Toyota’s Global Strategy
—Moving toward Global Motorization—

April 16, 2003
Toyota Motor Corporation
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Fujio Cho
President
Toyota Motor Corporation
I. Global Manufacturing & Marketing in 2002

Growth in Production Volume

Global output
(Millions of units)

Overseas output
(Millions of units)

1986
1999
2002

Global output:
- 1986: 0.45
- 1999: 1.62
- 2002: 2.17

Overseas output:
- 1986: 0.45
- 1999: 1.62
- 2002: 2.17

Annual sales surpass 1 million units

* includes Toyota/Lexus, Daihatsu and Hino brands.

2002 Global (million units)
Output: 6.31*
Sales: 6.17*

* TOYOTA

Corolla
II. 2010 Global Vision

Major change in the global economic environment

Global motorization

Taking on the challenges for change

<Expected society>

Achieve global production & sales of 6 million units

* Regional strategies – North America, Europe, Asia, China and Japan
* Technological innovation

Market & population growth in the US
Rise of markets in Eastern & Central Europe and in Russia
Strong growth of Asian markets

2002

2010s
III. Regional Strategy

North American Market (1):
Creating market through new product launches

(Millions of units)

2002 sales: 1.91 million units

Passenger vehicle market

Corolla

Camry

No. 1 in 2002 passenger vehicle sales

Commercial vehicle (light truck) market

Lexus GX470

Lexus RX330

Tundra Double Cab

Luxury SUVs

Entry-level vehicle for young drivers

Scion

xA

xB

Full-sized trucks

<US market>

2000 2002

<US market>
III. Regional Strategy

North American Market (2):
Production growth centered on light truck manufacturing

- #1 NUMMI
- #2 Kentucky
- #3 Canada ⇒ First Lexus production base
- #4 Indiana
- #5 Mexico
- #6 Texas ⇒ “Made-in-Texas” trucks

**<Manufacturing capacity expansion plan>**

- Indiana plant expansion (Sienna)
- Canada plant expansion (RX330)
- Mexico plant (Tacoma)
- Texas plant (Tundra)

(Millions of units)

- Present: 1.40
- Fall 2003: 1.48
- 2005: 1.50
- 2006: 1.65
III. Regional Strategy

European Market: Integrated manufacturing & marketing

2002 sales: 760,000 units

Marketing organization restructuring starting April 2003

Action in the wider EU market

⇒ First Japan market launch of UK-made vehicle in fall 2003

New “Avensis” launched in March 2003 as upper core model

Toyota Motor Europe (TME)

Leading marketing companies

Manufacturing plants

United Kingdom

France

Czech Republic

Turkey
III. Regional Strategy

Asian Market: Manufacturing & export base for pickups/multipurpose vehicles
⇒ Development of global manufacturing base and mutual distribution network (IMV Project starts in 2004)

To more than 80 nations/regions

Thailand: Global manufacturing base
Other Asian nations: Manufacturing bases for engines & main components

South Africa & Argentina: Intra-regional manufacturing bases

To Europe & Africa

To South America

Argentina

South Africa

Thailand

India

Philippines

Japan

Others

TOYOTA

: Pickups & multipurpose vehicles

: Engines & main components
III. Regional Strategy

Chinese Market: Manufacturing & marketing to be strengthened in response to market growth

Establish full product lineup
Establish Toyota brand image

Aggressive product launches

Product lineup
- Daihatsu (Compact)
- Vios
- Compact
- Land Cruiser/Prado
- Corolla
- Luxury SUV
- Large & Luxury sedan
- Crown

Production capacity
- 2002: 50,000 units/year
- 2003: 30,000 units/year
- 2004: 25,000 units/year → 15,000 units/year
- 2005: 50,000 units/year
- 2006: 115,000 units/year

Several hundred thousand units/year
Japanese Market: Introduction of Lexus &
Reorganization of Sales Channel
⇒ Preparations for future changes (in market structure & customer values)

After reorganization:

