

As Prepared For:

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Thanks, Dave [Cole].

Good morning everyone...I can't tell you what a pleasure it is to be with you here. This meeting always features some of the biggest names in our business... from design and engineering...to supply, manufacturing and sales. It's our industry's Mid-Summer classic...our All Star game...without the steroid scandals...

Being a part of this gathering is a great experience. It gives us all a chance to catch our breath...get some fresh ideas...and renew our faith in the future before we start the second half of the year.

As we begin, I'd like to pay tribute to Dave Cole for providing this great opportunity...and for everything he has done for our industry during the course of his career.

Like many of us, Dave grew up in this industry and has devoted his full efforts to making it better. Throughout times of turmoil, he's always been the steady voice of reason...fairness...and encouragement.

So thanks...Dave...for being a great leader and organizing amazing events like this that help keep us on track.

(Pause)

Now on to the 64-thousand-dollar question that Dave challenged all of us to answer..."Is There Calm After the Storm?"

Well...frankly...I wouldn't characterize it as a "storm", as much as turbulence encountered by an industry in transition.

There's a Teutonic shift going on, from our industry to society and from manufacturers to customers. The age of the consumer in charge is in full force and it's shaking the traditional foundations of our industry. Instead of "buyer beware" it's "manufacturer beware".

Sure, this shift is frustrating and taxing, but working through it...ultimately...will make us stronger...and faster...and better able to help our customers get more out of life.

Think about all we do...and the huge impact our industry has had on history...the world...mankind.

What other product in modern life does so much for so many people in so many ways?

People love their cars...so much in fact... that they actually talk to them like they're one of the family. Nearly a third give their cars affectionate nicknames.

And here's an interesting statistic... 90% of us sing in our cars. It's true...we've all seen it. And...having watched American Idol... well...we just can't put in too much soundproofing these days...

No other product can claim the kind of emotion that cars can...not computers...not toothpaste...not soft drinks...not even iPods. When you think about it...we're really blessed to work in an industry with products that deliver the essential ingredients of the good life... freedom...fun...and flexibility.

One of the things I love about working for Toyota is that it has always believed its chief purpose in business is to contribute to the betterment of the world. In fact, our long-time motto is "to enrich society through building cars".

We've come a long way since 1935, when we built our first cars and trucks in Japan, but we've never lost sight of the concept that our work...first and foremost...must benefit people. And we've carried that philosophy with us to more than 160 countries around the world where we conduct business today.

We take particular pride in our accomplishments here in America.

Toyota has been in the United States for nearly 50 years and we've made some significant contributions...both tangible and intangible.

On the tangible side, we now directly employ more than 31,000 Americans... that's more than such American icons as General Mills, Texas Instruments and Cisco Systems. And...according to Dave's research...the ripple affect from Toyota's operations here is responsible for nearly 400,000 U.S. jobs.

We now have 11 major vehicle and parts plants in North America, two more under construction, and we recently announced plans to build our 14th factory in nearby Canada. As a result, nearly two-thirds of the vehicles we sell here are now made on local soil.

Just yesterday, we announced a \$50 million expansion to our soon-to-be completed San Antonio truck plant that will increase its potential capacity by 50,000 vehicles. That's our fifth local plant expansion announcement in the last four months...so we've been very busy localizing production.

More importantly, if you add up Toyota's total North American investments since we started doing business here in 1957, they are about equal to the cumulative earnings of our local operations during the same 48-year period.

(Pause)

We also have a strong commitment to greater Detroit and Michigan...still very much the heart of the automotive universe.

Toyota was one of the first international car companies to establish an office in this state, and Ann Arbor is now our permanent home for North American research, design and engineering. In fact, we've quickly outgrown our current space and are working diligently to buy 690-acres to expand in York Township.

I'd personally like to thank Governor Jennifer Granholm and her staff for their assistance in that process and making Toyota feel welcome in Michigan. It's a marvelous state loaded with talented people and very focused on the auto industry...so it's a win-win for everyone.

Currently, Toyota is responsible for creating more than 16,000 jobs in Michigan and we purchased \$1.8 billion in parts and components from suppliers here last year. Clearly, that's not as much as the Big 3, but it is a substantial contribution to the state, and our presence here is growing larger every year.

In addition, many of the Toyota Group companies...like Denso and Hino...have established their headquarters, tech centers and manufacturing facilities in the state. And our commitment to Michigan will grow even more in the future.

In fact, thanks to the Governor's recent trip to Japan, Denso and another of our suppliers...Tokai Rica...plan to make new investments totaling \$86 million here, creating 500 new jobs in the state.

(Pause)

On the intangible side, Toyota has contributed to America by sharing its expertise in lean manufacturing...we've worked to serve as a model for efficiency and quality...we've provided environmental stewardship and technology...and we've always tried to operate in a spirit of open cooperation with our dealers, partners, the public and government.

