TOYOTA NORTH AMERICA **ENVIRONMENTAL REPORT**




TOYOTA

2005

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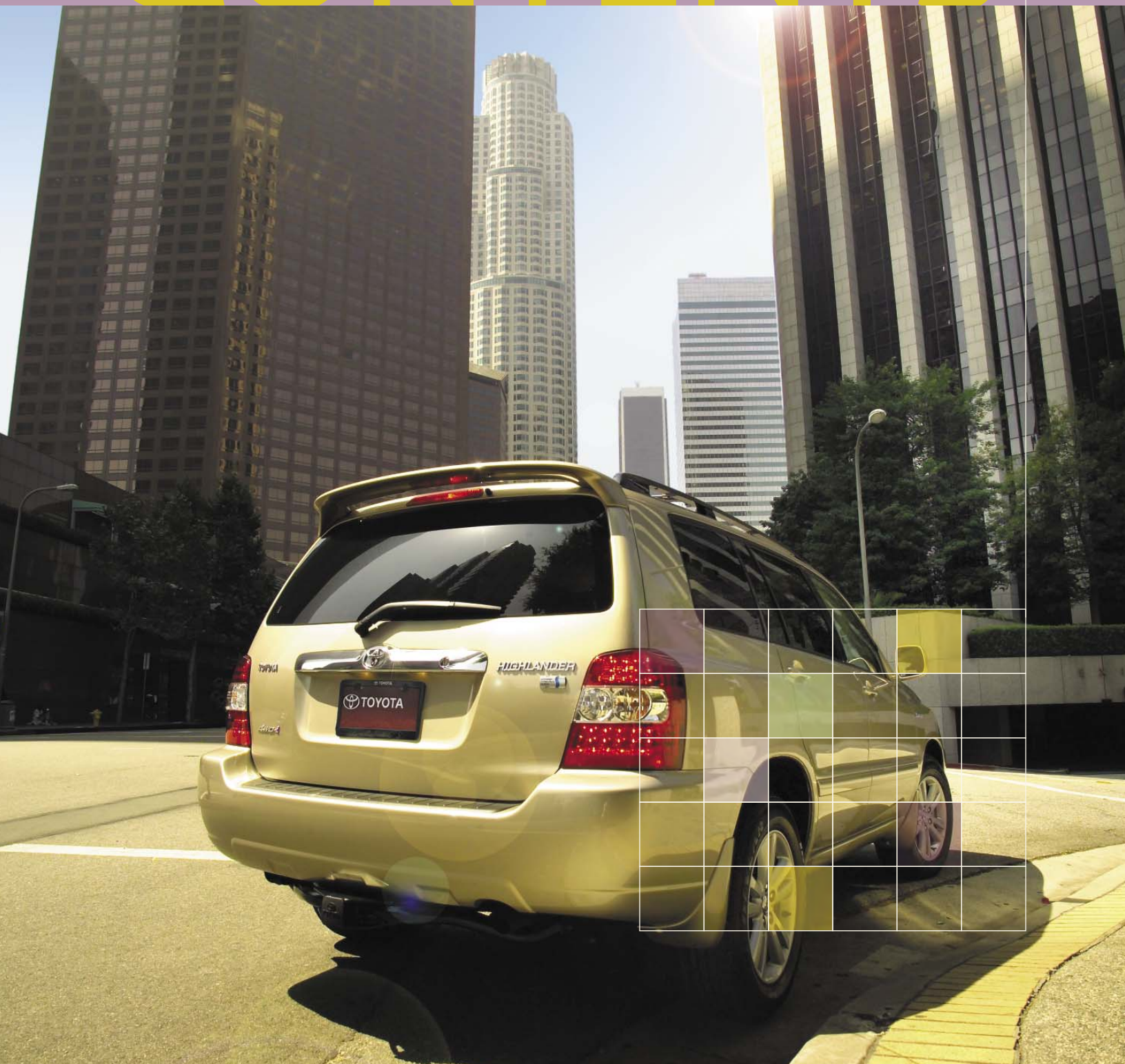


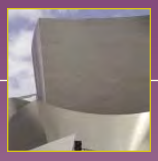
Scope of This Report

The period covered in this North America Environmental Report is fiscal year 2005 (April 1, 2004 through March 31, 2005) and product model year 2005. If data are presented with different dates, this is clearly indicated. This report was published in September 2005.

This report discusses the environmental aspects of our products and processes, outlines environmental action plans to address them, and includes progress updates against those plans. We have structured this report to correspond to the life cycle of our business, from design through manufacture, and sales and distribution to end-of-life management. We also provide information on how we engage with various stakeholders, internal and external to Toyota, on environmental issues, and on our company's overall economic investment and geographic presence in North America. The report covers activities across the North American region — the United States, Canada and Mexico. Please see the back cover of this report for contact information and country Web sites.

This report is published in hard copy and on the Web in English (using United States spelling). French and Spanish versions are provided on the Web only. We listened to your comments and suggestions about last year's report, and used them to improve this report. We would appreciate hearing from you again. A reader feedback form is provided on the Web.

Cover: **The 2006 Highlander Hybrid four-wheel-drive with intelligence (4WD-i), shown in downtown Los Angeles, California, is powered by a new version of Toyota's Hybrid Synergy Drive powertrain specifically developed to meet the performance and load-carrying requirements of a midsize SUV. Together, the electric motor and gasoline engine produce 268 peak combined horsepower with a towing capacity of 3,500 pounds. The Highlander Hybrid 4WD-i meets emissions standards for a Super Ultra Low Emission Vehicle and has a combined EPA fuel economy rating of 29 mpg (7.8 L/100 km). The vehicle went on sale in June 2005.**




Dear Reader

We are pleased to present our fifth annual Environmental Performance Report for Toyota North America. We hope this report demonstrates how our commitment to environmental excellence is built into our corporate mission and vision and is reflected in every facet of our operations. This commitment also extends to our supplier, dealer and customer relations as well as our interactions with governmental agencies and the communities where we live and work.

Toyota's Global Vision 2010 is to "be a driving force in global regeneration by implementing the most advanced environmental technologies." This past year we introduced two new hybrids — the Lexus RX 400h and the Toyota Highlander Hybrid. We also announced two more hybrids for the 2007 model year — the Lexus GS 450h and the Toyota Camry Hybrid. The Camry Hybrid provides a hybrid option for our most popular model. Also, it will be our first hybrid assembled here in the U.S., at our Georgetown, Kentucky, plant. We see a time when consumers can choose a hybrid-electric powertrain option on any Toyota vehicle.

Here are some highlights from the past year:

In designing our vehicles, we continue to exceed CAFE and CAFC limits for our car and truck fleets, and we are ahead of the federal requirements to meet tailpipe emission standards. In addition, we have tested over 750 vehicles in our in-use emissions testing programs, and our compliance rate continues to lead most major industry manufacturers.

In manufacturing, our overall land disposal of waste has declined by 86%, and eight of our facilities have already achieved zero landfill. In addition, Toyota Motor Manufacturing North America, Inc. was presented with the "Partner of the Year 2005 — Leadership in Energy Management" Energy Star Award by the U.S. Environmental Protection Agency and Department of Energy for reducing greenhouse gas emissions while improving energy efficiency.

Sales of our environmentally sensitive vehicles show a growing market acceptance of hybrid technology. In logistics, as part of our commitment to greening operations, our Portland Vehicle Distribution Center was built with numerous sustainable features, and won a Gold LEED® award. We also met or exceeded our target improvements in solid waste management.

In terms of product end-of-life issues, we are working to achieve a 95% vehicle recovery rate by FY2015. We also have a commitment to voluntarily minimize the use of certain substances of concern in all Toyota, Lexus and Scion vehicles sold in North America. Both commitments bring Toyota North America in line with more stringent regulatory trends in Japan and Europe.

Looking to the future, our business success will depend on how well we meet customer demand. Our customers tell us that they will buy our innovative environmental technologies — if we can also meet price and performance requirements. As this report shows, we are striving to achieve this balance. More broadly, we believe that it is vital for our management to interact with all our stakeholders in a communications process that is open and fair. This report describes some of the many ways that we reach out and engage with these stakeholders: our customers, shareholders, local communities and global societies, and employees.

Toyota is very aware that our success brings with it increased responsibility and obligation. As we expand in North America, we seek to increase our positive contribution to the environment and to the people, economies and societies that we serve.

Hideaki "Harry" Otaka
President and Chief Executive Officer
Toyota Motor North America, Inc.

Yasuhiko Ichihashi
President
Toyota Technical Center, U.S.A., Inc.

Seiichi Sudo
President and Chief Executive Officer
Toyota Motor Manufacturing
North America, Inc.

Yukitoshi Funo
Chairman and Chief Executive Officer
Toyota Motor Sales, U.S.A., Inc.

Kenji Tomikawa
President and Chief Executive Officer
Toyota Canada Inc.

Dennis C. Cuneo
Senior Vice President
Toyota Motor North America, Inc.

David R. Baxter
Vice President
Toyota Technical Center, U.S.A., Inc.

Gary Convis
Executive Vice President
Toyota Motor Manufacturing
North America, Inc.

Ray Tanguay
Executive Vice President
Toyota Motor Manufacturing
North America, Inc.

James E. Press
President and Chief Operating Officer
Toyota Motor Sales, U.S.A., Inc.

Stephen Beatty
Managing Director
Toyota Canada Inc.




MANAGEMENT

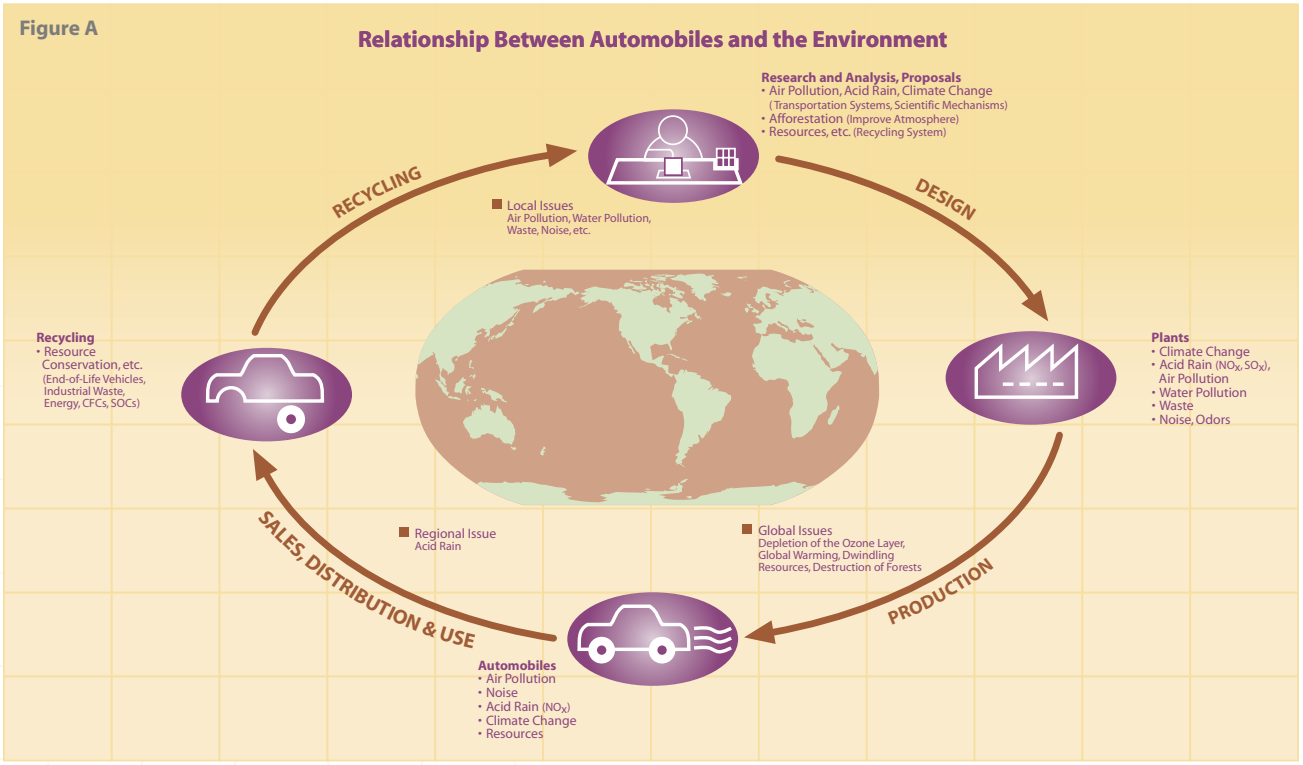
"Our standards and guidelines for better environmental performance motivate us to consistently improve our efforts to create a cleaner, healthier world."

— Yukitoshi Funo, Chairman and Chief Executive Officer, Toyota Motor Sales, U.S.A., Inc.

The automobile has played an important role over the last century, providing freedom of mobility to different types of drivers. However, the continued proliferation of vehicles can have negative effects on our ecosystem. As is shown in the diagram below, these effects can range from climate change and dwindling natural resources to smog, noise and water pollution. At the very highest level within Toyota, we believe that the key challenge for automakers in this new century is to address environmental issues. If the automobile is to remain a beneficial tool, if our industry is to have a future, sound environmental responses and technologies are essential. Toyota is convinced that automakers need to address this problem if we are to be acceptable to society and successful in the long term.

To ensure that our products are accepted and well received around the world, Toyota has positioned the environment as a priority management issue. We seek to become a leader of global regeneration through our outstanding environmental technologies. We conduct meticulous environmental management in all areas,

Figure A



Left: **At Toyota's North American manufacturing companies, Environmental Steering Committee (ESC) meetings are used to communicate environmental performance, compliance and risk information to plant executives. Here, during the *Genchi Genbutsu* ("go and see") portion of an ESC meeting at New United Motor Manufacturing, Inc. in Fremont, California, Karen Natoli-Maxwell, Assistant General Manager of Truck Assembly, reports to (from top left to lower right): Deryl Sturdevant, General Manager for Engineering and Future Projects and Environmental Director; Yukio Azuma, President and Chief Executive Officer; and Ernesto Gonzalez-Beltran, Vice President of Manufacturing.**

Figure B

TOYOTA'S GUIDING PRINCIPLES

Adopted January 1992, revised April 1997

1. Honor the language and spirit of the law of every nation and undertake open and fair corporate activities to be a good corporate citizen around the world.
2. Respect the culture and customs of every nation and contribute to economic and social development through corporate activities in local communities.
3. Dedicate ourselves to providing clean and safe products and to enhancing the quality of life everywhere through our activities.
4. Create and develop advanced technologies and provide outstanding products and services that fulfill the needs of customers worldwide.
5. Foster a corporate culture that enhances individual creativity and teamwork value, while honoring mutual trust and respect between labor and management.
6. Pursue growth in harmony with the global community through innovative management.
7. Work with business partners in research and creation to achieve stable, long-term growth and mutual benefits, while keeping ourselves open to new partnerships.

TOYOTA'S EARTH CHARTER (APRIL 2000)

The Toyota Earth Charter, published in 1992 and updated in 2000, describes Toyota's Basic Action Policy and Action Guidelines regarding environmental improvements.

I. Basic Policy

1. **Contribute toward a prosperous 21st century society**
   Aim for growth that is in harmony with the environment, and set a challenge to achieve zero emissions throughout all areas of business activities.
2. **Pursue environmental technologies**
   Pursue all possible environmental technologies, developing and establishing new technologies to enable the environment and economy to coexist.
3. **Take action voluntarily**
   Develop a voluntary improvement plan based on thorough preventive measures and compliance with laws, that addresses environmental issues on global, national and regional scales, while promoting continuous implementation.
4. **Work in cooperation with society**
   Build close and cooperative relationships with a wide spectrum of individuals and organizations involved in environmental preservation, including governments, local municipalities and related companies and industries.

II. Action Guidelines

1. **Always be concerned about the environment**
   Work toward achieving zero emissions at all stages, i.e., production, utilization and disposal;
   Develop and provide products with top-level environmental performance;
   Pursue production activities that do not generate waste;
   Implement thorough preventive measures;
   Promote businesses that contribute toward environmental improvement.
2. **Business partners are partners in creating a better environment**
   Cooperate with associated companies.
3. **As a member of society**
   Actively participate in social actions;
   Participate in creation of a recycling-based society;
   Support government environmental policies;
   Contribute to nonprofit activities.
4. **Toward better understanding**
   Actively disclose information and promote environmental awareness.

including with our suppliers and business partners, and in each stage of the vehicle life cycle — design, production, logistics, use, disposal and recycling. Toyota also believes that it is important to conduct continual and constant monitoring and follow-up.

Our company in North America consists of a number of affiliates whose primary function corresponds to one of the vehicle life cycle stages. For more information on the affiliates, please refer to the Corporate Profile at the end of this report. This section includes information on our affiliates in North America, and on our overall company investment in people and capital infrastructure.

This report is organized around the life cycle stages of our vehicles. Issues specific to each life cycle stage are reported in the relevant chapters of this report. Others, such as greenhouse gas emissions, cut across many life cycle stages of the vehicle, and are better managed through cross-affiliate, regional coordination and planning among our various business units. These "regional crosscutting issues" are reported on later in this chapter.

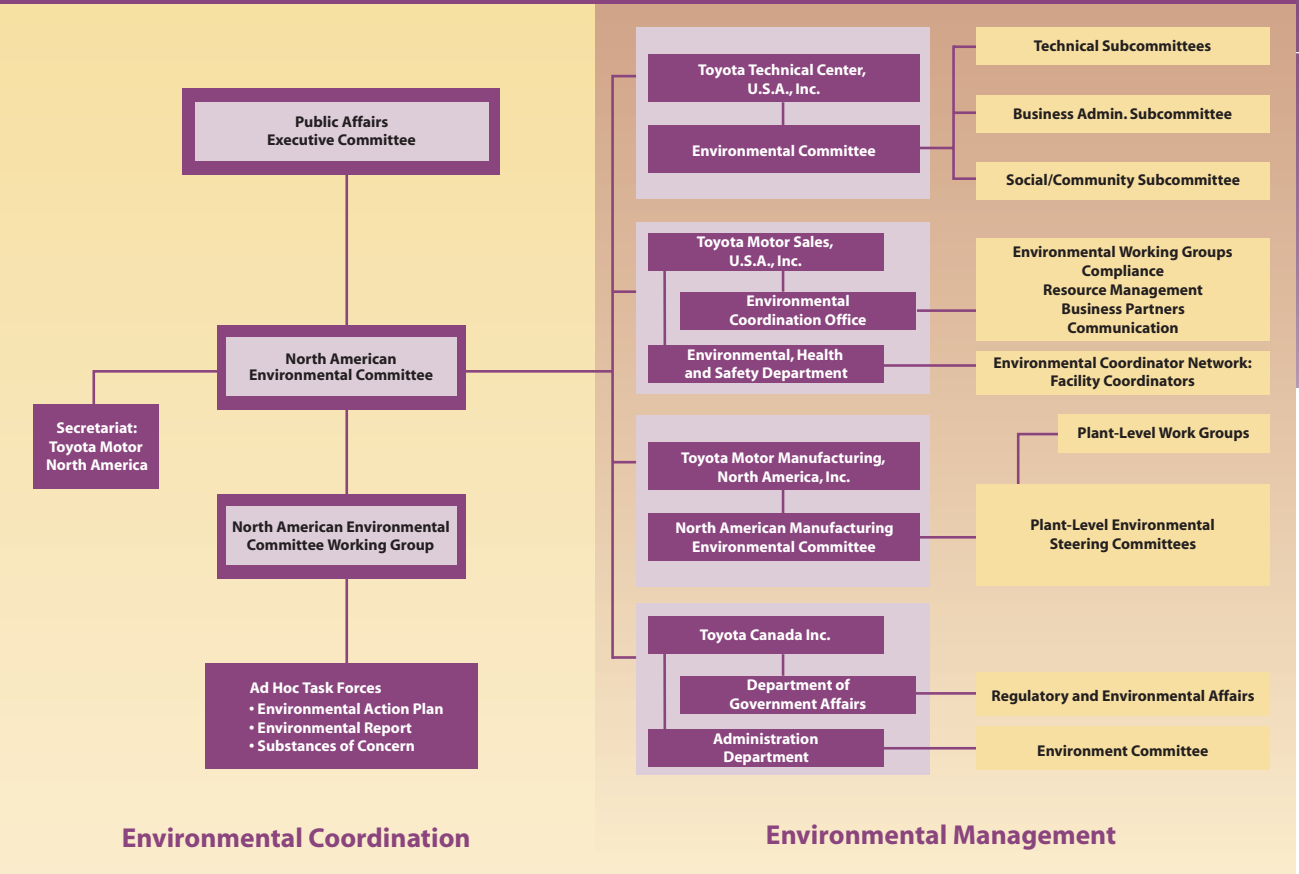
Many of the longer-term issues of sustainable transportation cannot be resolved by individual auto manufacturing companies on their own. It is therefore in the long-term interests of the automobile industry to work on sustainable long-term solutions with other stakeholders. Our work with other stakeholders, from business partners to governmental agencies to local communities, is woven through the chapters of this report, and is the focus of the Engaging Stakeholders chapter as well.