Lexus (new) Development of new Lexus dealership network in 2005 (150 dealers)

Toyota brand
### III. Regional Strategy

#### Japanese Market: Introduction of Lexus & Reorganization of Sales Channel

⇒ Preparations for future changes (in market structure & customer values)

<table>
<thead>
<tr>
<th>Present</th>
<th>After reorganization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Toyota brand</strong> (5 channels)</td>
<td><strong>Lexus</strong> (new)</td>
</tr>
<tr>
<td>Vista</td>
<td>Development of new Lexus dealership network in 2005 (150 dealers)</td>
</tr>
<tr>
<td>Netz</td>
<td>Consolidation of <strong>Netz</strong> &amp; <strong>Vista</strong> networks in spring 2004 → Foothold in new market segment</td>
</tr>
<tr>
<td>Toyota</td>
<td>Leading channel for the medium-size car market</td>
</tr>
<tr>
<td>Toyopet</td>
<td>Luxury vehicle channel for the Toyota brand</td>
</tr>
<tr>
<td>Corolla</td>
<td>Largest volume-sales channel, centering on compact vehicles</td>
</tr>
</tbody>
</table>

**Toyota brand**

- ***Vista***
- ***Netz***
- ***Toyota***
- ***Toyopet***
- ***Corolla***

**Toyota**

- ***Vista***
- ***Netz***
- ***Toyota***
- ***Toyopet***
- ***Corolla***

**TOYOTA**
IV. Technology Strategy (1)

Development of a wide range of technologies and products with focus on market creation

<Technology development>

- Nanotechnology
- Material technology
- Biotechnology
- Energy technology
- Engine
- Body
- Electronics
- Transmission
- Chassis
- Environment
- Safety
- IT

<Marketing>

- Assessing customer needs
- Proposal of business vision

Products focused on market creation

“Comfort” “Kindness” “Excitement”
IV. Technology Strategy (2)

Harmonizing “Ecology” with “Emotion”
V. Conclusion

Global-scale motorization

- Market & population growth in the US
- Rise of markets in Eastern & Central Europe and in Russia
- Strong growth of Asian markets

Addressing challenges for change — toward further growth
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—Moving toward Global Motorization—

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Toyota’s Financial Strategy

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Toyota Motor Corporation
Ryuji Araki
Executive Vice President
Toyota Motor Corporation
## I. Business Performance

### Operating income by market segment

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>649</td>
<td>870</td>
<td>813</td>
</tr>
<tr>
<td>North America</td>
<td>175</td>
<td>265</td>
<td>268</td>
</tr>
<tr>
<td>Europe</td>
<td>-2</td>
<td>-12</td>
<td>5</td>
</tr>
<tr>
<td>Asia &amp; other regions</td>
<td>8</td>
<td>19</td>
<td>41</td>
</tr>
<tr>
<td><strong>Consolidated elimination</strong></td>
<td><strong>-12</strong></td>
<td><strong>-19</strong></td>
<td><strong>-17</strong></td>
</tr>
<tr>
<td><strong>Consolidated total</strong></td>
<td><strong>818</strong></td>
<td><strong>1,123</strong></td>
<td><strong>1,110</strong></td>
</tr>
</tbody>
</table>

(Billions of yen)

(Japan GAAP)
II. Profit Earnings

Growth and targets in operating income ratio & ROE

- Operating income ratio:
  - FY1999: 5.8%
  - FY2000: 6.3%
  - FY2001: 6.8%
  - FY2002: 8.5%
  - April-Dec., 2002: 11.3%

- Operating income (Billions of yen):
  - FY1999: 5
  - FY2000: 6
  - FY2001: 9
  - FY2002: 11

- Target (Japan GAAP):
  - Operating income ratio: 9%
  - ROE: 10%
III. Dividend Payments & Share Buyback

Cash flow allocated to dividend payments and share buyback

* Cash flow = Current net income + Depreciation costs - Capital expenditures

![Cash flow chart](chart.png)