It all stems from our basic operating philosophy we call The Toyota Way. It is based on two pillars..."continuous improvement" and "respect for people". We firmly believe that if we keep those two principles at the forefront of our thinking and actions, the business will take care of itself.

Our new global president, Katsuaki Watanabe, recently asked all of us in the Toyota family to redouble our efforts to truly contribute to society in our work today. He told of us of his dream to create future cars that can not only travel across the United States on one tank of gas...but also clean the air while we drive them...and prevent accidents and injuries.

It's a dream at this point, but that's where we are headed...and Mr. Watanabe has committed to vigorously promoting the research and development needed to get us there.

So our work as a company is far from complete this day...and...like all of us here ...we have to face our share of the storms that constantly sweep our industry.

It's nice to know...however...that through all the upheavals, our work can...and does...make a positive difference...and we should be extremely proud of that.

Look at this year.

Thanks to General Motors, Chrysler and Ford's creative marketing...striking designs...and strong competition...we're having one of our best years ever.

Make no mistake about it...Detroit automakers are rebuilding and preparing for a new era of prosperity. They will force all of us to get up on our toes...bring out our best...and inspire new customers.

And it couldn't happen at a better time because our business is about to explode into a new boom that will keep North America the greatest market on earth...bar none.

Look at the incredible trends beginning to converge.

First, people are living longer and are more affluent...so they'll buy more cars and drive longer than previous generations. In other words...the baby boom generation will keep "booming and zooming" for a long time yet to come.

Next, look at the U.S. population growth rate. Over the next 50 years, our birth rate, plus immigration...on a percentage basis...will be five times that of China. That means our nation is adding one new person every 12 seconds.

So, between coffee this morning and lunch today...more than 1,000 new people have been added to our economy.... and they are all going to need cars. Talk about the land of opportunity!

In addition, four million young people of Gen Y will reach driving age...each year... for the next five years ...for a total 20 million new drivers by 2010. In fact, this generation is the second largest group of consumers of all time...and they're headed our way.

Fourth... the number of multi-car families is steadily growing. In fact ... today ...there are more vehicles per household (1.9) than people to drive them (1.75).

Fifth...cars are very affordable. According to Comerica Bank, the average-priced new vehicle costs just 20.6 weeks of median family income, before taxes. That's the same as it was 26 years ago when the Olds Cutlass was the No. 1 car and disco was king.

The merging of all these positive trends puts us on the cusp of a new "Golden Era" for the industry ...a period when annual industry sales could soar to 20 million units or more per year.

But it's more than just new business explosion...it's an opportunity for a full-scale renaissance in our industry. A time of new prosperity for us to develop new designs...technology ...and safety measures...that will excite people, save lives and help cars live more in harmony with earth.

And that's what I want to talk about today. How we can prepare...and prosper from...the coming Golden Era by focusing on three fundamental areas...new products...top quality...and better relationships.

(Pause)

Let's start with products.

Fresh products and innovative designs have always driven our industry's success.

Look at safety, for instance. Thanks to computers, sensors and other advances... cars are safer today than ever before...and we're adding new safety equipment all the time to make them even better.

And it's paying off. The death rate on U.S. roads is the lowest since the government began tracking them in 1966...nearly 40 years ago.

Some of the credit is due to better roads, greater use of seat belts and stronger drunk driving laws, but experts agree that safer cars have played a strong role in promoting this positive trend.

We know, for instance, that seat belts, air bags and other vehicle safety features have saved 329,000 lives since 1960...that would make up a city the size of Pittsburgh.

Today we offer even more...including safety features like energy absorbing crumple zones...electronic stability control... headlights that swivel...lane departure warnings...and side impact air bags for almost every body part. My personal favorite is the knee bag...which is connected to the ankle bag...which is connected to the...well...you get the picture.

(Pause)

Now when we talk about the need for new products to enliven our business there are actually two key issues we need to focus on. One is speed and the other is innovation.

Speed has to do with faster product cycles and the cadence of products we deliver to customers.

Historically, we've been able to satisfy customers with new products about every seven years or so. But in the Internet Age...that's an eternity.

Today, it's all about replacement rates and showroom age. The faster you bring fresh products to market...the better your sales and profits.

According to Merrill Lynch, product replacement rates are accelerating significantly and...over the next four years...the average new product will be replaced about every 5-and-a-half years.

Even more telling are the statistics on showroom age...the number of years the average model has been on the market per manufacturer.

If you take a look at the next four years, products by Japanese and European automakers will be about 2.5 years old, while those from General Motors and Ford will average about 3.5 years. And the Koreans? Their products will be just 1.7 years old.