We start this chapter by outlining the corporate principles that dictate how we conduct our business, the steps we are taking to reduce our environmental impact, and the processes we have in place to manage our progress.

GUIDING PRINCIPLES AND EARTH CHARTER

Toyota's seven Guiding Principles serve as the fundamental management policy for all our operations. The principles reflect Toyota's commitment to providing clean, safe and innovative products, while respecting the environment and culture of the local communities

Figure C **ENVIRONMENTAL COORDINATION AND MANAGEMENT IN NORTH AMERICA**



in which we operate. The Guiding Principles form a foundation for Toyota's Earth Charter, adopted in April 2000 (please see Figure B). The Earth Charter describes our basic policy and action guidelines regarding concern for the environment and cooperation with society.

ENVIRONMENTAL COORDINATION AND MANAGEMENT

To help us implement our Guiding Principles and Earth Charter, Toyota's North American affiliates have established individual environmental governance and management structures. In addition, the North American Environmental Committee (NAEC) serves as the high-level coordinating forum across North America. The committee comprises the Chief Environmental Officer from each North American affiliate, as well as key executive coordinators from Toyota Motor Corporation in Japan (please see Figure C).

The NAEC facilitates the development of the North American Five-Year Environmental Action Plan and the publishing of this report. The NAEC ensures a more cohesive overall environmental strategy among the affiliates.

OUR ENVIRONMENTAL ACTION PLANNING PROCESS

The Toyota Environmental Action Plan is a medium- to long-term plan that summarizes our environmental goals and targets. Our five-year goals and targets are designed to help us achieve Toyota's higher-level environmental mission and vision as expressed in the Earth Charter and Guiding Principles. Our Action Plan is implemented at the affiliate level, where our five-year goals are translated into annual environmental action plans, each with its own supporting goals and targets.

In the following pages and chapters, we report on our combined North American Action Plan (for a summary of this plan, please see Figure D). We are on track to achieve some targets, and we are pleased to report that we have achieved some of them early. In many cases where targets were met early, we set new and more challenging targets, and these are noted in our Action Plan.

The current Five-Year Plan runs from FY2001 – FY2006, i.e., to March 2006. In 2006, we will report on the final year of this Action Plan, and will reflect on our progress over the previous five years. We have begun work on our

Figure D

CONSOLIDATED SUMMARY OF NORTH AMERICAN FIVE-YEAR ACTION PLAN

FY2006 Action Plan Goal[1]	Targets	Status[2] ● Achieved ○ On Track ⊗ Missed	Page
Life Cycle Stage I: Development and Design			
Fuel Efficiency • Achieve top levels of fuel efficiency in all vehicle classes	• Exceed CAFE/CAFC requirements for passenger cars and light-duty trucks.	●	p. 19
Emissions Reductions • Promote emissions reductions	• Meet Tier 2 and LEV II emissions requirements for new vehicles.	○	p. 22
Clean Energy Vehicles • Introduce cleaner energy vehicles	• Introduce additional new hybrid electric vehicles by 2005. • Apply real world knowledge from current FCHV fleet to second-generation FCHV.	● ●	p. 23 p. 24
Life Cycle Stage II: Manufacturing			
Energy Use and CO_2 Emissions • Implement aggressive plans to reduce energy consumption	• Reduce energy usage by 15% per unit of production from a base year of 2000, resulting in a 15% decrease in CO_2.	●	p. 28
Substances of Concern • Develop extensive reduction strategies to minimize emissions of concern	• Reduce body-painting emissions of VOCs to less than 30 g/m² for all paint shops. • *New Target:* Reduce body-painting emissions of VOCs to 20 g/m² for all paint shops. • Reduce toxic chemicals emitted to air by vehicle assembly plants to 1.0 kg/vehicle. • *New Target:* Reduce toxic chemicals emitted to air by vehicle assembly plants to 0.7 kg/vehicle. • Continue R&D activities aimed at eliminating all VOCs and toxic chemicals from coolants and cutting oils used in unit plants.	● ● ● ○ ○	p. 29 p. 29 p. 29 p. 29 p. 29
Waste Disposal • Reduce waste and promote resource conservation activities	• Reduce landfill of all production waste to 10 kg/vehicle from a base year of 1999. • *New Target:* Reduce landfill of all production waste to 7 kg/vehicle from a base year of 1999.	● ●	p. 30 p. 30
Water Use • Implement aggressive plans to reduce water consumption	• Reduce total water usage by 15% per unit of production from a base year of 2000.	●	p. 31
Environmental Management Systems • Implement Green Supplier Guidelines	• Certify/register key suppliers to ISO 14001 by December 2003. • Comply with Chemical Ban List/Environmental Data Sheet. • Develop procedures that ensure compliance with hazardous materials/dangerous goods transportation guidelines.	⊗ ○ ●	p. 31 p. 32 p. 32
Life Cycle Stage III: Sales, Distribution and Service			
Environmental Management Systems • Establish an Environmental Management System	• Achieve ISO 14001 certification/registration at all parts and vehicle distribution centers by FY2005 in the U.S., and by FY2003 in Canada.	●	p. 38
Hazardous Materials • Promote excellence in handling and transporting hazardous materials	• Maintain 100% compliance with all applicable HAZMAT/dangerous goods regulations.	○	p. 38
Waste • Reduce waste and conserve resources	• Reduce waste from sales and distribution operations. • Implement a returnable-packaging program at parts distribution centers.	○ ●	p. 39 p. 40
Energy • Reduce energy use • Reduce greenhouse gases	• Reduce total energy consumption in the U.S. 15% by FY2006. • Reduce greenhouse gas emissions.	● ○	p. 41 p. 41
Dealers • Promote environmental responsibility among dealers	• Introduce Toyota Environmental Guidelines to the Toyota Canadian dealer network by 2004.	●	p. 42
Other • Promote greener building construction and maintenance operations	• Develop sustainable operations standards for U.S. facilities.	●	p. 43
Life Cycle Stage IV: Recycling End-of-Life Vehicles			
Substances of Concern • Manage substances of concern	• Develop North American substances of concern strategy.	●	p. 45
Vehicle Recyclability • Develop recycling designs and promote expanded use of recycled materials	• Incorporate material and design strategies for increased vehicle recyclability.	○	p. 45
Engaging Stakeholders			
Environmental Communication • Enhance environmental communication activities in each region/country	• Enhance environmental communication activities. • Promote environmental communication with community and key organizations.	○ ○	p. 47 p. 48

[1] Target dates in this Action Plan have not changed since the 2002 Environmental Report. We have converted all Action Plan goals and targets to a Financial Year calendar (April to March) for better comparability. Targets for FY2006 denote April 2005 to March 2006.

[2] Status indicated refers, in some cases, to progress toward achieving the five-year goal. In other cases, the status refers to an annual target in support of the five-year goal. Details are provided in the body of the report.

Figure E

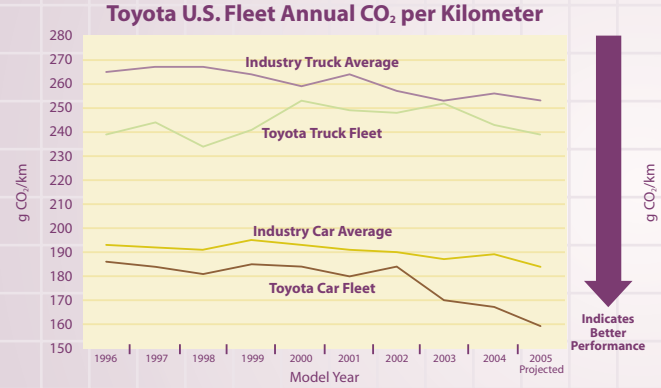
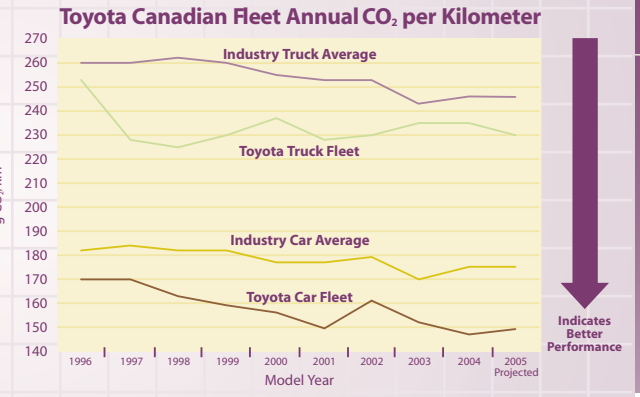


Figure F



next Five-Year Environmental Action Plan, which we expect to publish in our 2006 report. The plan will reflect broader global goals and targets as well as the goals and targets of our North American affiliate companies.

REGIONAL CROSSCUTTING ISSUES

Toyota has a long tradition of building on existing best practices and strengthening our regional business position. We recognize that sharing results of successful environmental initiatives that cut across affiliate company lines will improve our overall performance in North America. The following sections discuss several areas where we have begun to coordinate activities among our affiliate companies and prepare integrated environmental responses across the different life cycle stages. Discussion of specific goals and targets can be found in the individual life cycle chapters.

GREENHOUSE GASES

Toyota believes it is prudent to voluntarily minimize greenhouse gas (GHG) emissions at all stages of the vehicle life cycle. The following sections discuss our efforts across our business to reduce greenhouse gases.

Product

Customer use of our products — driving cars and trucks — accounts for the largest portion of GHGs from a vehicle's life cycle. While we cannot control the usage patterns and driving habits of our customers, we can and do aim to provide them with efficient vehicle choices to minimize fuel usage and associated GHG emissions from vehicles. Figures E and F show that CO_2 emissions from Toyota's new vehicles are below that of the industry as a whole in both the U.S. and Canada, for both cars and light trucks (including SUVs). Our specific goals and targets for vehicle fuel efficiency and advanced technology deployment are reported beginning on page 17 of this report.

Toyota's engineers continue to research ways to develop vehicles that emit fewer smog-forming pollutants and greenhouse gases, while satisfying customer expectations for safety, durability, performance and cost.

Hydrogen fuel cells have the potential to provide practical, reliable and affordable zero-emission propulsion, but we recognize that true commercialization of hydrogen-based transportation is years away. Significant scientific breakthroughs are needed in several areas, including cold weather performance, onboard hydrogen storage, hydrogen supply and production, cost reduction and durability. In addition, global codes and standards must be enacted and a hydrogen infrastructure developed in coordination with vehicle development. Toyota is actively participating in many of these development activities, including:

- U.S. Department of Energy demonstration program for hydrogen vehicles and infrastructure with Honda, BMW, Nissan, ConocoPhillips and Air Products and Chemicals, Inc.;
- Society of Automotive Engineers working groups to develop codes and standards for parking structures that provide hydrogen vehicles with sufficient ventilation;
- Canadian Transportation Fuel Cell Alliance (CTFCA) involving government, automotive, fuel and technology sectors;
- California Fuel Cell Partnership (CaFCP), involving government, automotive, fuel and technology sectors;

We remain committed to hybrid technology, which can deliver superb well-to-wheel CO_2 efficiency and very low smog-forming emissions in a compact and flexible package.

- Demonstration and evaluation program with the University of California, Irvine's National Fuel Cell Research Center and Davis' Institute of Transportation Studies.

While we are investing heavily in the promise of fuel cells, we must not turn our backs on what we can do today. We remain committed to hybrid electric internal combustion engine (ICE) technology, which can deliver superb well-to-wheel CO_2 efficiency and very low smog-forming emissions in a compact and flexible package. We view hybrid technology development as a critical step to the realization of the full potential of fuel-cell vehicles through hybridization. Our progress on hybrid vehicle development is outlined in more detail starting on page 23.

The United States and Canada are addressing GHG emissions from the automobile sector largely through voluntary programs. In Canada, the federal government has signed the Kyoto Protocol and made a binding commitment to reduce Canada's GHG emissions. As part of its overall plan to achieve reductions in GHGs, the government of Canada signed a voluntary agreement with vehicle manufacturers, including Toyota, in April 2005. The agreement requires reductions in GHG emissions from new cars and light-duty trucks of 5.3 megatonnes by 2010. To achieve this reduction, the Canadian automobile industry has agreed to deliver on a broad action plan that will focus on advanced vehicle technologies, support the need for better quality fuel, support research and development in Canada, and work with consumers to reduce GHG emissions from their vehicles. If the automotive industry fails to comply with the voluntary agreement, the Canadian government reserves the right to introduce a legally binding regulation.

In the United States, federal and state governments offer a variety of voluntary programs and initiatives to reduce greenhouse gas emissions. Some of these programs are discussed under the Manufacturing section. In addition, the federal government sets fuel economy standards to ensure consistency across the United States.

A new greenhouse gas law in California, however, will require new vehicles sold in the state in 2010 to emit 22% less CO_2 than today's vehicles and 30% less by 2016. This law in effect regulates motor vehicle fuel economy at the state level. The Alliance of Automobile Manufacturers (AAM), of which Toyota is a member, is challenging this law on the basis that federal law prohibits states from enacting their own fuel economy standards. In addition, the AAM argues that, although there are a few vehicles on the market that meet the new standard now, the regulation would increase vehicle prices and limit consumer choices on models. At the time of publishing (September 2005), this case is pending in the U.S. District Court for the Eastern District of California, Fresno Division.

Manufacturing

Toyota, along with other members of the Alliance of Automobile Manufacturers, participates in the U.S. Department of Energy (DOE) Climate VISION program. Member companies have committed to reducing the level of GHGs emitted from their U.S. manufacturing operations by 10% per vehicle produced by 2012, compared to a 2002 baseline. This commitment complements Toyota's existing

On Earth Day 2005, employees from the Chicago Parts Distribution Center (PDC) participated in a cleanup of Phillips Park in Aurora, Illinois. The PDC helped clean up Mastodon Lake and donated a Red Flash Silver Maple tree that was planted with the help of the Fox Fire District scout troop.

efforts at our manufacturing sites to reduce energy use, and thus CO_2 (please see page 27 for more details). In addition, we submit an annual report documenting our manufacturing GHG emissions to DOE's 1605(b) greenhouse gas registry as a transparent means to track our progress.

Sales and Distribution

Toyota's U.S. sales and distribution operation has produced a GHG inventory for the past four years, measuring tons of GHG emissions from electricity use, natural gas use and indirect sources such as business travel, fleet vehicles, employee commuting, and logistics and supply activities. As our logistics facilities process and deliver cars and parts across the U.S. via road, rail, air and ocean transport, a large proportion of the emissions in our inventory are from logistics. We track these emissions, both from the trucks we own and from the railroads, airplanes, trucks and ships owned by transport companies.

We encourage and support the transport companies in reducing their emissions. In particular, we work with rail carriers to evaluate efficiencies in rail transportation that could lead to measurable GHG reductions that are related to our distribution activities. Our sales and distribution division was invited to speak at the Railroad Environmental Conference in October 2004. This followed meetings with rail carriers to learn about GHG reduction initiatives, establish carrier-specific emission factors, and determine the most efficient emissions tracking method.

Another significant source of emissions from U.S. sales and distribution is the energy required to run our buildings and other operations. We are working to reduce these emissions through energy efficiency projects, and we are looking for ways to reduce GHGs from other sources as well. For more details, please see page 41.

GREENING INVESTMENT

Toyota's 624,000-square-foot South Campus Headquarters Complex in Torrance, California, was designed to demonstrate that energy-efficient buildings made with a significant percentage of recyclable materials do not necessarily have to cost more than ordinary office developments. The South Campus has been operating for two years, and is performing well above expectations. For the 12-month period ending January 2005, the photovoltaic system at South Campus produced 648,000 kwh, representing 9% of the building's annual energy use. Almost 21.5 million gallons of potable water were saved by using tertiary-treated recycled water for all toilet flushing, landscape irrigation and cooling of the buildings.

Toyota is using what we learned from our South Campus project and from our experience with the Leadership in Energy and Environmental Design (LEED®) Green Building Rating System program to green construction and renovation projects and leasing agreements across North America. The following sections provide some examples.

Toyota made a voluntary commitment to minimize substances of concern (SOCs), including mercury, cadmium, lead and hexavalent chrome.

Manufacturing Plants

Toyota is committed to environmental leadership at our manufacturing plants across North America. To ensure facilities meet our standards, Toyota has implemented an eco-plant process that begins when planning a new facility or significantly modifying an existing facility. An eco-plant plan focuses on performance, risk reduction, continuous compliance and complaint reduction.

Performance elements include targets for reducing our environmental impact. These targets may address energy, waste, water and volatile organic compounds. Targets are determined by considering industry benchmarks, current technologies and local conditions. For example, fresh water supply is limited in Texas, so the eco-plant water usage target for our new facility in San Antonio includes the use of recycled water from the City of San Antonio.

Risk reduction, compliance and complaint issues are also addressed during the planning stage. For example, process sumps at our Baja California, Mexico, facility were built above grade to remove the risk of groundwater and soil contamination; and the Bodine plant in Tennessee was sited to mitigate odors reaching neighboring properties.

Audits are conducted during design, construction and equipment installation to ensure the elements of the eco-plant plan are being implemented. Once the plant is operational, environmental performance is audited to ensure the plant meets the targets that were set in the eco-plant plan.

Logistics

Toyota is also committed to investing in sustainable buildings in logistics. Plans for our new vehicle processing center in Toronto, Ontario, were developed using the International Standard ISO 14001 to help us define environmental building processes and features. The foundation was poured in early May 2005.

Some of the building and process features include:

- Abundant shop windows to increase natural light;
- Lower ceiling height to save energy;
- Floor drainage and containment systems;
- Enclosed compressors to reduce noise;
- Reduced paint and chemical storage;
- Use of recycled building material.

Toyota's relocation of the vehicle distribution center in Portland also benefited from our experience at South Campus and with LEED. For more information on the sustainable features of this renovation project, please see page 43.

Administrative Offices

Toyota's offices in Washington, D.C., moved to a new location in the summer of 2005. We negotiated the lease agreement with our new landlord with LEED certification in mind. The building meets several LEED criteria, such as location near a metro station, the availability of bicycle racks and showers in the building, collection of recyclables (such as paper, glass and plastic), prohibition on indoor smoking, and the use of environmentally sensitive janitorial products.

A virtual collision repair shop, paint mixing room, auto service shop and spray booth on the Environmental Assistance Network (on the Web at www.ccar-greenlink.org/tms) provide dealerships with information to help them manage environmental requirements.

One of the most unique features of the lease agreement is the innovation credit. If the landlord contemplates an upgrade to the building that is expected to cost more than $15,000, the landlord will perform an analysis to determine whether more environmentally sensitive ways to complete the upgrade are available. The landlord will perform the more environmentally sensitive upgrade if the cost is less than or equal to the alternative preferred by the landlord and provides the same or better quality.