- **Capital expenditures**
- **R&D**

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow</th>
<th>Dividend &amp; Share Buyback</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY1999</td>
<td>500</td>
<td>200</td>
</tr>
<tr>
<td>FY2000</td>
<td>1,000</td>
<td>400</td>
</tr>
<tr>
<td>FY2001</td>
<td>400</td>
<td>500</td>
</tr>
<tr>
<td>FY2002</td>
<td>500</td>
<td>600</td>
</tr>
</tbody>
</table>

(Billions of yen)

1,000

* TOYOTA*
IV. Change in Share Ownership

Shareholding by banks

- **[Sept. 30, 1999]**
  - Banks: 34%

VS

- **[March 31, 2003 (estimate)]**
  - Banks: Approx. 15%

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

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

Dramatic drop
V. Toyota’s Actions on Corporate Governance and Information Disclosure

Internal Mechanisms ➔ Reinforcement of internal controls

1. General shareholders’ meeting
2. Board of directors
   - President
   - Managing Officers
3. Disclosure Committee
   - NY/London stock listing
     - Disclosure based on SEC standards
     - Identical information disclosure in New York, London, and Tokyo
4. Internal/external auditing
   - Accounting audits based on US & Japan auditing standards
   - Board of statutory auditors
     - Half are external auditors
5. Monitoring
   - International Advisory Board
   - Labor-Management Council & Forum
   - Social Contribution Program Committee
   - Corporate Ethics Committee
   - Stock Option Committee

Internal Mechanisms ➔ Reinforcement of internal controls

⇒⇒⇒⇒

Internal/external auditing

⇒⇒⇒⇒

Reinforcement of internal controls

⇒⇒⇒⇒

Internal/external auditing

⇒⇒⇒⇒

Reinforcement of internal controls

⇒⇒⇒⇒

Internal/external auditing

⇒⇒⇒⇒

Reinforcement of internal controls
Toyota’s Financial Strategy

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Toyota’s Technology Strategy

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Prius: The World’s First Production Hybrid Vehicle

- Power train
- Design
- Packaging
Development Goals of First-Generation Prius

- Innovative advances in fuel economy, surpassing conventional gasoline-fuel engine
- Drastically cleaner emissions

Fuel economy
- 1.5 times
- 2.0 times

1/10 of regulation levels
Toyota Hybrid System (THS)

- **Gasoline engine**
- **Battery**
- **Power control unit (Inverter etc.)**
- **Electric motor**
- **Power split device**

<table>
<thead>
<tr>
<th></th>
<th>Start-up</th>
<th>Normal driving</th>
<th>Acceleration</th>
<th>Deceleration</th>
<th>Stopping</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electric</td>
<td>Electric motor only</td>
<td>Engine operating with maximum efficiency</td>
<td>Motor and engine</td>
<td>Battery charging</td>
<td>Engine shuts off</td>
</tr>
<tr>
<td>motor only</td>
<td></td>
<td></td>
<td></td>
<td>Energy recovery</td>
<td>No energy consumption</td>
</tr>
</tbody>
</table>
Strong
- THSII SU-HV
- THSII NG-Prius
- THS Prius
- Estima HV

Parallel HV
- Toyota Coaster
- European Concept Vehicle
- Plug-in/Switching

Mild
- Japanese Vehicle A
- Japanese Vehicle B
- Crown Mild HV

Series/Parallel HV (HV of Hybrids)

*EV Drive

Series HV

non EV Drive

Motor Power / Vehicle Power Ratio

*: propelled by electric motor only
### Overall Efficiency < Well-to-Wheel >

#### 10-15 mode

<table>
<thead>
<tr>
<th></th>
<th>Well to Tank (%)</th>
<th>Tank to wheel (%)</th>
<th>Overall efficiency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gasoline-engine vehicle</strong></td>
<td>88</td>
<td>16</td>
<td></td>
</tr>
<tr>
<td><strong>Diesel-engine vehicle</strong></td>
<td>91</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td><strong>Prius (THS)</strong></td>
<td>88</td>
<td>30</td>
<td></td>
</tr>
</tbody>
</table>