So the quick cadence of new products is absolutely vital for success in today's business. That's why we plan to launch 16 all-new or major change Scion, Toyota and Lexus products in the next 30 months alone.

Now I know some of my good friends in marketing will tell you that great marketing can move products...but the truth is...marketing alone can't sell an aging product. Customers are too smart... competition is too tough...and new products are too enticing today.

As my uncle used to tell me when I broke into the business at his Midwest dealership... “Jim...product and dealers are 95% of success in this business and the rest of us are here to support them...so go out and make some money.”

True...he was a real character...but he was right. Product is everything...and we should never forget it.

(Pause)

The other side of the new product success today is about innovation.

Look at conventional engines. Car engines are more efficient today than they've ever been...and yet we keep making them better.

In California, 20 car models offered by 12 different automakers are rated Partial Zero Emission Vehicles. They range from our Toyota Camry to the Ford Focus and BMW 325. These cars not only offer the cleanest gasoline engines ever

produced, they're built to maintain near zero emissions throughout their entire life on the road.

But we aren't satisfied with that...and neither are our customers...so we're inventing a new wave of powertrain technology that's just now coming to market.

I'm extremely proud that Toyota introduced the world's first mass-produced hybrid car...the Prius...more than 7 years ago.

Today's Prius has the room of a mid-size sedan, delivers about twice the mileage of conventional cars and produces just one-tenth the harmful emissions...all for about \$21,500.

No wonder people are still lining up to buy one nearly two years after we launched it.

And Prius is just the beginning. A new wave of hybrids is coming to market from Toyota and other automakers...and they will change the way people think about automobiles.

In April we launched the world's first luxury hybrid...the Lexus RX 400h...and then began selling the Toyota Highlander Hybrid in June. Both offer the power of

a V8...the mileage of an automatic Mini Cooper...and 80% less smog-forming emissions than conventional SUVs.

Next year, we will add two more...a Lexus GS hybrid sedan...and a Camry hybrid built in America at our Kentucky plant.

And we're not alone. Honda has three...Ford has two and three on the way...and General Motors, Chrysler and Nissan are all planning to introduce hybrids in the near future.

In fact, more than 50 hybrid nameplates could be on the market by the end of this decade, according to the Hybrid Vehicle Sales Forecast.

And it's not just about saving enough money on gas to cover the hybrid premium.

People are buying hybrids for good reasons beyond fuel economy. They realize hybrids are a simple way to make an important difference in curtailing foreign-oil dependence...air pollution...and greenhouse gases...plus...they're a lot of fun to drive. Being able to thumb your nose at gas stations on a regular basis is an added bonus.

And...with volumes increasing...costs for hybrids will go down.

Americans like to do the right thing...and they love doing the smart thing. That's why hybrids are a hit...and that's why they're here to stay.

At Toyota, President Watanabe has set a new goal for us to sell one million hybrids per year globally early in the next decade. At our current rate of sales, that's about 600,000 hybrids in the U.S. To achieve that goal, we will have to look at offering hybrid power systems in virtually all of our vehicles, including trucks.

That's why we have 10 hybrids under development right now. To us, it's not a passing phase but a vital technology for the 21st century.

(Pause)

Now...along with hybrids...we're also working on clean diesel, natural gas and fuel cell vehicles that will give our customers plenty of choices in the years ahead.

One of the most promising is fuel cell technology.

Hydrogen fuel cells offer the best, long-term hope for zero-pollution...zero-CO2 vehicles...and...they will easily adapt to already efficient hybrid platforms. But we've got a lot of work to do before they are ready for prime time.

(Transitional Pause)

The second area we need to concentrate on to fully prosper in the coming Golden Era is quality.

I've been in the car business for more than 35 years and studied its history... and to me...quality is really the only thing that sustains you through the good ...and the bad...times.

Great, consistent quality builds trust...and reputation...and loyalty. That's why it's always been the No. 1 priority at Toyota. It goes back to our Toyota Way philosophy of continuous improvement. We're always searching for better ways to do things. We know there is no best...only better...and we always strive to find it.

As an industry, we are also making tremendous progress on this front, but not fast enough. We have to be sure that day-to-day experiences people have with their cars and trucks are problem free.

Considering today's vehicles now have as many as 50 microprocessors...more than 31,000 parts...and must perform in all types of weather...it's amazing how well they do work most of the time.

In fact, your car just may be the most technologically advanced thing you touch all day. And...unlike personal computers...cars boot up immediately and operate smoothly under extreme conditions.

That's the good news.

The bad news is... that as cars become more computerized and loaded with advanced technology...more things can potentially go wrong with them.

It caught up with all of us in 2004 when the industry recalled a record 30.6 million vehicles...nearly twice the number we sold last year. And no automaker ... including Toyota...is immune to this epidemic.