SUBSTANCES OF CONCERN

In 2004, Toyota made a voluntary commitment to minimize substances of concern (SOCs), including mercury, cadmium, lead and hexavalent chrome, in all North American vehicles and parts. This commitment is not required by regulations in North America. Instead, it is inspired by legislation in Europe and Asia that seeks to ban the use of certain SOCs in products due to their potential impacts to the environment and to human health. Based on a March 2005 policy directive from the Toyota Motor Corporation Environment Committee, Toyota's operations worldwide are now working toward compliance with this legislation.

Our North American SOCs strategy involves working with suppliers to identify components that contain SOCs and develop a timetable to phase out the SOCs. A cross-affiliate working group of representatives from engineering, manufacturing and sales is implementing the strategy. During FY2005, Toyota worked closely with suppliers to continue to assess and verify our current SOCs content, and to begin to set up checks and balances that will ultimately help to ensure SOCs have been eliminated, replaced or reduced from all parts.

DEALER AND SUPPLIER ENVIRONMENTAL EDUCATION

Across our affiliates, we encourage those we work with to reduce their environmental impact. We work with our dealers to build awareness about the impacts on the environment of distributing and servicing vehicles. We talk more about these efforts on page 42.

Toyota launched the Environmental Assistance Network (EAN) in 1993 as a paper-based system for our dealerships. In 2001, we established a partnership with CCAR-***Green***link® and moved EAN to the Web (please see caption above). CCAR-***Green***link® is the National Automotive Environmental Compliance Assistance Center, operated by the Coordinating Committee for Automotive Repair in cooperation with EPA. EAN provides U.S. dealers with up-to-date compliance and waste stream management information and self-audit tools. Service and parts managers tell us they use the EAN regularly to determine critical storage and disposal requirements for coolants, oils and other chemicals. Dealers also use EAN as a tool to identify requirements for equipment, such as environmentally safe vehicle hoists and paint booths. We continue to add new content to EAN, including Spanish language documents, to improve and develop this resource.

Toyota's manufacturing plants provide an ISO 14001 Guidance Manual to our suppliers — a training guide for Toyota suppliers who are trying or required to obtain ISO 14001 certification/registration of their environmental management systems (EMSs). In addition to the guidance manual, we provide training for our suppliers on how to implement an EMS.

In June 2004, Toyota held an annual waste conference at our Georgetown, Kentucky, plant that brought together team members from five North American plants. They discussed activities that reduce the amount of waste going to landfill, and shared a total of 25 *kaizen* (Japanese for continuous improvement) ideas on recycling and composting. These *kaizens*, once implemented at other plants across North America, will result in further reductions in waste to landfill.

In addition, we invite suppliers to various conferences and meetings to help them better understand our environmental initiatives and to provide guidance on their own environmental programs. A number of our accessory and parts suppliers attended our annual Environmental Coordinators Conference, held in Torrance, California, from March 1-3, 2005. Many suppliers actively participated in this year's conference. More information on the conference is provided in the next section.

EMPLOYEE ENVIRONMENTAL EDUCATION

At Toyota, environmental education is an important way that we enhance environmental awareness and encourage environmental action by our employees. We have created employee environmental education programs that serve as an important basis for continually enhancing our environmental performance. The caption and photos above provide an example of how our education programs enhance our waste reduction performance.

Toyota provides classroom training for team members in our manufacturing plants and for sales associates in our logistics operations on a number of subjects, including hazardous materials, hazardous waste disposal, stormwater management, and spill and emergency response. New employees at our logistics and manufacturing locations are also provided with general awareness and EMS training that provides them with a basic understanding of Toyota's potential impacts to the environment and the measures that are being taken to minimize those impacts.

Examples of our employee education programs include:

- Employees in Toyota's sales and distribution offices in Canada participate in awareness training and take an ISO 14001 quiz twice per year. The training occurs before third party registrar audits, part of our ISO 14001 registration process. The awareness of ISO and an organization's EMS usually decreases once ISO registration is achieved, but due to our proactive efforts, our awareness has increased.
- An annual conference was held in Erlanger, Kentucky, in March 2005 for environmental and hazardous materials coordinators at our manufacturing plants.
- Environmental and hazardous materials coordinators from our parts distribution sites, logistics, research and development, and AirFlite divisions, as well as sales affiliates and suppliers attended our annual Environmental Coordinators Conference in March 2005. Representatives from federal agencies and other corporations also attended.

  At this conference, we presented environmental training classes on various topics, and held numerous panel discussions covering environmental programs and best practices. We also handed out the home edition of our hazardous materials board game, where teams of employees compete to answer questions related to hazardous materials, arranged in four levels of increasing difficulty.

Toyota achieved our goal of zero violations at our distribution sites in North America for the seventh consecutive year.

COMPLIANCE AND AUDITS

Elsewhere in this report, we discuss ways in which we voluntarily go "beyond compliance," such as our initiative to phase out SOCs and our activities to reduce GHG emissions. At the same time, we must also have systems in place to check that our activities comply with all federal, state, provincial and local requirements. The following sections describe our compliance record and our audit process.

Compliance

Toyota achieved our goal of zero violations at our distribution sites in North America. We have now completed seven consecutive years without any HAZMAT/dangerous goods violations.

One of our manufacturing plants received a notice of violation related to an emissions monitoring and recording system. While this violation did not result in an adverse impact on the environment, Toyota takes any issue of noncompliance very seriously, and corrected the problem immediately.

Audits

Facilities registered to ISO 14001 are required to have a third party registrar conduct a re-certification/re-registration audit every three years, in order to ensure the facility continues to conform to the requirements of this environmental standard. In 2004, several of our North American sales and logistics facilities underwent their ISO 14001 re-certification/re-registration audits, including Toyota's Canadian sales affiliate. All of our locations were successful in retaining their ISO standing.

Our manufacturing plants initiated a new audit program in 2004 based on Toyota Motor Corporation's (TMC's) Global Audit Program. This new program is the auditing component of the Enhanced Environmental Management System (discussed further in the Manufacturing chapter). The program focuses on compliance, risk reduction and environmental performance.

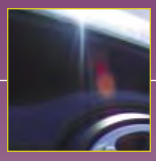
In October of last year, TMC conducted a Global Audit training course for Toyota's worldwide manufacturing companies. At the conclusion of the training, team members took tests to document their proficiency and to certify them as Global Auditors.

So far, three of the North American manufacturing plants have been audited to these new, more rigorous requirements by TMC and North American team members certified as Global Auditors. In 2005, we intend to conduct nine additional audits. Auditing each of the plants involves a three- to four-day pre-audit followed by a three- to four-day official audit several months later. There is also a follow-up audit to verify that issues found during the official audit are corrected.

In addition to internal audits, Toyota conducts external audits and contracts third party audits of all transfer, storage and disposal facilities that are used by our manufacturing plants. Select recycling facilities, including battery and scrap metal recyclers, are also audited. Audit criteria include compliance, adequate containment and housekeeping. Toyota reports any deficiencies to the facility and requests countermeasures. If the facility is not able to meet Toyota's standards, the facility is not approved for use. We recently conducted external audits in Mexico to help us find approved facilities for our new manufacturing plant in Baja California.

ENVIRONMENTALLY RELATED LEGAL SETTLEMENTS AND LIABILITIES

Toyota has no new material environmentally related legal settlements or liabilities to report.




DEVELOPMENT AND DESIGN

"We plan to increase consumer vehicle choice and, at the same time, employ advanced technologies to significantly reduce greenhouse gases."

— Dave Baxter, Vice President, Toyota Technical Center, U.S.A., Inc.

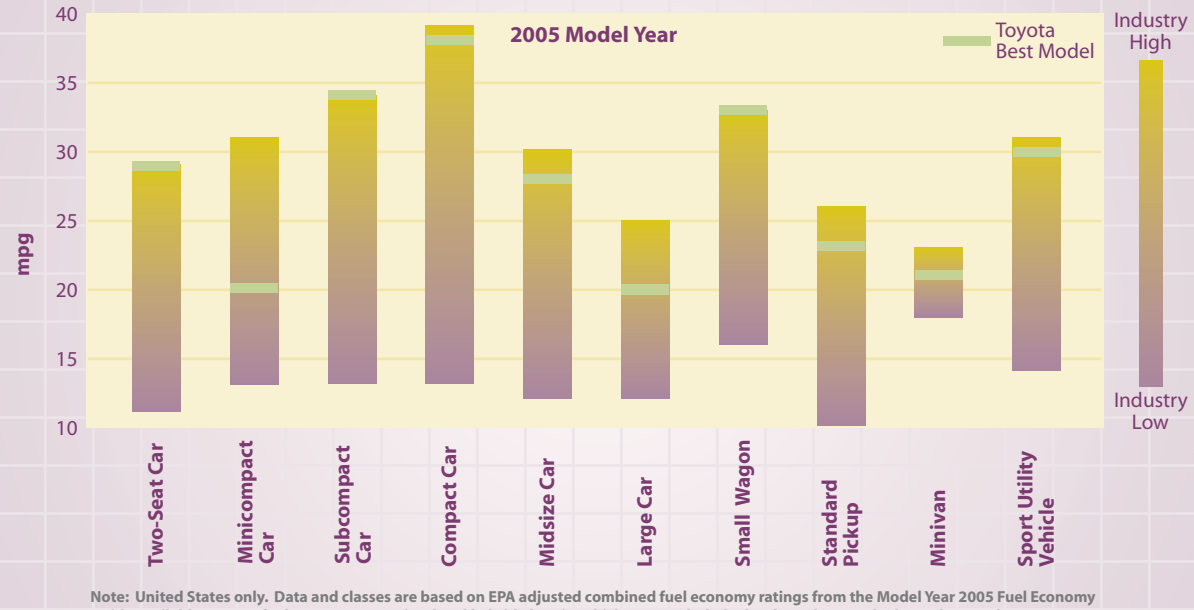
Toyota is committed to leading the automotive industry in the design and development of cleaner and more fuel-efficient vehicles. Our engineers focus on developing innovative and practical technologies that meet customer demands while minimizing environmental impacts. We believe that our continuing ability to better manage environmental issues in automobile design is crucial to the future of the environment, the future of Toyota and the future of the auto industry as a whole. The following pages describe our performance against our five-year environmental goals and targets.

GOAL: ACHIEVE TOP LEVELS OF FUEL EFFICIENCY IN ALL VEHICLE CLASSES

Toyota has a strong track record of offering fuel-efficient vehicles in a broad range of vehicle classes throughout North America. As shown in Figure G, Toyota offers conventional gasoline-powered vehicles in North America that are among the most fuel efficient in their class. This figure is based on data in the 2005 Model Year Fuel Economy Guide, published jointly by the U.S. Environmental Protection Agency (EPA) and the U.S. Department of Energy (DOE). When considering only gasoline vehicles, three Toyota models are the most

Figure G

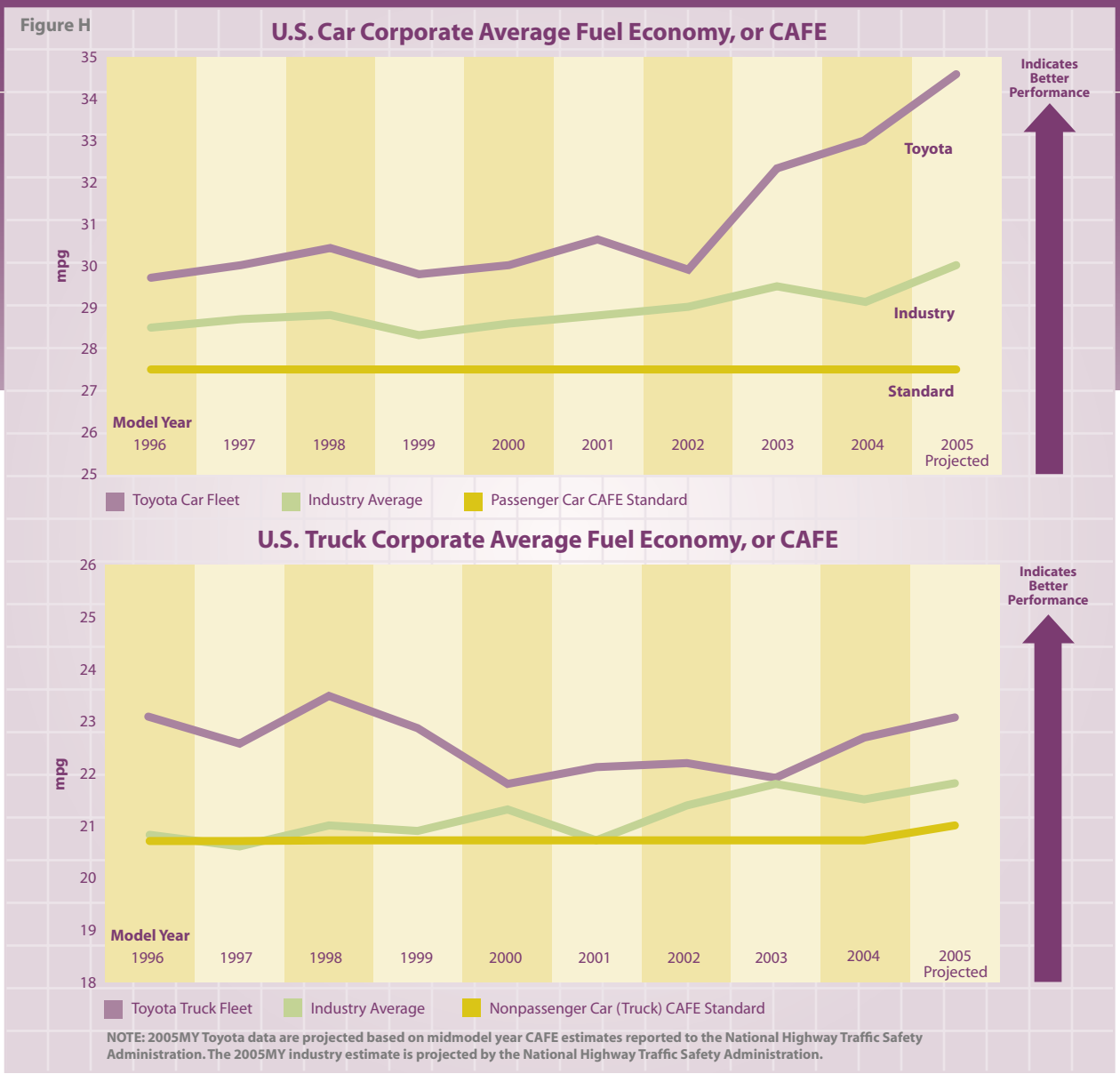
Toyota Gasoline Vehicles Are Among the Most Fuel Efficient in Their Class



Note: United States only. Data and classes are based on EPA adjusted combined fuel economy ratings from the Model Year 2005 Fuel Economy Guide available at www.fueleconomy.gov. Diesel and hybrid electric vehicles are excluded. The chart shows only those classes where Toyota offers products. This chart includes Lexus and Scion models.

Left: **Scientists Paul Fanson and Phuong Tran display automotive catalyst components that they evaluate in the catalyst laboratory at Toyota Technical Center in Ann Arbor, Michigan. As part of our continuing investment in North American research and development, Toyota is expanding its capability to work collaboratively with outside universities and laboratories. In this specific lab, we assess and evaluate the properties of new technologies with potential for improved catalytic performance, resulting in reduced vehicle exhaust emissions.**

Figure H



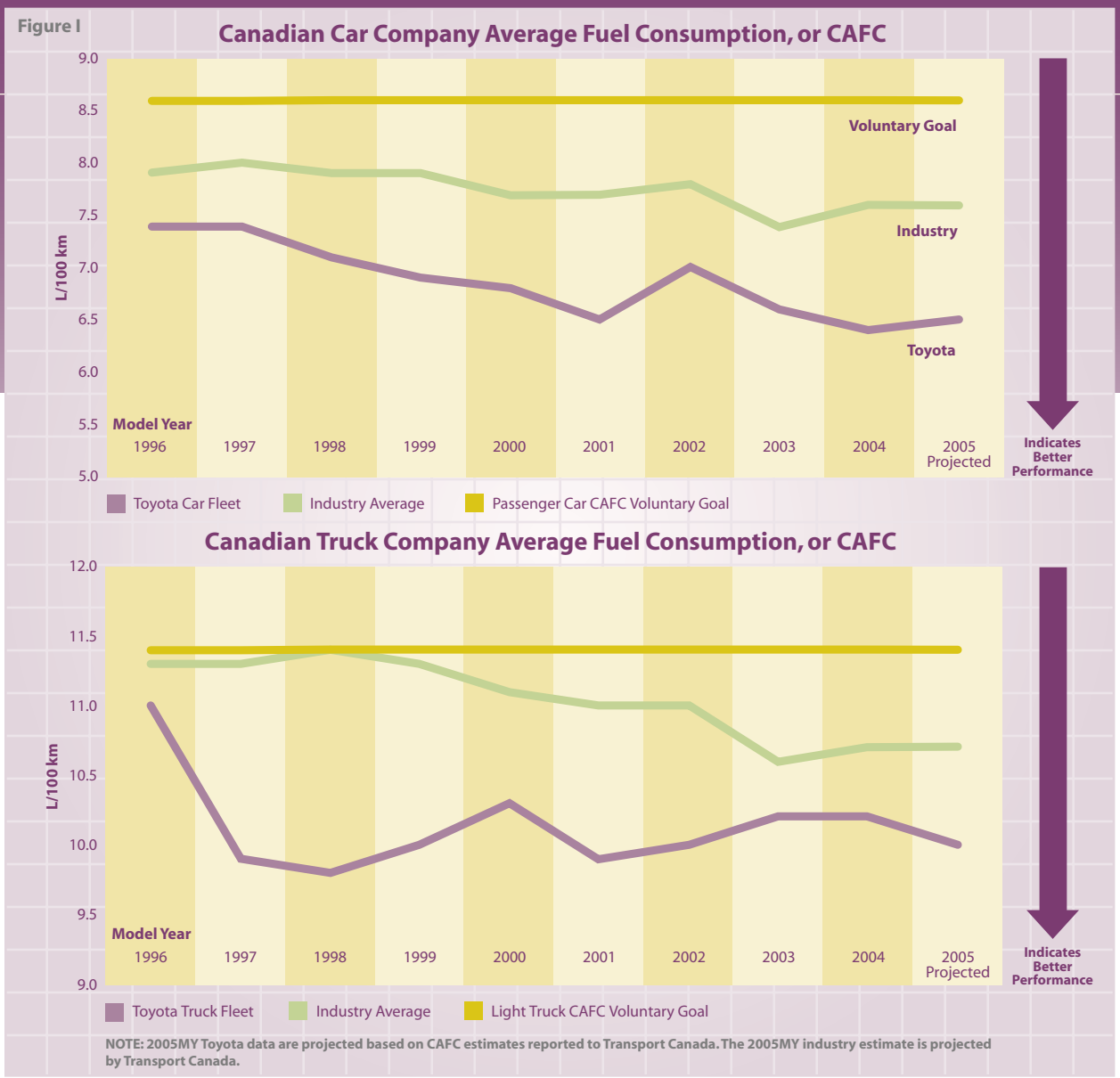
NOTE: 2005MY Toyota data are projected based on midmodel year CAFE estimates reported to the National Highway Traffic Safety Administration. The 2005MY industry estimate is projected by the National Highway Traffic Safety Administration.

fuel-efficient in their class: MR2 (two-seat car), Scion xA (subcompact car), and Scion xB (small wagon). When considering all vehicles in the 2005 Fuel Economy Guide (gasoline, diesel and hybrid), two 2005 Toyota vehicles — Prius and RAV4 2WD manual transmission — are rated as class fuel economy leaders. In addition, the EnerGuide, published by Natural Resources Canada (NRCan), ranks three 2005 Toyota models — the Prius, Echo Hatchback, and the Matrix with manual transmission — as most fuel efficient. For product data on the 2005 models identified in the EPA/DOT Fuel Economy Guide and the NRCan EnerGuide, please see Figure J on page 20.