Estimated by Toyota
Gasoline Engine approaching Ambient Air level
Hybrids help catalyst warm up hence reach very low emission level
Internal Development of Toyota Hybrid System

Engine & Motor & Generator

Power control unit

Internally developed components
Increased Sales of Hybrid Vehicles

- Year 2001
- Total vehicles
- Units 100,000
- Crown Mild Hybrid
- Estima Hybrid (4WD)
- Gas turbine HV (1969)
- Prius

Year 2001

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Hybrid Synergy Drive

Fuel Economy

Existing hybrid vehicle

Hybrid Synergy Drive

Improvement of conventional engines

Fun to Drive

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Next-Generation Hybrid System (THS II)

Secondary battery

Power control unit

Generator

Engine

Power split device

Motor (150% increase in output)

Inverter

Voltage boost converter

Driving wheel

Hybrid Synergy Drive
Broader Application of the Next-Generation Hybrid System

(SU-HV)
Fuel Cell Vehicle
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>Start of FCHV development</td>
</tr>
<tr>
<td>1996</td>
<td>Announcement of the hydrogen FCHV at the EVS-13 (Osaka)</td>
</tr>
<tr>
<td>1997</td>
<td>The world’s first FCHV with Methanol Reformer</td>
</tr>
<tr>
<td>2001</td>
<td>Announcement of the FCHV-3, FCHV-4, FCHV-BUS1, and FCHV-5</td>
</tr>
<tr>
<td>2002</td>
<td>Announcement of FCHV-BUS2 &amp; limited marketing with the delivery of Toyota FCHV</td>
</tr>
</tbody>
</table>
Internal Development of Core Technologies

Independent In-house Development of Total System Including Fuel Cell Stacks

Internally developed components

TOYOTA FC Stack

Power control unit

Motor

Air compressor

HV EUC

Secondary battery

TOYOTA FC Stack

Motor

Power control unit

Air compressor

High-pressure hydrogen storage tank

TOYOTA FC Stack
Application of Hybrid Technology

**PRIUS**

- ICE Hybrid Vehicle (PRIUS)
- Engine
- Power Control Unit
- Motor
- Secondary Battery

**TOYOTA FCHV**

- Toyota Fuel Cell Hybrid Vehicle
- Fuel Cell
- Power Control Unit
- Motor
- Secondary Battery
Overall Efficiency <Well-to-Wheel>:

<table>
<thead>
<tr>
<th></th>
<th>Well to tank (%)</th>
<th>Tank to Wheel (%)</th>
<th>Overall efficiency (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gasoline-engine vehicle</td>
<td>88</td>
<td>16</td>
<td>0, 10, 20, 30, 40</td>
</tr>
<tr>
<td>FCV (High-pressure hydrogen)</td>
<td>58</td>
<td>38</td>
<td>0, 10, 20, 30, 40</td>
</tr>
<tr>
<td>FCHV (High-pressure hydrogen)</td>
<td>58</td>
<td>50</td>
<td>0, 10, 20, 30, 40</td>
</tr>
</tbody>
</table>

* Based on current consumption

10-15 modes  Estimated by Toyota
Future Image of Powertrain Development

Fuel cost + fuel cell cost

Internal combustion engine vehicles

Internal combustion engine fuel cost + Internal combustion engine cost

Fuel cell vehicle

Total world vehicle ownership

Year

2000

20X0

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Toyota’s Environmental Technology Development

The Ultimate ECO-Car

Hybrid Technology

- FCHV
- THS

Diesel-engine vehicle
- DPNR
- D-4
- Lean Burn
- VVT-i

Gasoline-engine vehicle
- CNG
- Diesel DI
- Lean Burn
- VVT-i

Alternative fuel
- CNG
- Diesel DI

EV & FCV
- EV

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Toyota’s Technology Strategy

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