Yes...I understand there are several good reasons why recalls are up... including the TREAD Act. But we just can't be satisfied with this performance...it undermines the trust people have in our industry.

Let's work hard to change this trend and restore people's faith in the reliability of our products.

It's time to get back to the basics of building great cars that are reliable partners we can all count on.

(Transitional Pause)

The third pillar of our success for a golden future lies in creating better relationships.

Our business has always thrived on good relationships...and they are even more vital as we face the challenges of tomorrow. Unfortunately... we've let them slip a bit over the past decade or so...and it's time to put our house back into order.

Take supplier/factory relationships, for instance. There was a time when suppliers and automakers were fiercely loyal to one another and trusted each other.

Today, we see almost continuous headlines about automakers leaning on suppliers to cut costs...at all costs.

In the end, that doesn't make good sense. We're in this boat together and we need each other over the long haul. When we rob Peter to pay Paul, we both get poorer.

You know...people often ask me why Toyota is highly rated by suppliers. And I tell them the secret lies in our Toyota Way philosophy of respect for people.

We respect our supplier partners by listening to them, sharing our plans for the future and fostering long-term relationships. In other words, we focus on their success as much as our own.

We know that...if they have stable production and are making money...they will be able to grow and develop better products that...in turn...will help us be more successful.

We watch costs as much as anyone, but we also work hand-in-hand with our suppliers to help them reduce their costs, often teaching them key lessons we've learned in more than 50 years of perfecting the Toyota Production System.

For instance, we recently sent a team of our people to a chrome emblem supplier to work with their in-house kaizen team on efficiency and cost reductions. Our hands-on approach helped them to identify key changes in production that led to less waste and higher productivity.

There's no rocket science to our methods...just the strong desire to respect and help suppliers help themselves so everyone is successful. Anyone can do it...and those who do it well...will advance tremendously in the Golden Era.

(Pause)

What about dealer/factory relationships?

Well, the news, here, is better than during the late 1990s, but there's still a lot of animosity...finger pointing...and distrust going on. And it usually stems from getting our roles mixed up.

At Toyota, we've always believed that manufacturers should do what they do best... design and build great cars and trucks...while dealers should do what they do best...sell, service and satisfy customers.

Most of us don't know beans about retail or our ultimate customers, but our dealers do...and if we trust them...and work for them...they will help lead us to greater success.

(Pause)

Finally, we need to focus on better relationships with society to assure our long-term success.

The fact is...the love affair people have with the automobile is in jeopardy today.

While we're happily cranking out more than 170,000 new vehicles each day globally, the cumulative number of vehicles we produce is taking a toll on the air

we breathe ...the roads we travel...and the safety of our families, country and planet.

Whether we like it or not, cars will always be at the heart of debate about air pollution...congestion...accidents...oil depletion...and global warming. It's the price we pay for playing such a vital role in society.

And the more we stay on the sidelines...the more people will begin to distrust us and lose faith in cars.

(Pause)

So what should we do?

While we can't stop the debate, we can pro-actively decide to be involved in addressing the concerns of society.

So my call to action today is that we make a new pact with society...a pact to take a stand and be part of the solution...not the pollution.

To do that, we have to make some serious changes.

We have to work closely with each other...like never before...to harness our creative might to develop ideas...products...and programs...that will make a positive difference.

It's high time that we stop being the "against" industry. You know what I mean. Someone proposes something novel and we immediately knee-jerk answer that it can't possibly be done because it will hurt business and jobs.

Let's start being for something instead of against everything. That's the essence of the American spirit...and that's what our customers want.

To do that, I propose we put together a meeting of top automotive leaders in a neutral location where we all leave our company name badges at the door. That way, we can engage in candid dialogue...unify...and come out with a positive direction.

Think what we could do with issues like CAFE and global warming if we join hands and develop our own vision for the future, rather than waiting for regulators to do it for us. Let's drive the process and not get run over by it.

Only by uniting and becoming a part of the solution can we sustain our industry and guarantee our lasting success. It's not an "us vs. them" world anymore...it's a "partner to partner" world where we all contribute to the greater good because it's in all of our best interests.

Now is the time.

Now is the time because our industry is healthy and better days are coming.

Now is the time because we are one of the most creative and forward-thinking industries on earth.

Now is the time because there's a new spirit of cooperation within government ...universities...and advocacy groups.

And now is the time because our future depends on it.

As an industry, we have to recognize...not the passing of a storm...but the dawning of a new reality where society and customers are in charge of our future.

By improving our products, quality and relationships to serve people and the public interest, we will create a new Golden Era of prosperity for ourselves...our industry... and our families.

Now is the time...let's go make it happen.

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