While there is no formal fuel economy program in Mexico such as those in the United States and Canada, Toyota's policy is to introduce the same top-level vehicles into Mexico as we do in the rest of North America.

We have continuously improved fuel economy through application of technologies such as variable valve timing, 4-valve cylinder heads, and 5- and 6-speed automatic transmissions, and by consistently applying these technologies sooner and in greater volumes than most of our competitors. For example, we have applied variable valve timing on 100% of our cars sold in North America. Beyond these gasoline engine technologies, we will continue to develop advanced technology vehicles in order to maintain our vehicles' fuel efficiency leadership.

Figure I



NOTE: 2005MY Toyota data are projected based on CAFC estimates reported to Transport Canada. The 2005MY industry estimate is projected by Transport Canada.

TARGET ACHIEVED: EXCEED CAFE/ CAFC REQUIREMENTS FOR PASSENGER CARS AND LIGHT-DUTY TRUCKS

In the United States, automobile manufacturers are required to comply with Corporate Average Fuel Economy (CAFE) standards for passenger cars and light-duty trucks. CAFE standards are expressed in miles per U.S. gallon (mpg); the higher the number the better the fuel economy (please see Figure H). The CAFE standard for light-duty trucks has been increased for the 2005 – 2007 model years. Toyota's 2004MY light-duty trucks were already meeting this stricter CAFE standard.

In Canada, Toyota has joined with other manufacturers in agreeing to meet voluntary Corporate Average Fuel Consumption (CAFC) limits. CAFC limits are expressed in liters of fuel burned per 100 kilometers traveled; in this case, the lower the number the better the fuel consumption (please see Figure I).

For the 2005 model year, we will meet our target to exceed CAFE standards and CAFC voluntary limits for both passenger cars and light-duty trucks.

Figure J

2005 MODEL YEAR PRODUCT DATA FOR SELECTED MODELS[1]

North American Model	Engine	Transmission	Fuel Economy/Fuel Consumption[2]		Emissions Standard		Notes
			City mpg (L/100 km)	Hwy mpg (L/100 km)	U.S. and Canada Federal	California	
Toyota Prius (U.S. & Canada only)	1.5 L	See Note 3	60 (4.0)	51 (4.2)	Tier 2, Bin 3	AT-PZEV	2005 Model Year EPA/DOT Fuel Economy Guide leader among midsize cars and 2005 NRCan EnerGuide most fuel-efficient vehicle
Toyota RAV4 2WD (U.S. only)	2.4 L	5 M/T	24	30	Tier 2, Bin 9	ULEV	2005 Model Year EPA/DOT Fuel Economy Guide leader among M/T SUVs
Toyota Matrix (2WD XR)	1.8 L	5 M/T	30 (7.9)	36 (5.9)	Tier 2, Bin 5	ULEV II	2005 NRCan EnerGuide most fuel-efficient gasoline station wagon
Toyota Echo Hatchback (Canada only)	1.5 L	5 M/T	35 (6.7)	42 (5.2)	Tier 2, Bin 9	N/A	2005 NRCan EnerGuide most fuel-efficient subcompact car
Toyota Tacoma (2WD)	2.7 L	5 M/T	20 (11.5)	27 (8.0)	Tier 2, Bin 7	LEV II	Completely redesigned for 2005MY
		4 A/T	21 (11.4)	26 (8.1)	Tier 2, Bin 7	LEV II	
	4.0 L	6 M/T (U.S. only)	16	21	Tier 2, Bin 5	LEV II	
		5 A/T	18 (12.7)	22 (9.7)	Tier 2, Bin 5	LEV II	
Toyota Tacoma (4WD)	2.7 L (U.S. only)	5 M/T	19	23	Tier 2, Bin 7	LEV II	
	4.0 L	6 M/T	16 (15.0)	20 (10.9)	Tier 2, Bin 5	LEV II	
		5 A/T	17 (13.2)	21 (10.0)	Tier 2, Bin 5	LEV II	
Toyota Avalon	3.5 L	5 A/T	22 (10.8)	31 (7.2)	Tier 2, Bin 5	ULEV II	Completely redesigned for 2005MY
Scion tC (U.S. only)	2.4 L	5 M/T	22	29	Tier 2, Bin 9	ULEV	New Model for 2005MY
		4 A/T	23	30	Tier 2, Bin 9	ULEV	

Notes:

1. This chart shows 2005 models that are new, redesigned, or have new powertrain options; and models that were identified in the EPA/DOT *2005 Model Year Fuel Economy Guide* or the Natural Resources Canada *EnerGuide* as class fuel economy leaders.
2. Fuel economy estimates are determined by averaging numbers gathered through tests conducted by the EPA and Environment Canada. Vehicles are tested in a controlled setting, and the results are adjusted to suit real world driving conditions. The fuel economy ratings for the United States and the fuel consumption ratings for Canada may not be equal when converted to the same units. The test cycles and correction factors used in generating these ratings take into account the aerodynamic efficiency, weight, rolling resistance and drive mode of different vehicles. Other adjustments are made to reflect the average fuel consumption of vehicle models that offer different configurations/options, based on their sales mix in each country. These averaging steps may lead to slightly different ratings in Canada and the United States based on differences in vehicle sales by class and configuration. In addition, U.S. ratings will also differ from Canadian ratings data, as the U.S. gallon is smaller than the imperial gallon used in Canada.
3. Prius does not have a traditional automatic or manual transmission. Prius has a continuously variable transmission.

The 2005 Avalon Sedan

The all-new 2005 Toyota Avalon sedan, introduced in January 2005, is an excellent illustration of Toyota's commitment to environmental technologies in new vehicle design.

Avalon is the "most-American" vehicle of any Toyota product to date. It was styled at Calty Design Research in Newport Beach, California, developed by Toyota Technical Center in the U.S., and is currently being assembled at our plant in Georgetown, Kentucky.

The Avalon is powered by an all-new 3.5-liter, 24 valve, V-6 engine. It is equipped with:

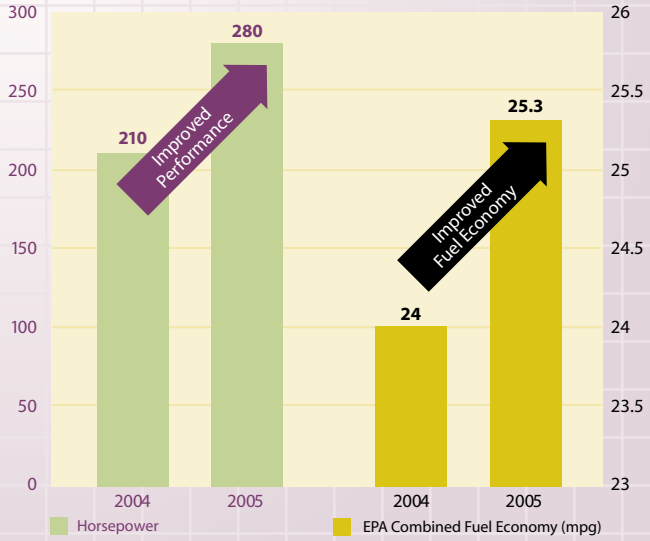
- Variable Valve Timing with intelligence (VVT-i), for increased high-speed torque, improved fuel economy and lower emissions;
- A dual-stage variable intake manifold, optimizing engine breathing and fuel efficiency;
- A unique new roller rocker concave cam profile that provides faster opening and later closing of the valves — a key contributor to Avalon's power increase.

As a result, the new V-6 produces 280 horsepower and 260 lb.-ft. of torque — a performance improvement in horsepower of more than 33% over the previous generation. At the same time, Avalon has an impressive combined EPA fuel economy rating of 25 mpg (9.2 L/100km), which is also improved over the previous generation vehicle (see chart below).

In addition to being more powerful and more fuel efficient, the Avalon is certified as a Tier 2 Ultra Low Emissions Vehicle (ULEV2).

Finally, Toyota's engineers employed a number of new materials on the Avalon that reduce its substances of concern content. More details on this may be found on page 45.

Avalon Model Year Comparison

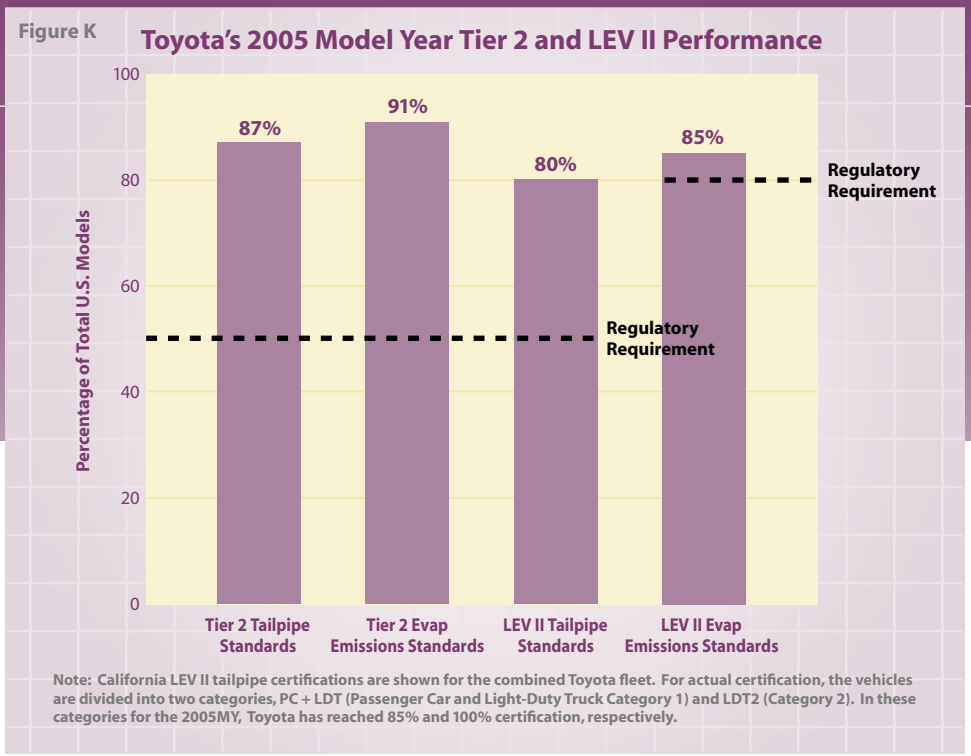


GOAL: PROMOTE EMISSIONS REDUCTIONS

The Tier 2 Emissions Certification Program is the latest effort by EPA and Environment Canada to improve air quality through further emissions reductions from vehicles. Under Tier 2 regulations, emissions standards for cars and light trucks converge over a period of time where, by 2009, 100% of all cars and light trucks must meet the new standard. These new standards represent an overall 77% to 95% emissions reduction from the previous standards, depending on the class of vehicle. A very important component of the Tier 2 program is the reduced sulfur levels in gasoline that will be necessary to achieve these further reductions in vehicle emissions over time.

In addition, California amended its existing Low Emission Vehicle (LEV) Program, now called LEV II. Like the federal Tier 2 program, this LEV standard regulates nonmethane organic gas (NMOG), CO, NO_x, HCOH and PM. However, LEV II is primarily focused on NMOG reductions, while the federal Tier 2 standard is more focused on NO_x reductions.

Figure K



Note: California LEV II tailpipe certifications are shown for the combined Toyota fleet. For actual certification, the vehicles are divided into two categories, PC + LDT (Passenger Car and Light-Duty Truck Category 1) and LDT2 (Category 2). In these categories for the 2005MY, Toyota has reached 85% and 100% certification, respectively.

TARGET: MEET TIER 2 AND LEV II EMISSIONS REQUIREMENTS FOR NEW VEHICLES

Toyota is ahead of the required compliance schedule for certification of its vehicles to these new emissions standards. As shown in Figure K, for the United States and California, we have consistently certified more vehicles than required for the 2005 model year to Tier 2 and LEV II. Our performance in Canada follows a similar track, as Environment Canada has implemented a Tier 2 program (similar to EPA's program), and the vehicles we sell there have the same emission control technologies.

Additionally, for the 2005 model year, we accomplished the following:

- The 2005 Prius is certified as an AT-PZEV (Advanced Technology Partial Zero Emission Vehicle) in California and states adopting California standards, and as EPA Tier 2, Bin 3 in the rest of the country.
- Sales of the 2005 Partial Zero Emission Vehicle (PZEV) Camry expanded to northeastern states. PZEVs comply with the clean air initiatives of California and northeastern states, and are the cleanest all-gasoline powered vehicles that a consumer can purchase.
- All Lexus cars with V-8 engines — the LS 430 flagship sedan, the SC 430 hardtop convertible and the GS 430 sports sedan — continue to be rated Ultra Low Emission Vehicles (ULEV). In addition, the ES 330 luxury sedan and RX 330 SUV with V-6 engines are certified as ULEVs.

IN-USE COMPLIANCE

Toyota has a proven track record of superior in-use compliance. The emissions compliance of new vehicles must be certified before they are sold. In addition, emissions requirements continue to apply after the vehicle is in the hands of the consumer.

Both EPA and the California Air Resources Board staff have reviewed and approved the conduct of Toyota's government mandated in-use testing programs and have assessed them with very favorable comments. With over 750 vehicles tested in these government programs over the last several years, Toyota's emission compliance rate continues to lead most major industry manufacturers.

The Lexus RX 400h and the Toyota Prius were on display at the Green Fair in downtown Ann Arbor, Michigan, during the summer of 2005. Toyota engineers were on hand to explain the technology found in these vehicles to interested people who visited the fair that day.

GOAL: INTRODUCE CLEANER ENERGY VEHICLES

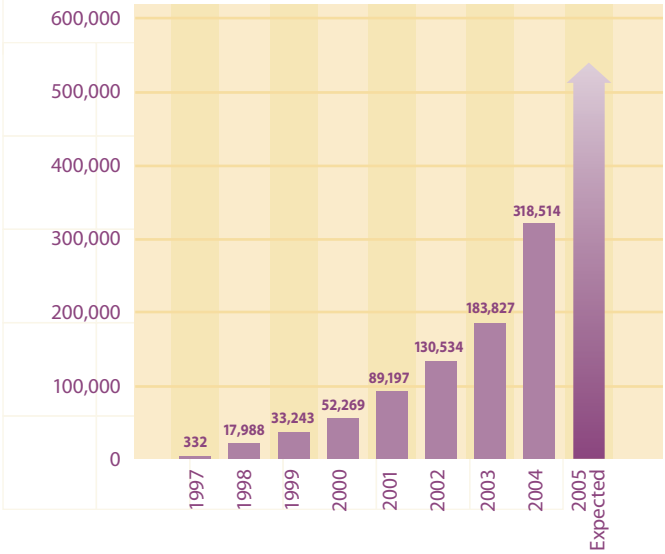
As we look to the future, development of automobiles that utilize advanced technologies beyond today's gasoline-powered vehicles will be the key to energy efficient transportation. Toyota is committed to pursuing a variety of these advanced technologies as part of our overall product environmental strategy, and in pursuit of the ultimate Eco-car.

TARGET ACHIEVED: INTRODUCE ADDITIONAL NEW HYBRID ELECTRIC VEHICLES BY 2005

During this past year, Toyota made two announcements for hybrid vehicles for the 2007 model year: the Lexus GS 450h luxury hybrid sedan and the Camry Hybrid.

Figure L

Toyota Cumulative Hybrid Vehicle Sales – Global



Toyota has a target of annually putting 300,000 hybrid vehicles on roads around the world, by mid-decade. We expect to have over 500,000 hybrids on the road by the end of 2005 (please see Figure L). In North America, we are contributing to this by selling more Prius, and by introducing the 2006 Lexus RX 400h and Highlander Hybrid. The 400h, the first luxury hybrid SUV, was launched in April, and the Highlander Hybrid became available in June.

The driving force behind all of our hybrid vehicles is our second-generation hybrid system, Hybrid Synergy Drive (HSD). This system features a high-voltage power circuit combined with a more powerful and efficient electric motor, offering superior power, performance and fuel economy. HSD is currently used in Highlander Hybrid, the 2005 Prius and the Lexus RX 400h.

Lexus GS 450h Luxury Hybrid Sedan

The 2007 Lexus GS 450h will be the world's first hybrid luxury sedan and the first full hybrid vehicle with a front engine and rear wheel drive. It will be available in the spring of 2006.

A completely new Lexus hybrid powertrain was created to power the new 450h. The system combines a 3.5-liter V-6 engine with a high-output, permanent magnet electric motor — all driving the rear wheels. Combined power output will exceed 300 horsepower, with zero-to-60 acceleration in less than six seconds. The GS 450h is slated to be certified as a SULEV, and is expected to have a combined EPA fuel economy rating in the upper 20 mpg range.

The fuel-cell hybrid configuration merges two environmentally advanced technologies: the fuel cell that uses hydrogen as a fuel source, and an efficient electric motor.

SHARING HYBRID TECHNOLOGY

In order to have the greatest environmental impact, environmentally advanced technologies should be widely available. This requires cooperation among vehicle manufacturers and related stakeholders. Our leading hybrid technology-licensed patents are being shared with other automakers. Ford Motor Company purchased licenses for 20 Toyota patents on hybrid systems and control technology for its hybrid vehicle development program and for the Ford Escape hybrid (the scope of the agreement does not include the supply or use of Toyota hybrid powertrain components). Additionally, we will provide hybrid system components to Nissan Motor Corporation, and we have offered to make our hybrid technology available to other manufacturers.

TARGET ACHIEVED: APPLY REAL WORLD KNOWLEDGE FROM CURRENT FCHV FLEET TO SECOND GENERATION FCHV

Toyota has continued our efforts to develop, evaluate and refine fuel-cell powered vehicles. By utilizing the same hybrid technology as in the Prius, our engineers have been able to focus on independent development of a Toyota-proprietary fuel-cell hybrid system.

At this time, our primary fuel-cell powered vehicle is the FCHV, the fuel-cell hybrid vehicle. Based on the Toyota Highlander Hybrid sport utility vehicle platform, it features four 5,000-psi hydrogen fuel tanks. Hydrogen gas feeds into the Toyota fuel-cell stack where it is combined with oxygen, generating a peak of 90 kilowatts of electricity. The electricity from the fuel cell is used to power the 109-hp (194 lbs-ft of torque) electric motor and to charge the vehicle's nickel-metal hydride batteries. The battery pack harnesses energy during the braking process, and feeds power on-demand to the electric motor. Only water vapor is emitted through the vehicle's tailpipe.

Since 2001, we have been conducting a real world FCHV demonstration and evaluation with the help of a number of partners. A total of 12 Toyota FCHVs are on the road in the United States, including four leased by the University of California — two by Irvine's National Fuel Cell Research Center and two by Davis' Institute

Third-Party Recognition of Prius and Toyota Hybrid Technology

Both our hybrid vehicles and our hybrid technology received the following awards over the past year:

- 2004 "North American Car of the Year";
- 2004 Car and Driver "10 Best List";
- 2004 Ward's "10 Best Engines";
- Edmunds.com Consumers' Choice for Most Significant Vehicle of 2004;
- American Lung Association's 2004 President's Circle Award;
- Frost & Sullivan's 2005 Hybrid Vehicle Technology Customer Value Enhancement Award;
- Industrial Designers of America's 2004 Gold Award for Excellence in Design;
- The Wall Street Journal's "Technology Innovation Winners 2004" Transportation Winner.

On Earth Day 2005, Toyota Technical Center brought a Toyota fuel cell hybrid vehicle to Lansing, Michigan. It was the first time this type of technology has been on display at the Capitol. Representative Bill Huizenga of Zeeland, Michigan, saw the value in this type of hands-on educational opportunity and was instrumental in organizing and hosting the event. The opportunity to drive this type of prototype vehicle, typically only used for research and evaluation, was a rare and exciting event for Michigan's state legislators.

of Transportation Studies. Experience and data from over 60,000 miles of FCHV operation in the U.S., and additional fleet operation in Japan have been fed into development of the second generation FCHV, expected to arrive in the U.S. by the end of 2005. The second generation FCHV will have improved reliability and will be easier to maintain.

