel for global operations, the center promotes the creation of efficient production methods and systems and conducts skills training for short-term employees.

In only two years, the center has significantly enhanced operations in the field. Since opening, more than 4,600 employees have completed training courses at GPC. And, we plan to maintain that level by training 2,000 employees a year at the center. Moreover, Toyota intends to create GPC branches in the U.S., Europe, and Asia to step up the pace and global scope of training for professional production site managers. We are confident that those measures will enhance the competitiveness and self-reliance of our overseas production platforms.

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**Topics | Dedicated Training Facility for Lexus Employees in Japan**

Toyota has created the Fuji Lexus College within Fuji Speedway, in Shizuoka Prefecture, Japan, as a training center for all staff that work at Lexus dealers in Japan. As well as imparting in-depth specialist knowledge and skills, the college helps establish a common understanding among employees of the Lexus brand’s value. Taking advantage of Fuji Speedway, we also conduct training that lets employees experience the driving performance of Lexus models firsthand.