Delivering the FCHVs to the University of California campuses was the first step in establishing fuel-cell communities in northern and southern California. The success of these fuel-cell communities depends on the development and expansion of hydrogen-refueling infrastructure. California currently has a network of 16 refueling stations (including a station at Toyota Motor Sales national headquarters); an additional 10 are planned. With a current maximum driving range of approximately 180 miles, the Toyota FCHVs are capable of covering Los Angeles and Orange counties and the Sacramento/San Francisco Bay area.

We are also working with the state's California Air Resources Board (CARB) and South Coast Air Quality Management District (SCAQMD), as well as EPA and corporations such as Hydrogenics Corporation and Air Products and Chemicals, Inc. As an original member of the California Fuel Cell Partnership (CaFCP), Toyota has participated in a number of activities with this association of auto manufacturers, energy companies, fuel-cell technology companies and government agencies to examine fuel infrastructure issues, test fuel-cell vehicles, and prepare the California market for this new technology.

Finally, Toyota is contributing to the development of global codes and standards for fuel-cell vehicles and hydrogen infrastructure with a wide range of organizations, including the Society for Automotive Engineers and CaFCP.

ACEEE Green Book

The Best of 2005 list in the Green Book, published by the American Council for an Energy Efficient Economy (ACEEE), includes 20 Toyota, four Scion and one Lexus model configurations. Toyota cars, trucks and SUVs appear in 11 of 14 categories — more categories than any other brand. In addition, Toyota has four vehicles among the book's Greenest Vehicles of 2005 list. They are: Prius, Corolla 4-speed with manual transmission, Echo 4-speed with manual transmission, and Matrix 4-speed with manual transmission. Green Book ratings are based on measurements of tailpipe emissions that are thought to threaten public health and adversely affect climate change. Green Book lists are available on the Web at **www.greenercars.com**.




MANUFACTURING

CHANGE FOR THE BETTER WITH ENERGY STAR
PARTNER OF THE YEAR 2005

"Our leadership in energy management is the result of the hard work and cooperation of management and team members."

— Kevin Butt, General Manager and Chief Environmental Officer, Toyota Motor Manufacturing North America, Inc.

Our Five-Year Environmental Action Plan demands that we achieve the highest level of environmental performance in the automotive industry, and that we go beyond routine compliance in many aspects. To help us go "beyond compliance," we are implementing an Enhanced Environmental Management System (EEMS) at all of our North American manufacturing facilities. The EEMS focuses on compliance with all applicable regulations, zero complaints, environmental risk and environmental performance. The EEMS includes visual controls and primary and secondary checks of environmentally significant areas and equipment, including thermal oxidizers, wastewater treatment and hazardous waste storage areas, to confirm compliance on an ongoing basis. The EEMS is reviewed with senior management during Environmental Steering Committee (ESC) meetings (please see the caption on page 5 for more details on ESC meetings), and is audited under the Global Audit Program (please see page 15 for more information on this audit program).

The EEMS provides us with better tools to achieve the specific targets set in our Action Plan. These targets help us to reduce impacts from manufacturing in the most significant areas, including energy and water usage, emissions of volatile organic compounds (VOCs) and toxic chemicals, and waste generation and disposal. Toyota's manufacturing facilities have made significant progress over the past year on these targets. In fact, we are pleased to report that we achieved our five-year targets for reductions in energy and water usage, VOC emissions and waste ahead of schedule.

ENERGY USE AND CO_2 EMISSIONS

Energy use at our manufacturing facilities is directly related to our CO_2 emissions. CO_2 makes up the majority of our greenhouse gas emissions.

GOAL: IMPLEMENT AGGRESSIVE PLANS TO REDUCE ENERGY CONSUMPTION

Toyota's North American manufacturing companies consume more than $100 million of energy annually. Our energy use results in 1.1 million metric tons of CO_2 emissions per year. It is sound business practice to seek ways to reduce the financial and environmental costs of our energy use.

A LEADER IN ENERGY MANAGEMENT

In 2005, Toyota Motor Manufacturing North America (TMMNA) was presented with the "Partner of the Year 2005 — Leadership in Energy Management" Energy Star Award by the U.S. Environmental Protection Agency and Department of Energy. The award recognizes businesses that have demonstrated leadership in reducing greenhouse gas emissions while improving energy efficiency. The award is based on efforts by Toyota's U.S. manufacturing operations to reduce energy consumption in both the plants and administrative offices.

Left: **TABC, Inc. in Long Beach, California, coats Hino truck rails using a closed-loop powder coating operation that emits less than 0.5% volatile organic compounds. Here, Ray Smith, Maintenance Mechanic, checks for surface defects on a truck rail. The metal surface must be smooth and free of contamination in preparation for powder coating.**

Lower left: **We are proud to display the Energy Star label. The hard work of team members and management to improve energy efficiency at all our manufacturing facilities earned us a 2005 Partner of the Year Energy Star Award.**

Hunting for energy-saving "treasures" began in 1999, and has resulted in over $9.2 million in savings. These hunts for energy reduction opportunities are conducted at two assembly plants and two unit plants each year. Above, team members measure compressed air leaks with a bag and timer during a treasure hunt at the manufacturing plant in Buffalo, West Virginia.

TARGET ACHIEVED: REDUCE ENERGY USAGE BY 15% PER UNIT OF PRODUCTION, RESULTING IN A 15% DECREASE IN CO_2

Our energy motto is: Use only what you need, when you need it, in the amount you need. Energy videos, handbooks, yearly energy fairs and periodic meetings are provided for and by team members to enhance this energy philosophy and culture. Our commitment to energy reduction helped us achieve our FY2006 Action Plan target of 15% energy reduction two years ahead of schedule (please see Figure M). The achievement of this energy reduction target resulted in a corresponding reduction in emissions of carbon dioxide.

One reason for our success in managing energy consumption is the creation of the North America Energy Management Organization (EMO). The EMO consists of team members from our manufacturing headquarters office, the individual facility and the plant departments. The EMO is responsible for establishing goals and targets for energy management, implementing energy reduction measures, coordinating treasure hunts (please see caption above), data tracking, employee training, energy risk management, benchmarking, and best practice sharing.

As part of sharing best practices, Toyota has established model plants to evaluate potential energy reduction techniques and opportunities. The ideas developed from these model plants are used in energy reduction projects at existing plants and in the development of eco-plant targets for new plants.

We also share our best practices and energy program enhancements with others through partnerships in the Energy Star Program. We are proud to have been recognized by this program as a leader in energy management, and will continue our efforts to improve our energy performance.

Figure M

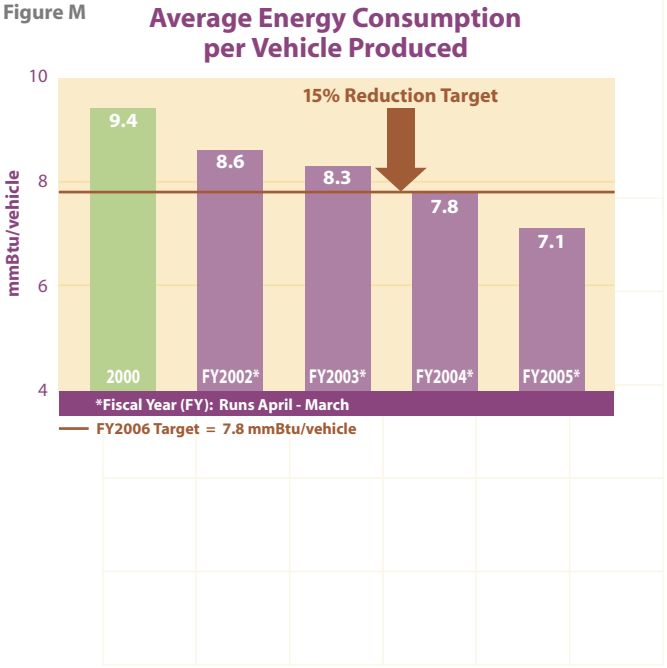


Figure N

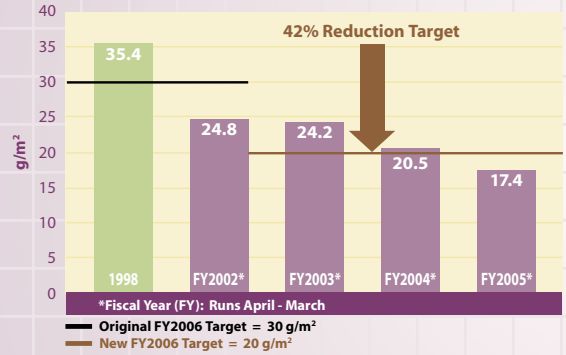
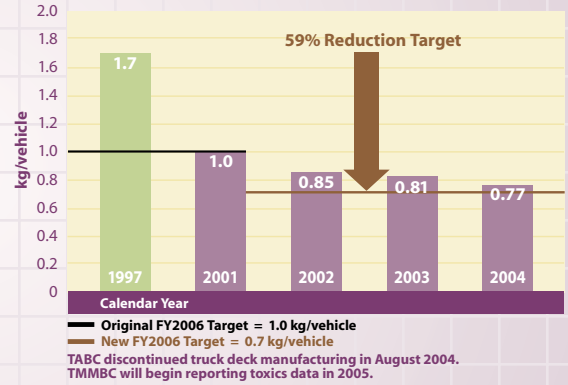


Figure O



SUBSTANCES OF CONCERN

Activities associated with automobile manufacturing result in VOC emissions released to the atmosphere. VOCs are a category of chemicals that can photochemically react in the atmosphere to form ground level ozone, a primary component of smog. Some of these VOCs are listed in EPA's Toxic Release Inventory (TRI) and Environment Canada's National Pollutant Release Inventory (NPRI).

VOCs from painting operations are the most significant emissions from our manufacturing facilities. Toyota works to regularly implement and improve management practices and techniques to minimize emissions of VOCs and other regulated toxic chemicals during automobile manufacturing.

GOAL: DEVELOP EXTENSIVE REDUCTION STRATEGIES TO MINIMIZE EMISSIONS OF CONCERN

Toyota's Environmental Action Plan includes requirements for each of its worldwide companies to take a proactive approach to the reduction of substances of concern. In North America we developed a Toxic Chemical Release Reduction (TCRR) Strategy that allows us to make continued reductions.

NEW TARGET ACHIEVED: REDUCE BODY-PAINTING EMISSIONS OF VOLATILE ORGANIC COMPOUNDS TO 20 G/M² FOR ALL PAINT SHOPS

In 2000, we set a target to reduce emissions of these substances to 30 g/m² as an average for all paint shops in North America. Due to our overall success, we set a new FY2006 target of 20 g/m² as an average for all auto body paint shops in North America (please see Figure N). We are pleased to report that we achieved this target early.

Our manufacturing facilities relied on a number of TCRR techniques to achieve this target. For example, our plant in Indiana installed a Solvair system in their topcoat booths that reduces purge used to clean paint nozzles between color changes. To improve data collection and material management, our plant in Kentucky replaced and upgraded purge metering devices in the paint shop.

NEW TARGET: REDUCE TOXIC CHEMICALS EMITTED BY VEHICLE ASSEMBLY PLANTS TO 0.7 KG/VEHICLE

We utilized many of the same practices used to reduce VOC emissions to help us reduce toxic chemical emissions. In 2000, we achieved our initial FY2006 Action Plan target of 1.0 kg/vehicle. Due to our success in reducing toxic chemical emissions, we set a new target of 0.7 kg/vehicle. As shown in Figure O, we continue to make progress in reducing emissions and are well on our way to achieving the revised target.

TARGET: CONTINUE R&D ACTIVITIES AIMED AT ELIMINATING ALL VOCS AND TOXIC CHEMICALS FROM COOLANTS AND CUTTING OILS USED IN UNIT PLANTS

We continue to look for opportunities to minimize impacts from machining coolants, cutting oils and washing chemicals. We are working with our suppliers to develop and introduce newer, longer-life coolants that emit reduced amounts of VOCs. At our plant in West Virginia, we now use a low-VOC synthetic coolant that reduces VOCs by 45%.

Team members at Toyota Motor Manufacturing, Canada, Inc. (TMMC) have created 32 recycling categories to help them segregate the recyclable waste at the plant. This helps them reduce the amount of waste sent to landfill. Shown here are some of the *kaizen* teams that have reduced waste in the South Weld Area and in the North and South Paint Shops.

WASTE DISPOSAL

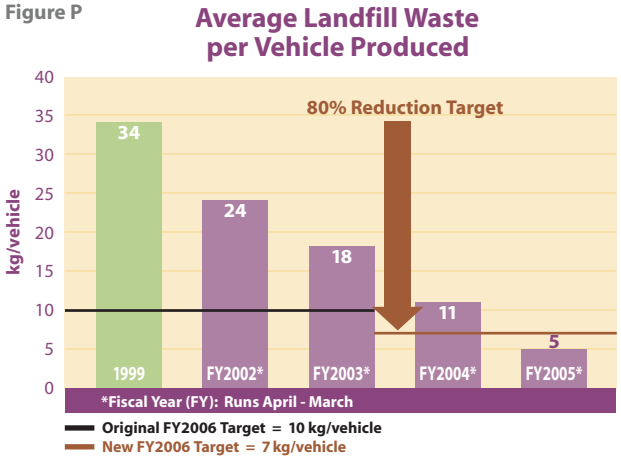
At Toyota, we continuously strive to reduce waste. The elimination of waste is one of the founding principles of the Toyota Way. We utilize a variety of innovative *kaizens*, Japanese for continuous improvements, to reduce the amount of waste disposed in landfills.

GOAL: REDUCE WASTE AND PROMOTE RESOURCE CONSERVATION ACTIVITIES

The Toyota 5Rs program continues to be the key to our waste reduction efforts. The 5R steps include refine, reduce, reuse, recycle, and recover energy. Below are some examples of how these steps are implemented at our manufacturing plants:

- Our assembly plant in Canada **refined** their waste segregation by establishing a system to identify reduction, reuse and recycling alternatives for each waste stream.

Figure P



- Our plant in West Virginia **reduced** waste by changing from one-time use paper filters to washable reusable metal filters for dust collecting in their engine machining process.
- Our plant in Kentucky **reuses** food and paper scraps as compost. Approximately one ton of food and paper is composted each day, then used for landscaping on site and as top soil in a vegetable garden.
- Our plant in Alabama **recycles** grinding swarf waste (metal chips mixed with coolant) by using a briquette process that presses out the coolant. Both the coolant and the metal are then recycled.
- At many of our facilities, solvent and oil laden rags are sent for **energy recovery**. The rags replace some of the fossil fuel used to heat cement kilns.

TARGET ACHIEVED: REDUCE LANDFILL OF ALL PRODUCTION WASTE TO 7.0 KG/VEHICLE

We exceeded our target of reducing landfill of production waste to 7 kg/vehicle (please see Figure P). Our overall land disposal of waste has declined by 86%, and we have eliminated landfill disposal of hazardous wastes. We have achieved zero landfill (defined as a 95% or greater reduction in landfill waste from 1999 levels) at eight of our manufacturing facilities. We continue to strive for zero landfill at all our facilities.

In addition, we are challenging our manufacturing plants to achieve these reductions in waste to landfill with zero cost increase from a base year of 2002. To date, we have saved over $1.2 million per year in overall waste disposal costs. These savings are partly due to cost reduction activities, such as using double trailers and consolidating wastes for bulk shipments.

We have achieved zero landfill (defined as a 95% or greater reduction in landfill waste from 1999 levels) at eight of our manufacturing facilities.

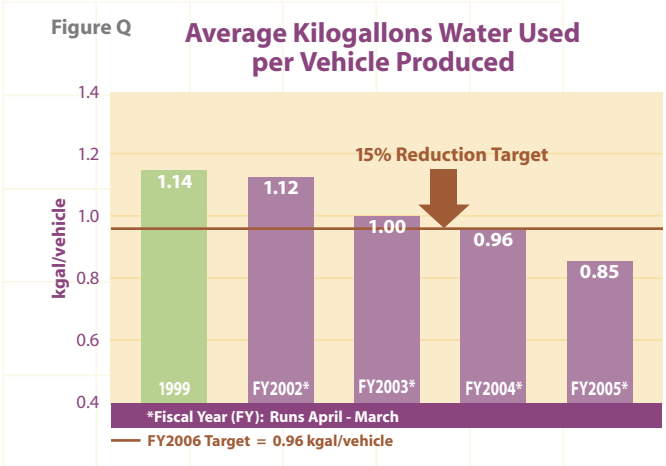
WATER USE

Painting operations account for the largest usage of water at a vehicle manufacturing plant. However, water is used in significant amounts throughout most areas of the vehicle manufacturing process. Water reduction is one of our more challenging goals; but, as you will see in this report, we continue to make good progress. In fact, in just the third year of our Five-Year Action Plan, we achieved our original five-year target.

GOAL: IMPLEMENT AGGRESSIVE PLANS TO REDUCE WATER CONSUMPTION

Engineers and technical staff throughout North America remain committed to reducing our water consumption. Water task force groups have been formed to evaluate potential water reduction techniques, including those from similar processes at Toyota's best plants throughout the world and those of competitor companies. We are also using these best plant ideas in the development of eco-plant targets for both new projects at existing plants and activities at new plants.

Figure Q



TARGET ACHIEVED: REDUCE TOTAL WATER USAGE BY 15% PER UNIT OF PRODUCTION

Our North American Environmental Action Plan requires a 15% reduction in water usage by the end of FY2006 from a baseline year of FY2001. Figure Q shows that we achieved our 15% reduction target in just the third year of our Five-Year Action Plan.

Our manufacturing locations implemented a number of successful improvements to achieve this reduction. For example, our plant in Kentucky installed industrial water recycling systems to significantly reduce the amount of water purchased from utility companies, and installed enthalpy (energy recovery) wheels to reduce water used to humidify the paint booths. The plant was also one of five locations to host a treasure hunt, where additional water *kaizens* were identified.

ENVIRONMENTAL MANAGEMENT SYSTEMS

GOAL: IMPLEMENT GREEN SUPPLIER GUIDELINES

In June 2000, Toyota issued Green Supplier Guidelines that promote "greener" purchasing activities. Under these guidelines, we have been working with our suppliers to promote a number of activities that will help protect the environment. Please visit our Web site at **www.toyota.com/about/environment/manufacturing/supplier.html** to learn more about this program.

TARGET: CERTIFY/REGISTER KEY SUPPLIERS TO ISO 14001 BY DECEMBER 2003

Our Green Supplier Guidelines required that existing suppliers of raw materials and/or parts and components develop and implement their own ISO 14001 certified/registered environmental management system by the end of December 2003. To date, more than 89% of required

We require our suppliers to eliminate the use of chemicals or chemical categories included on Toyota's global chemical ban list.

suppliers have achieved certification/registration. The percentage of certified suppliers has decreased by 2% from last year because of an 8% increase in the number of applicable suppliers.

In FY2005, we conducted two ISO 14001 training classes for our suppliers at no cost. We intend to continue the training program in FY2006 and beyond. We will also continue to encourage our suppliers to certify/register to ISO 14001, and plan on issuing revised Green Supplier Guidelines in FY2006.

TARGET: COMPLY WITH CHEMICAL BAN LIST/ENVIRONMENTAL DATA SHEET

Our Green Supplier Guidelines require that North American suppliers of new and reformulated materials eliminate the use of chemicals or chemical categories included on Toyota's global chemical ban list. Before a material can be shipped to any of our manufacturing facilities, the ingredients are compared against a series of databases that contain our chemical ban list and other regulatory lists.

In 2004, we improved our method for confirming the presence of any banned substances in products used at our manufacturing facilities. We now use a Material Safety Data Sheet (MSDS) database to check against other data sources to assure accuracy.

Our Georgetown assembly plant, our largest in North America, has already achieved a 97% reduction in banned substances.

TARGET ACHIEVED: DEVELOP PROCEDURES THAT ENSURE COMPLIANCE WITH HAZARDOUS MATERIALS/DANGEROUS GOODS TRANSPORTATION GUIDELINES

All of Toyota's North American manufacturing plants have developed and implemented procedures that outline hazardous materials/dangerous goods transportation requirements, including how to load, unload and ship hazardous materials. All Toyota employees with responsibility for handling and/or transporting hazardous materials/dangerous goods at our North American plants are trained on these procedures and on the applicable regulations.

Hazardous materials/dangerous goods compliance audits are conducted quarterly by the plants and annually by North American manufacturing headquarters staff and third parties. To further ensure compliance and safe handling of these materials, we require our suppliers and contractors to put their own compliance systems in place.

PLANT ACTIVITIES

Toyota's manufacturing facilities throughout North America are continuously looking for ways to improve their environmental performance. Some key examples of ongoing activities at our North American plants are presented below. Please refer to page 55 for a description of Toyota's operations.

BODINE ALUMINUM, INC.

With the opening of our new foundry in Jackson, Tennessee, Bodine Aluminum will have three facilities in North America. The new facility in Jackson has obtained all necessary operating permits, and has developed an eco-plant plan with our North American manufacturing headquarters. The plan

defines environmental targets that the facility will be measured on once it begins operating.

The Bodine Aluminum facilities in Troy and St. Louis, Missouri, continued their strong compliance record in FY2005. Both facilities received zero regulatory violations. The Troy facility exceeded its target for energy and water reduction, and made final arrangements with a waste-to-energy vendor that will help achieve zero landfill.

CANADIAN AUTOPARTS TOYOTA, INC. (CAPTIN)

CAPTIN has a target to reduce electricity use by 5% in FY2006. This follows a 5% reduction in electricity use in FY2005. To help them achieve these energy reductions, experts from BC Hydro, the local electrical utility, participated in CAPTIN's treasure hunt this past year. A number of plant-wide energy-saving opportunities were identified and implemented, including:

- Connecting HVAC units and the plant's lighting system to an expanded control system;
- Replacing T12 fluorescent lighting fixtures with T8 fixtures and motion activated lighting in offices;
- Optimizing the compressed air system.

Thanks to the leadership of Gary Smallenberg, President (left), and the hard work of team members like Ken Harder, Facilities Specialist (right), CAPTIN became the first manufacturing company in British Columbia, Canada, to receive Power Smart certification from BC Hydro.

BC Hydro's Power Smart program also provided capital to support electricity reduction projects that would otherwise not be feasible to implement. Since 2003, CAPTIN has saved approximately four gigawatt hours of electricity and CAN$110,000.

In addition to reducing electricity use, CAPTIN team members reduced solid waste by 28% in FY2005. This reduction was achieved by scrutinizing items in disposal bins, adding recycling receptacles at line side, and recycling dust collected from shot blasting operations.

NEW UNITED MOTOR MANUFACTURING, INC. (NUMMI)

In FY2005, NUMMI completed implementation of an Enhanced Environmental Management System and made considerable progress in improving its environmental performance. These improvements included:

- Reducing water use by redesigning production and facility cooling water processes to save more than 1.7 million gallons of water per month;
- Reducing municipal solid waste to landfill by an average of 179 tons per month during 2004 by intensifying its sorting and recycling operations prior to landfill disposal.

In recognition of these efforts, NUMMI received the 2005 Susanne Wilson Award for Pollution Prevention/ Resource Conservation from Acterra, a San Francisco Bay Area environmental organization that promotes positive solutions to regional environmental issues through stewardship, education and leadership. The award highlights and honors innovative programs and outstanding achievements in sustainability.

TABC, INC.

TABC implemented an Enhanced Environmental Management System (EEMS) in 2004. As part of its EEMS, TABC is introducing a compliance software system that will improve visibility of upcoming regulatory requirements to help ensure overall compliance.

In 2004, TABC installed a continuous vibration and noise monitoring system to assist in reducing the potential for neighbor complaints. The system automatically alerts team members before vibration and noise thresholds are exceeded. This allows the plant to proactively identify conditions that could lead to neighbor complaints and introduce preventive actions.

TOYOTA MOTOR MANUFACTURING, ALABAMA, INC. (TMMAL)

TMMAL obtained ISO 14001 certification in December 2004. The plant incorporates environmental impact reduction measures into the production process. For example, to promote the recycling of the mixture of metal and oil discharged when polishing metals, machinery was introduced to separate the metal and oil. The plant has maintained a record of zero landfill since it began operations in 2003.

TMMAL received a 2004 Industrial Air Pollution Control Achievement Award from the City of Huntsville Air Pollution Control Board. Since startup, TMMAL has used alternate coolant and washer chemicals that have a low VOC content.

TOYOTA MOTOR MANUFACTURING, DE BAJA CALIFORNIA, S. DE R. L. DE C.V. (TMMBC)

In Baja California, Mexico, TMMBC, our newest manufacturing facility, started production of Tacoma truck beds in August 2004. TMMBC was built using an eco-plant plan that included elements of risk reduction, environmental management and environmental performance. In order to reduce the risk of soil and groundwater contamination, TMMBC was designed without underground chemical storage tanks or piping and the process sumps are above grade. The wastewater treatment system was designed to reduce freshwater usage. TMMBC's reverse osmosis system will recycle a portion of the discharge water as process water.

Paint ovens are located on the exterior of the paint shop at TMMBC in order to reduce the cooling needs and related energy usage.

TMMI supported World Water Monitoring Day by providing water test kits and a training package for the sixth-grade science curriculum in Gibson County Public Schools. Thirty TMMI team members, along with 400 students from seven schools, sampled water from 12 sites on eight local rivers.

TOYOTA MOTOR MANUFACTURING, CANADA, INC. (TMMC)

TMMC continues pursuing opportunities to increase its recycling rate from 98% to 100%. Last year, all processes were analyzed to better understand where and how wastes are generated. Team members then catalogued the wastes in order to identify reduction, reuse and recycling opportunities. As a result of these efforts, 140,000 kg of material has been redirected from landfill to recycling.

TMMC has also made progress reducing its greenhouse gas emissions. Heat reclaim units were installed that use exhaust heat to preheat air coming in to the plant from outside. Results indicate an annual reduction in CO_2 emissions of 520 metric tons. TMMC plans to install additional units throughout the plant.

TOYOTA MOTOR MANUFACTURING, INDIANA, INC. (TMMI)

TMMI's pollution prevention program focuses on areas with the most significant opportunities for environmental improvement. Some recent achievements include:

- In the summer of 2005, TMMI attained a 99.9% reduction in the use of chemicals on Toyota's Banned Substance List. This list includes over 1,300 chemicals that pose a significant risk to team member health and the environment.
- In 2004, TMMI switched from steel to plastic fuel tanks. While steel fuel tanks require a barium primer to provide corrosion and structural protection, the plastic fuel tanks do not. The result is a 400,000 lb per year reduction in hazardous waste generation.

In 2004, TMMI received the Indiana Governor's Award for Environmental Excellence for its community initiatives, including sponsoring World Water Monitoring Day (please see caption above), River Sweep (a cleanup of the Ohio River) and the annual Earth Aware Camp.

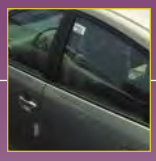
TOYOTA MOTOR MANUFACTURING, KENTUCKY, INC. (TMMK)

In August 2004, TMMK reduced landfill waste by 15,000 tons per year and became the first Toyota North American assembly plant to achieve zero landfill. Their zero landfill initiative sparked creative ideas to eliminate waste from landfill, including a composting program that provides nutrient-rich soils to on-site gardens.

TMMK also co-sponsored the ninth Household Hazardous Waste Cleanup Day. The 2004 event was the most successful ever. Of the 50,000 pounds of waste collected, 86% was recycled or reused.

TOYOTA MOTOR MANUFACTURING, WEST VIRGINIA, INC. (TMMWV)

In 2004, TMMWV piloted implementation of the Enhanced Environmental Management System. This activity is promoting continual improvement: For example, the facility already achieved zero landfill, and now they have a target to reduce waste generation by 3%. TMMWV was also selected for the West Virginia Chamber of Commerce Pollution Prevention Award for a plastics recycling program implemented in 2004. This program donates baled plastics to the Jackson County Development Center. Income from the sale of the plastics benefits the Center's community rehabilitation program for the disabled.




SALES AND DISTRIBUTION

"As we hoped, Prius has sparked a major revolution in our industry. Mass market acceptance of hybrid vehicles is already driving change and environmental benefit today."

— Dian Ogilvie, Senior Vice President, General Counsel and Chief Environmental Officer, Toyota Motor Sales, U.S.A., Inc.

Our sales and distribution organizations in the United States (Toyota Motor Sales, U.S.A., Inc.), Canada (Toyota Canada Inc.) and Mexico (Toyota Motor Sales de México) are responsible for sales, marketing, distribution, service and parts support for Toyota, Lexus and Scion[1] products in North America. The North American sales and distribution organizations actively promote the sale of environmentally advanced vehicles, such as the 2005 Prius, the 2006 Highlander Hybrid and the 2006 Lexus RX 400h, and continually seek to minimize our environmental impacts — including greenhouse gas (GHG) emissions, packaging wastes and consumption of water and energy.

We are especially proud this year of our efforts in reducing energy consumption in our U.S. sales and distribution division. We achieved our energy reduction target ahead of schedule, and were recognized by both the government and a nonprofit organization for our efforts in conserving energy. We talk more about this on page 41. The following sections present goals, targets and performance in FY2005.

PROMOTING GREENER VEHICLES

Through our active promotion of environmentally sensitive vehicles, we have achieved industry-leading hybrid sales in North America. Since the Prius was introduced into the North American market in 2000, we have sold over 123,000 units (as of the end of 2004). In calendar year 2005, we expect to sell 145,000 hybrid vehicles in North America — 100,000 Prius, 20,000 Highlander Hybrids and 25,000 Lexus RX 400hs.

[1]Scion is only sold in the United States.

These sales are fueled by an increasing awareness and understanding of hybrid technology, to where hybrids are now considered mainstream vehicles. This is further evidenced by used Prius being sold in the U.S. and Canada under Toyota's Certified Used program.

We began selling Toyota vehicles in Mexico in 2002, and are already selling over 20,000 vehicles a year. The growth in sales encouraged us to expand awareness of our hybrid technology. Toyota's Mexican sales organization loaned 10 Prius to the Mexican government for 18 months beginning in 2003. Mexican government officials are very interested in having hybrid vehicles become available in Mexico, so Toyota is studying the possibility of introducing hybrids into the Mexican market.

Toyota uses the Prius, the Highlander Hybrid and the Lexus RX 400h as learning tools to build momentum for its hybrid technology in North America. We do this in a number of ways, including the following:

RIDE AND DRIVE

Toyota invited key provincial and local government officials and representatives of environmental nongovernmental organizations to hear presentations about hybrids and to test drive the Lexus RX 400h, the Highlander Hybrid, and the EnerGuide-winning Prius, Echo Hatchback and Matrix. These "Ride and Drives" were held in Toronto during the spring of 2005, and as part of a Fuel-Efficient Vehicle Clinic in Ottawa in June 2005.

Left: **Kate Hatch, Quality Assurance Engineer, is shown at the Port of Portland Vehicle Distribution Center (VDC) in Oregon. The VDC celebrated its grand opening in 2005. The facility earned a Gold LEED award for the many sustainable features incorporated into the relocation and redesign of the site, such as restoring the riverfront so that stormwater is filtered before it enters the river (see page 43 for more information on the VDC's sustainable features).**

For the third year, Toyota provided Prius vehicles to celebrities and movie industry professionals who attended the annual Academy Awards ceremony in Los Angeles. The three Best Animated Feature Film Nominees were featured on wrapped Prius, shown above.

RED CARPET, GREENER CARS

For the third year, Toyota, in conjunction with Global Green USA, provided Prius, Highlander Hybrid, and Lexus RX 400h vehicles to celebrities and movie industry professionals who attended the annual Academy Awards ceremony in Los Angeles. In addition to the Academy Awards, the program was expanded this year to include participation at the Costume Designers Guild Awards, the Independent Spirit Awards and Rock the Earth. Celebrities and Toyota staff also took the vehicles wrapped with graphics from animated films to a handful of Los Angeles schools' ecology clubs.

WEB-BASED INFORMATION

Toyota provides information on hybrids in general, and the Prius specifically, at **www.toyota.com/prius** and **www.toyota.ca** ("Vehicles").

ENVIRONMENTAL MANAGEMENT SYSTEMS

As we reported last year, we achieved our goal to certify/register all parts and vehicle distribution centers in both the United States and Canada ahead of schedule. We are going beyond that goal to register regional administration/office facilities in Canada by FY2006. Our Quebec Zone office will be the first fully administrative office facility to be registered at the end of 2005.

Beyond our own operations, we are actively encouraging our business partners to either achieve ISO 14001 certification/registration or implement an environmental management system wherever possible. For instance, 77% of our direct accessory and after-sales parts suppliers in the U.S. have achieved ISO 14001 certification, with 11% in process and 2% either intending to certify, or studying the option.

GOAL: PROMOTE EXCELLENCE IN HANDLING AND TRANSPORTING HAZARDOUS MATERIALS

As part of our normal day-to-day operations, we receive, store and ship a variety of automotive parts that are considered hazardous materials in North America. Hazardous materials are articles that pose a risk to the public's health, safety, property or the environment, and as such are regulated for transportation. Articles typically received or shipped from our facilities include parts such as air bag modules, seat belt pretensioners and batteries, and products such as paint, gasoline and refrigerant. To minimize the risk in transportation of these regulated articles, they must be properly classified, packaged, marked, labeled and documented for shipment.

Our comprehensive hazardous materials compliance plan aims to keep us 100% in compliance and to establish the best practices in our industry, while protecting our customers, associates, the community and the environment. Over 1,000 Toyota associates have been trained and tested in hazarous materials security, general awareness, function-specific topics and related subjects.

TARGET: MAINTAIN 100% COMPLIANCE WITH ALL APPLICABLE HAZMAT/ DANGEROUS GOODS REGULATIONS

In 2004, we set a target to maintain 100% compliance with all applicable hazardous materials (HAZMAT) regulations, referred to in Canadian regulations as dangerous goods. We achieved this target, for the seventh consecutive year, in both Canada and the United States.

Since the inception of the "Keep IT Green" program, approximately two million pounds of computers, monitors, servers, printers and other electronic equipment have been recycled.

GOAL: REDUCE WASTE AND CONSERVE RESOURCES

Reducing waste and conserving resources are high priority concerns. Our Web-based waste tracking system in the United States makes it easier to collect and analyze data on waste generation and recycling at the site, business unit and entity-wide levels. We are now able to benchmark facilities to identify those employing best practices. Our data analysis indicates that a centralized list of recycling vendors may make our efforts more efficient.

TARGET: REDUCE WASTE FROM SALES AND DISTRIBUTION OPERATIONS

In the United States, we established waste reduction targets for our major divisions in FY2004 and began implementation. Individual facility targets have been incorporated into a comprehensive waste reduction program, and we are working on integrating office functions into this program. Our focus has been on reducing the amount of waste that goes to landfills and on increasing recycling. In calendar year 2004, 82% of all the waste generated at our U.S. sales headquarters and parts and vehicle distribution centers was diverted from landfills, either by recycling or by using a nonland-based disposal alternative.

Recycling and Resource Conservation

In FY2005, our nationwide "Keep IT Green" computer recycling program recycled 10,994 items weighing 403,044 pounds. Since the inception of the "Keep IT Green" program, approximately two million pounds of information technology equipment, including desktops, laptops, monitors, servers, printers and other miscellaneous electronic equipment have been kept from landfills.

In 2004, Toyota's Canadian Head Office established a target of limiting paper purchased to 4,666,000 sheets of fine white paper. This is nearly four million sheets less than paper purchased in 2001, when our ISO program began. Despite increased business resulting from a record year in sales, and numerous new hires, we only exceeded our target by less than 1%.

Progress made on reducing waste at our various divisions is discussed below:

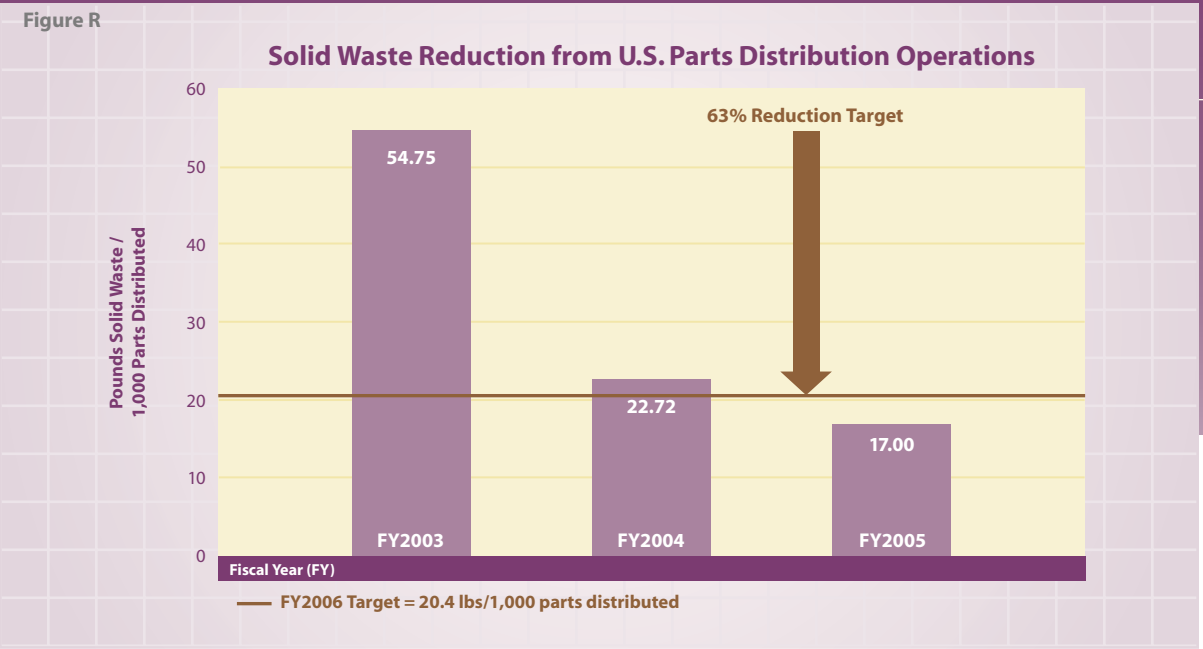
U.S. Sales and Distribution Headquarters

Our U.S. sales and distribution headquarters office campus runs a resource management program called "Think Green!" that includes providing hand towels and toilet paper that are chlorine-free and made of 100% recycled paper, hand soaps that are biodegradable in environmentally friendly packaging, and cleaning products that are safer and more environmentally responsible. Due to these efforts, we recycled 1.3 million pounds, or 37% of our waste stream in calendar year 2004.

Canadian Headquarters

Our Canadian sales and distribution headquarters has reduced its landfill waste 85% by installing high efficiency equipment, increasing composting from the cafeteria, and piloting a secure print system that will save up to 30% of paper and consumables.

Figure R



Parts Distribution

Our U.S. parts distribution facilities set a target to reduce the amount of solid waste generated 63% by FY2006, to 20.4 pounds per 1,000 parts shipped, over the FY2003 baseline. We are pleased to report that we exceeded this target by 3.4 pounds one year early (please see Figure R).

Vehicle Logistics

Toyota's U.S. vehicle logistics division recycled over 5.3 million pounds of waste during 2004, or 86% of its waste, including almost 1.7 million pounds of cardboard and 2.2 million pounds of wooden pallets. In calendar year 2004, we met our target to increase recycling by 5% to 2.9 lbs/vehicle. We surpassed our target to reduce landfill waste by 5% to 0.49 lbs/vehicle — landfill waste was reduced to 0.26 lbs/vehicle.

Toyota's vehicle logistics operation at Port Newark has been working with the Association of New Jersey Recyclers to increase recycling. In the fourth quarter of 2004, the facility recycled 50 tons of cardboard, seven tons of mixed paper, 33 tons of metal, and 69 tons of scrap wood pallets.

The facility also participates in the Port Authority of New York and New Jersey's Green Practices Task Force to find ways to improve water and air quality. The Port Commerce Department staff has benefited from the facility's ISO 14001 environmental management system (EMS) by incorporating some of Toyota's practices into the Port's EMS.

The Port has also commended Toyota for using electrically-powered shuttle vans, installing storm drain inserts, and reducing the time a vehicle's engine idles (an unnecessary contribution to greenhouse gas emissions).

TARGET ACHIEVED: IMPLEMENT A RETURNABLE-PACKAGING PROGRAM AT PARTS DISTRIBUTION CENTERS

We have a returnables program that enables us to link facilities across different regions, adding considerably to the use of returnable packaging across the organization. During FY2005, the program was expanded to include 14 parts distribution centers and parts depots. We also introduced two new returnable modules.

In FY2005, Toyota's parts distribution centers saved over $3.8 million in gross packaging costs. We exceeded our targets for reducing consumption of wood and cardboard in packaging. Using returnable shipping units, Toyota's parts distribution centers saved 4.5 million pounds of wood and 1.8 million pounds of cardboard.

In Canada, our head office, vehicle processing center and the Toronto parts distribution center are using recycling contractors that recycle 95% of all packaging and parts, especially wood, cardboard, steel and auto parts made out of composite materials.

In 2005, Toyota Motor Sales U.S.A., Inc. in Torrance, California, hosted an Earth Day electronics recycling event for associates and members of the public. Above, Kenneth Carson, Shawn Bergman and Gary Vaughn help sort and package computer and other electronic equipment before sending it off for recycling.

GOAL: REDUCE ENERGY USE

Toyota is strongly committed to reducing energy use throughout our sales and distribution network. As a first step, we established an energy usage database, updated monthly, for all U.S. sales and distribution facilities (as well as several locations occupied by different Toyota affiliates). This is now an integrated, sustainable energy management program that results in ongoing and long-term energy and operations savings for these facilities, reducing our footprint on the environment.

TARGET ACHIEVED: REDUCE TOTAL ENERGY CONSUMPTION IN THE U.S. 15% BY FY2006

We achieved this target in March 2005. We are now working toward a new target of reducing total energy consumption 20% by FY2007, over the FY2000 baseline.

We accomplished these savings by means of many *kaizens*, including the installation of energy-efficient equipment and lighting and better control systems and devices, such as occupancy sensors that turn room lights on or off when a person enters or leaves.

For its efforts in reducing energy consumption, Toyota's U.S. sales and distribution division was awarded a 2004 Flex Your Power Energy Efficiency Award by Flex Your Power, California's energy efficiency marketing and outreach campaign. Toyota's offices in Gardena, California, also won an Energy Star label from the U.S. Environmental Protection Agency, distinguishing the building as one of the top 25% in the nation in energy performance.

GOAL: REDUCE GREENHOUSE GASES

Toyota's U.S. sales and distribution operation continues to track GHG emissions, using a protocol developed by the World Resources Institute and the World Business Council for Sustainable Development. The greenhouse gas inventory developed by Toyota's U.S. sales and distribution division measures total tons of GHG emissions, tons of GHG emissions per vehicle distributed, and tons of GHG emissions per auto part distributed. The scope of the inventory includes GHG emissions from electricity use, natural gas use, business travel, employee commuting, and logistics and supply activities.

TARGET: REDUCE GHG EMISSIONS

During FY2005, we began shifting the inventory from calendar year to fiscal year, to be in line with our Five-Year Environmental Action Plan and our energy target. We are not recalculating previous years to reflect the fiscal year time frame — the data will show a direct comparison between calendar year and fiscal year. This will result in a data gap of three months (January 2004 to March 2004).

In addition, we have been making other improvements to the inventory. We are continuing to refine the emissions factors that we use when calculating GHG emissions, particularly in our logistics operation. We also refined the organizational boundary, mainly for utility data. We have now tagged each electric and natural gas meter as being in or out of the organizational boundary, based on a definition for the boundary that focuses on control of day-to-day operations. We are also updating previous years' utility data to reflect the new boundary definition.

For the sixth year in a row, Toyota sponsored the Friends of the Rouge Watershed, a community-based conservation group in Scarborough, Ontario, near the Toyota Canada Head Office. Over 160 Toyota employees and their families donated their time to help the group rehabilitate the Beare Road Landfill, a former dumpsite located near the Rouge Valley.

As a result of these changes to the methodology, we have been delayed in finalizing the inventory for FY2005, and are not able to report on our total FY2005 GHG emissions in this report. We will complete the inventory this fall, and plan to report on both FY2005 and FY2006 GHG emissions in our next report.

GOAL: PROMOTE ENVIRONMENTAL RESPONSIBILITY AMONG DEALERS

There are more than 1,400 Toyota and Lexus dealerships in the United States, 262 across Canada and 31 in Mexico — all independently owned and operated franchises. Our dealers are required to comply with all applicable federal, state, provincial and local environmental and safety regulations. For more information on how we provide compliance and other relevant information to our dealers through our Environmental Assistance Network, please see the section on Dealer and Supplier Education on page 13.

We support and encourage our dealers' efforts in pursuing environmental excellence. For example, Magnussen's Auburn Toyota, located east of Sacramento, California, installed a 199 kw photovoltaic system in July 2004. Comprised of 1,200 panels on three buildings, they estimate these solar panels will reduce their power bill by about 70% to 80%, resulting in a five-year payback on this project. Toyota recognized Magnussen's with a 2004 President's Award. The award is given to those dealerships that demonstrate a commitment to maintaining Toyota's high standards for excellence in every area of operations and service.

Walnut Creek Toyota in Contra Costa County, California, implemented an environmental program that focuses on recycling and containing or eliminating sources of potential pollution to groundwater and the San Francisco Bay. The program includes recycling tires and batteries, sending water from washing and detailing vehicles through an oil/water separator, and plugging drains in the service shop to ensure no harmful contaminants are released. Due to these efforts, Walnut Creek Toyota became the first dealership to receive the county's Green Business Award.

TARGET ACHIEVED: INTRODUCE TOYOTA ENVIRONMENTAL GUIDELINES TO THE CANADIAN DEALER NETWORK BY 2004

As noted in last year's report, Toyota produced informational materials for dealers in Canada to assist them with the task of responsible environmental management. Lexus dealers received similar information in the first quarter of 2004. By the end of 2004, Toyota dealers with body shops had also received informational materials specifically addressing environmental concerns and compliance issues in automobile paint and body repair operations.

The Portland VDC earned a Gold LEED award, and won a 2005 Businesses for an Environmentally Sustainable Tomorrow (BEST) Sustainability Practices Award.

GOAL: PROMOTE GREENER BUILDING CONSTRUCTION AND MAINTENANCE OPERATIONS

TARGET ACHIEVED: DEVELOP SUSTAINABLE OPERATIONS STANDARDS FOR U.S. FACILITIES

Toyota's U.S. sales and distribution division developed "Process Green" to ensure that sales offices and logistics sites use practices and products that are sustainable, address end-use cost, and meet business needs in a socially responsible manner. The process addresses building systems and materials, as well as products used by the custodial staff.

In 2003, we developed interior planning and construction guidelines as part of Process Green. The guidelines apply to offices (including workstations, conference rooms, supply rooms and libraries), warehouses and cafeterias.

Through Process Green and with the help of the guidelines, Toyota incorporated sustainable features into the relocation and redesign of Toyota Logistics Services' Port of Portland Vehicle Distribution Center (VDC). The new facility had its grand opening in January 2005. It operates on 86.4 acres, and will offload and process more than 185,000 vehicles annually. The site has the following sustainable features:

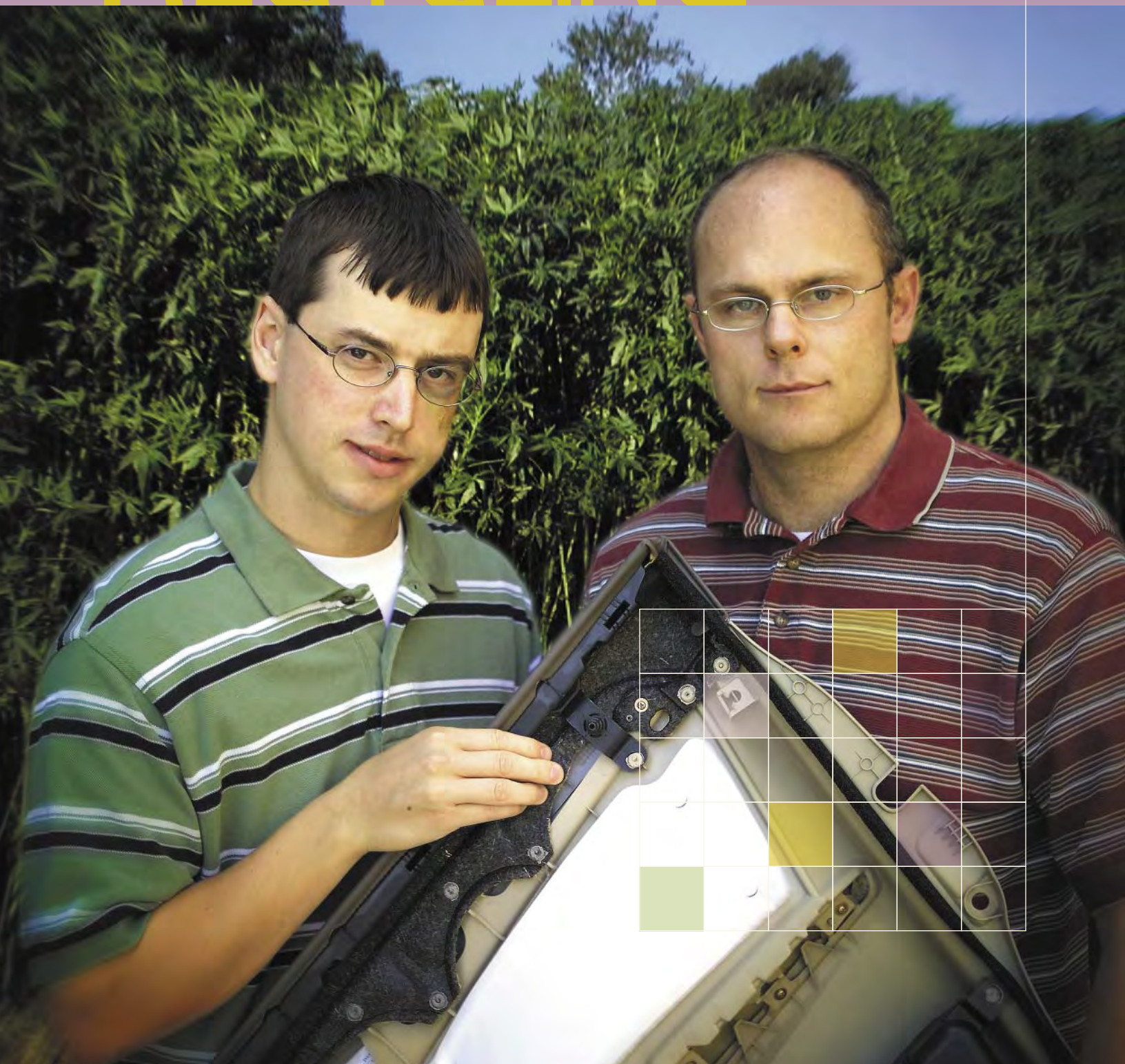
- **Sustainable Site** — includes pre-treating stormwater before it leaves the site; restoring the riverfront so that it filters stormwater runoff before it enters the Willamette River; installing Energy Star reflective roofs to reduce heat gain; providing showers to encourage bicycling to work; and designating priority carpool parking spaces to encourage ride sharing.
- **Water Efficiency** — includes landscaping with indigenous Oregon plants that do not require much water, so that a permanent irrigation system is not needed; reducing potable water use by 75% through harvesting rainwater and using water efficient fixtures such as low-flow faucet aerators; and washing only vehicles receiving exterior installations such as spoilers.
- **Energy and Atmosphere** — includes purchasing clean wind energy to power the site; using occupancy sensors, skylights and fluorescent lighting; installing an exhaust heat recovery system that saves $20,000 per year by tempering incoming fresh air with warm air exhausted from the process shop; and eliminating HCFC refrigerants from all building systems.
- **Materials and Resources** — includes constructing railroad tracks and switches from previously used components; using recycled content in 75% of all materials used at the site; diverting 99% of construction waste from landfill; and recycling more than 90% of operations waste.
- **Indoor Environmental Quality** — includes sealing ductwork during transportation and installation to protect the HVAC system from airborne pollutants; specifying adhesives, sealants, paints and carpet with low amounts of VOCs, and composite wood that contains no VOCs; and installing operable windows that allow fresh air to circulate and provide outdoor views for at least 90% of the regularly occupied spaces.

As a result of the above activities, the Portland VDC earned a Gold LEED award, and won a 2005 Businesses for an Environmentally Sustainable Tomorrow (BEST) Sustainability Practices Award from the city's Office of Sustainable Development. The BEST Awards recognize businesses demonstrating an extraordinary commitment to sustainability.




RECYCLING

END-OF-LIFE VEHICLES



"It is vital for Toyota to take a more proactive approach toward the creation of a sustainable, recycling-oriented society."

— Toyota Recycle Vision

The automobile is one of the most highly recycled, durable products on the market today. The Toyota Recycle Vision presents our worldwide commitment to recycling end-of-life vehicles and phasing out SOCs. Globally, the European Union (EU) Directive on End-of Life Vehicles (ELVs) and The Law on Recycling of ELVs in Japan set targets for automakers in terms of future vehicle-recovery rates and use of SOCs. In North America, despite the absence of similar laws, Toyota is working to achieve a 95% vehicle-recovery rate and to phase out our use of certain substances of concern. Please visit **www.toyota.co.jp/en/environment/recycle** for more information on the Toyota Recycle Vision, the EU ELV Directive and the Japanese Law.

GOAL: MANAGE SUBSTANCES OF CONCERN

Toyota has a global technical standard, designated TSZ0001G, that governs management and usage of SOCs in our products. Members of Toyota's North American affiliates collaborate through the SOCs Task Force to implement our SOCs reduction and elimination plan.

TARGET ACHIEVED: DEVELOP NORTH AMERICAN SUBSTANCES OF CONCERN STRATEGY

We have targets specific to our North American vehicles to eliminate, replace or reduce our use of critical SOCs, including arsenic, hexavalent chrome, cadmium, mercury and lead. For example, the redesign of the Avalon for the 2005 model year incorporated efforts to reduce the use of SOCs in the vehicle. Polyvinyl chloride (PVC) coverings and PVC in door trims have been replaced or significantly reduced, and the Avalon now has a lead-free crank shaft, connecting rod and crank bearing.

GOAL: DEVELOP RECYCLING DESIGNS AND PROMOTE EXPANDED USE OF RECYCLED MATERIALS

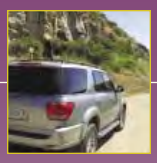
TARGET: INCORPORATE MATERIAL AND DESIGN STRATEGIES FOR INCREASED VEHICLE RECYCLABILITY

The Toyota Recycle Vision, in an effort to achieve a 95% vehicle-recovery rate, calls for designing vehicles to make them more easily recyclable and using remanufactured parts. In many cases, once we begin selling a remanufactured part, we discontinue selling the new part. The remanufactured part incorporates improvements in the new part, making the remanufactured part better than a new part.

We sold over 275,000 remanufactured parts in 13 product lines in 2004. We expanded our offerings in 2004 by introducing 170 new part numbers covering seven product lines. In 2005, we are doubling our marketing efforts with enhanced promotional materials and a new remanufactured parts logo. We also launched a new Web site for our independent repair facilities.

The redesign of the Avalon incorporates vehicle recyclability in a number of features. The vehicle uses kenaf-reinforced plastic, natural carbon fibers in lieu of glass on the headliner (fabric covering the inside of the roof of the vehicle) and replaceable-element type oil filters. At the end of a vehicle's life, these materials can be reused or recycled.

Left: **Toyota engineers Mark Bacchus and Kevin Gilleo were responsible for developing the new upper door trim component on the 2005 Toyota Avalon. The trim piece uses plastic material that is reinforced with a natural fiber called kenaf. Grown in warm climate fields, like the one shown in the background, Kenaf is a renewable resource that can be used as an effective replacement for glass or other reinforcement materials. We are actively working to expand the number of parts that use these types of natural materials.**

STAKEHOLDERS

"Teamwork is an integral part of the Toyota Way. That's why we pursue partnerships to find ways to work together for a greener future."

— Stephen Beatty, Managing Director, Toyota Canada, Inc.

Toyota operates under a global Earth Charter that promotes collaboration among our stakeholders as a pathway to a better Toyota and a better world. We invest in long-term quality relationships with our customers, employees, shareholders, business partners and society at large (please see Figure S).

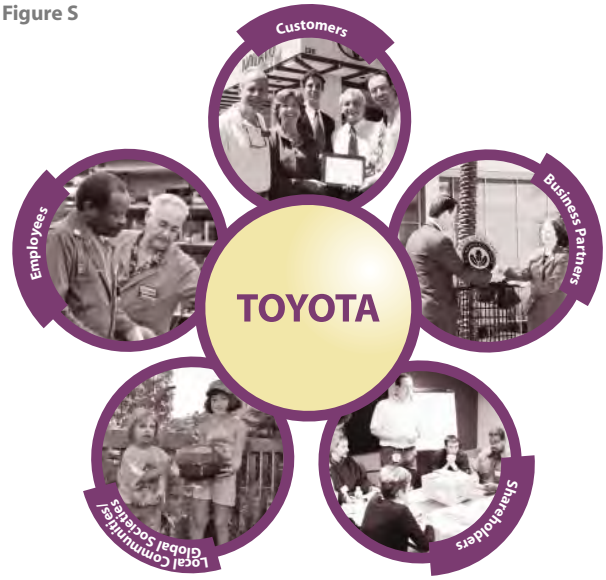
Our primary Five-Year Environmental Action Plan goal is to promote and enhance our environmental communication activities across North America, particularly among communities and key organizations. Earlier in this report, we described some of the ways that we work toward that goal by building strong relationships with our team members and business partners. In this section, we highlight various ways that we engage customers, shareholders, society and employees in cultivating programs with positive environmental impact. For an in-depth listing of Toyota's outreach activities, please visit **www.toyota.com/community** and **www.toyota.ca** ("Environment").

CUSTOMERS

Since our founding, Toyota has placed customers at the heart of everything we do. Each year, we conduct many focus groups and surveys with our North American customers and other consumers to learn about what they desire in a vehicle, and how those preferences and priorities drive their purchase decisions. We talk to men and women across the U.S., Canada and Mexico who represent many income levels, ages and geographic locations.

We have discovered that we are marketing to many consumers who are concerned about the environment.

Figure S



Nevertheless, our research continues to show that the majority of consumers will not compromise performance for environmental benefits, and are not inclined to pay a premium for an environmentally sensitive vehicle. However, with rising fuel prices, an increasing number of consumers are considering the vehicle's fuel economy, as well as its price and performance, when they make purchase decisions.

The onus is on the manufacturer to design and build environmental products with as few compromises as possible and sometimes in advance of market signals or regulatory requirements. Toyota remains committed to providing consumers with environmentally sensitive vehicle choices and to developing environmentally sensitive technologies for today and the future.

Left: **Toyota Canada Inc. partnered with Evergreen to transform Jackman Elementary School in Toronto, Ontario, into a natural learning environment. For more about our partnership with Evergreen, please see page 49.**

Toyota earned the leading position in the automobile sector on the DJSI World in 2004 for the second consecutive year.

SHAREHOLDERS

It is important to us that our shareholders view us positively. Toyota pays close attention to our position in various ratings by financial analysts, including those from the Socially Responsible Investor (SRI) community.

One ratings group that we follow closely is the Dow Jones Sustainability Index (DJSI) family. Toyota earned the leading position in the automobile sector on the DJSI World in 2004 for the second consecutive year. The DJSI World consists of more than 300 companies that represent the top 10% of the leading sustainability companies in 60 industry groups (please see **www.sustainability-indexes.com**). Our ranking is due to the successful alignment of our expansion strategy and Vision 2010 "Innovation into the Future" with our long-term environmental strategy. Toyota continues to improve eco-efficiency performance across our operations.

LOCAL COMMUNITIES/GLOBAL SOCIETIES

Toyota views governments, nongovernmental organizations, and the communities in which we live and operate as valuable stakeholder groups and key partners in environmental conservation initiatives.

Toyota engages with governments at the local, provincial, state, national and international levels on regulatory issues and voluntary initiatives, both independently and through trade organizations. Examples of our government partnerships include participation in the U.S. Department of Energy's Climate VISION and Voluntary Reporting of Greenhouse Gases 1605(b) programs, and the EPA/DOE Energy Star program.

We also team up with government bodies and communities to improve the regions in which we operate. For example, at the March 2004 grand opening of Calty Design Research in Ann Arbor, Michigan — a new satellite design studio located on the same campus as Toyota Technical Center (TTC) — TTC and Calty presented $10,000 to the Rotary Club to finance a community service campaign to replace thousands of ash trees devastated by the Emerald Ash Borer in Ann Arbor.

Each year, we contribute millions of dollars in donations like this through corporate contributions, the Toyota USA Foundation and the Toyota Canada Foundation. These contributions reflect our commitment to environmental protection, education and natural resource conservation. The following section describes some of our donations of Toyota vehicles and corporate contributions to nongovernmental organizations and communities.

DONATING VEHICLES

Toyota looks for opportunities where donating our vehicles is an appropriate means of supporting environmental causes. In April, we donated a 2004 Prius to the Rainforest Foundation, a nonprofit organization founded by Sting and his wife, Trudie Styler, that supports indigenous populations of the world's forests. At its 12th annual Carnegie Hall Benefit Concert in New York City, the Prius was auctioned off for $31,000.

Toyota Helps National Parks Green Transportation

In collaboration with the National Park Service's Green Energy Parks program and the Department of Energy's Clean Cities program, Toyota is partnering with several national parks in their efforts to promote more sustainable transportation practices within the parks, as well as in the surrounding communities. Building on our partnership with Yellowstone National Park, this year vehicles and educational materials were provided to Grand Tetons National Park, Point Reyes National Seashore, Wilson's Creek National Battlefield, and Hagerman Fossil Beds National Monument.

The four Prius sedans that Toyota donated last year to Yellowstone National Park are painted with pictures of bison, bears and Old Faithful. In the summer, the colorful cars create an opportunity for the rangers to talk with visitors about sustainable transportation. In the winter, the rangers drive these "science classrooms on wheels" to regional schools in three states.

Toyota donated four Prius sedans to Yellowstone National Park, giving the rangers the opportunity to talk with visitors about sustainable transportation and to drive a hybrid car.

In addition, in December 2004, Yellowstone National Park made a commitment to building a Silver-level LEED-certified visitor center, the first LEED building in the National Park System. Toyota is contributing $1 million to the building and is providing consulting to the architects and the park management team. Construction of the visitor center is expected to begin in 2006.

SUPPORTING ENVIRONMENTAL EDUCATION

Toyota partners with leading organizations that educate children and their families about creating a cleaner, greener and healthier world. Our manufacturing facility in Indiana donated $10,000 to the Air and Waste Management Association in June 2004 to support the conversion of Environmental Resource Guides to CD-ROM for K-5 teachers. Local donations such as this are made frequently by individual facilities. In addition, Toyota supports a number of larger nationwide education programs. In 2004, the Toyota Earth Day Scholarship Program awarded 15 scholarships of CAN$5,000 each to Canadian students graduating from secondary school, who exhibited exemplary academic performance and environmental community service. Examples of other nationwide programs include:

Evergreen

Toyota's affiliate in Canada partnered with Evergreen in 2000 to create the Toyota Evergreen Learning Grounds Program. This program is designed to transform Canadian school grounds into natural learning environments. From 2000 to 2006, Toyota and its dealerships will contribute over $4 million to help

TOYOTA SENDS STUDENTS AND TEACHERS TO THE 2005 WORLD EXPOSITION IN JAPAN

The 2005 World Exposition (Expo) in Aichi, Japan, brought together people from around the world to celebrate nature's wisdom, and to explore solutions to environmental, resource and energy problems. During the summer of 2005, students and teachers attended Expo thanks to sponsorships from Toyota's North American affiliates. Students in the Toyota Youth Program at Expo 2005 spent 10 days in July on a study tour of Japan. They explored the pavilions at Expo and participated in a science conference with their Japanese peers. Students were selected for this program from science competitions in states and provinces where Toyota operates major manufacturing facilities, and from competitions held during the 77th National FFA Convention. In addition, teachers selected for the seventh Toyota International Teacher Program (TITP) attended Expo in June (please see below for more information on TITP). Both programs were administered by the Institute of International Education.

Toyota's affiliates in North America were also active participants in developing the U.S. and Canada national pavilions at Expo 2005. In addition, the Toyota group of companies worldwide sponsored a corporate pavilion themed "The Dream, Joy and Inspiration of Mobility in the 21st Century." For more information on Expo 2005, please visit **www.expo2005.or.jp.**

Evergreen provide the tools and support that students, teachers and communities need to turn often barren school properties into inviting play spaces and natural learning environments. The funds provide access to an online native plant database and project registry; funding grants ranging from $500 to $2,000 to assist schools in the purchase of native plants, heritage vegetables and berries; and expert assistance through Evergreen and its Learning Ground Associates. With Toyota's help, 265,000 students have participated in greening projects at 560 schools across Canada.

Toyota International Teacher Program

The Toyota International Teacher Program (TITP) is funded by an annual grant from Toyota of $650,000 and is administered through the Institute of International Education.

Teachers from across the U.S. travel to Japan to visit schools, conservation sites and factories, and to talk with well-known authors, educators and environmental and business leaders. TITP focuses on four themes — history, education, environment and technology — and how these affect industry and society.

The teachers are chosen from Alabama, California, Indiana, Kentucky, Michigan, Missouri, New York, Texas, West Virginia and Washington, D.C. — areas where Toyota operates manufacturing and corporate offices. Teachers are selected based on their professional and leadership qualifications, as well as their plans to incorporate their experiences and research into their curricula.

In the summer of 2004, the sixth TITP sent 50 U.S. high school teachers to Japan with TITP to work with Dr. Makato Murase on rainwater recycling in Tokyo's Sumida Ward. They examined neighborhood-level projects that collect and use rainwater for such purposes as maintaining public parks and providing water to wash cars. Upon return, several program participants implemented his recycling methods in their own schools.

In October 2004, employees from Toyota Motor Manufacturing North America, Inc. and the North American Parts Center Kentucky participated in a National Public Lands Day event at Big Bone Lick State Park in Union, Kentucky. Over 70 employees and their families restored hillsides, collected trash and resurfaced trails. At the event, the Park Manager presented Toyota with the 2004 Community Appreciation Award.

TAPESTRY

In partnership with the National Science Teachers Association, the Toyota TAPESTRY program provides 50 grants of up to $10,000 each, and at least 20 minigrants of up to $2,500 each, to K-12 science teachers nationwide in a number of science categories, including environmental science. Since 1990, TAPESTRY has provided more than $6.5 million to 750 teams of science teachers.

For the 2004-2005 school year, 22 large grants and 11 minigrants were given in the environmental science category. The projects covered a full range of activities, including habitat restoration, using bioindicators to assess air quality, and endangered species management. Through our TAPESTRY program, students learned both technical and collaborative work skills in an atmosphere fostering environmental stewardship.

Some examples of this year's projects include:

- Students at the Institute of Notre Dame in Baltimore, Maryland, learned about the effects of urban development on Maryland's remaining natural resources. Students interviewed personnel from the state's Department of Natural Resources, local advocacy groups, and long-time residents to assess how development has changed the environment.
- Students at Ballard High School in Seattle, Washington, learned about environmental technologies and alternative fuels, especially biodiesel. The class built a full-scale biodiesel processor in the classroom.

EMPLOYEES

VOLUNTEERING TIME

Across North America, Toyota employees volunteer their time to a number of organizations and events that help protect the environment. Our volunteer efforts range from large nationwide events such as Earth Day, to smaller local efforts, such as working with the Waterloo, Ontario, school districts to develop an electricity module for the ninth-grade science curriculum. In all cases, our employees donate their knowledge, their time and their hard work to educate others about our world and to protect our parks and open spaces.

One of Toyota's largest volunteer initiatives in the United States is National Public Lands Day (NPLD), which we sponsored for the seventh consecutive year in partnership with the National Environmental and Education Training Foundation (NEETF) in September 2004. NPLD is the largest one-day volunteer effort in the U.S. to renew and restore public lands. In all, more than 1,600 Toyota employees joined almost 90,000 volunteers at nearly 600 sites. Public lands were improved through trash pick-up, painting, trail cleanup and planting.

In recognition of our joint role in NPLD, Toyota and the NEETF were awarded the 2004 Take Pride in America Award by the U.S. Department of the Interior.




TOYOTA IN NORTH AMERICA

"As Toyota continues to grow and invest in North America, we constantly search for new ways to be environmentally responsible in all areas of our operations."

— Dennis Cuneo, Senior Vice President, Toyota Motor North America, Inc.

In 2004, Toyota was the third-largest automotive manufacturer by sales and the eighth-largest company in the world by revenue. Toyota vehicles (not including Lexus) are the third best-selling brand in our U.S. and Canada markets. The Toyota Prius remains the top-selling hybrid vehicle in North America and the world.

As we further expand our business, we also continually seek to increase our positive contribution to the North American economic and social fabric. This section provides an overview of our company's investments in North America.

DIRECT ECONOMIC AND SOCIAL INVESTMENT

Toyota began as an importer of vehicles in 1957 with one dealership in California. We began manufacturing operations in North America in 1986, and our North American plants now produce almost 1.5 million of the 2.2 million vehicles we sell (please see Figure T). Today, Toyota designs, manufactures, distributes and sells vehicles across North America. We have 180 operating locations in the U.S., Canada and Mexico, including assembly and component plants, various offices and engineering facilities.

Toyota's growth in North America has brought with it significant contributions to the economies in the region. Currently, our economic investment in the region is well over $16.5 billion (please see Figure U). In 2004, Toyota created over 1,900 jobs in North America. Toyota's current direct employment impact in North America

Figure T

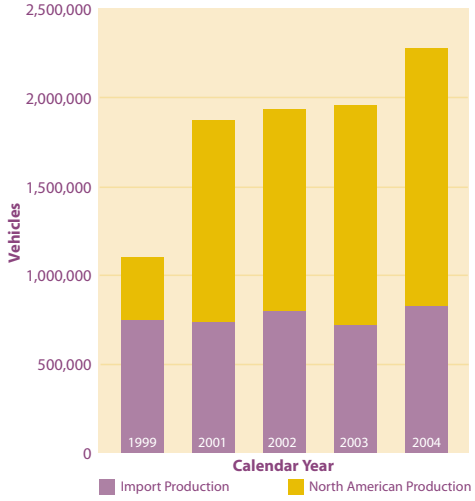
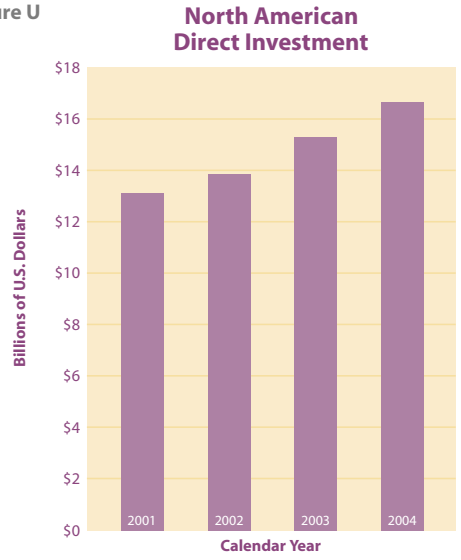
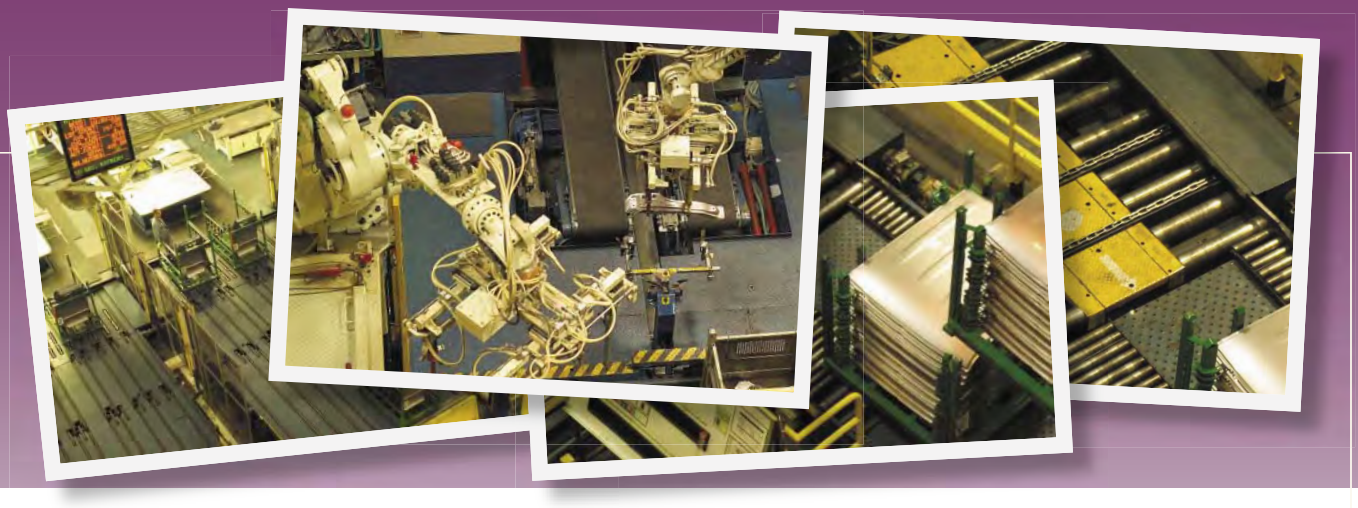


Figure U



Left: The new Vehicle Processing Center (VPC) in Toronto, Ontario, is being constructed with sustainable building features in mind. The abundant shop windows will increase natural light, and lower ceiling height will save energy (please see page 12 for more information on the environmentally friendly features of the Toronto VPC).



New United Motor Manufacturing, Inc., in Fremont, California, produces the Tacoma and Corolla for Toyota. Pictured here are stamping and welding operations.

Figure V

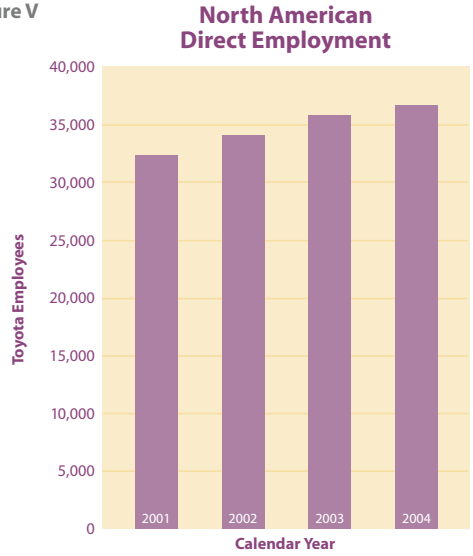
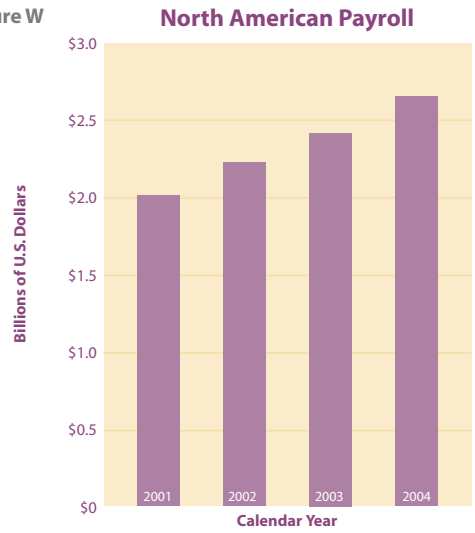


Figure W



is over 37,000, with a direct payroll of over $2.6 billion (please see Figures V and W).

We make investments in our employees that go beyond job creation. Because of our corporate philosophy to contribute to a better society and our need for highly trained workers, Toyota invests heavily in continuous skills training for our workforce, and in retaining workers and providing stable employment. Under the Toyota Production System (TPS), workers learn to be responsible problem solvers and to engage with peers and managers in production-related issues, in a continuous effort to make work processes highly efficient.

INDIRECT ECONOMIC AND SOCIAL IMPACT

In addition to Toyota's economic investment and positive direct impact on jobs and job creation in North America, there is clear indirect economic and social value added.

Automobile manufacturing, and especially the TPS that relies on just-in-time techniques, requires an intricate network of local suppliers. A study performed by the Center for Automotive Research (CAR) shows that for every one job created in manufacturing a Toyota vehicle, there are 2.6 jobs created at Toyota suppliers. When spin-off jobs are included, the multiplier from the CAR research rises to 6.2 jobs created in addition to each Toyota manufacturing employee.

Spin-off jobs are created when employees of Toyota and its suppliers use their paychecks to buy goods and services such as clothing, food and housing. While spin-off jobs are difficult to quantify, the CAR report uses economic modeling to estimate that Toyota's manufacturing activities led to the creation of over 107,000 spin-off jobs in the U.S. in 2003.

BUSINESS PARTNERSHIPS WITH SUPPLIERS FOSTER DIVERSITY

We develop strong business partnerships with local suppliers to meet the needs of the just-in-time techniques required by the Toyota Production System. These relationships are vital to Toyota's success. Our supplier network provides new solutions to our challenging business environment, and leads to job creation.

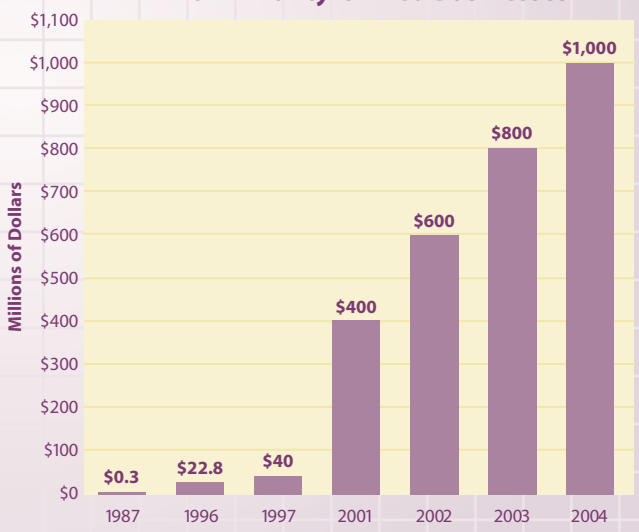
Our supplier network includes an increasing number of minority- and women-owned businesses. We have set diverse (i.e., minority and women) procurement goals in various areas of our business, including sales and distribution and manufacturing. For example, our manufacturing operations in the U.S. set a target to increase spending with minority-owned businesses to 7.5% of our annual manufacturing purchases from U.S. suppliers by 2005. We exceeded this target one year early, with over $1 billion in spending to minority-owned businesses (please see chart at right).

We also set a 20% diverse spending target for the design and construction phase of our new manufacturing plant in San Antonio, Texas. This target is twice the level of any previous Toyota construction project. We are on track for achieving this target.

In May 2005, Toyota was inducted into the Billion Dollar Roundtable, a forum that brings together corporations that make significant, measurable contributions to diverse economic growth, with supplier diversity spending of $1 billion annually.

Procurement is one of nine key areas of our business that we focus on in our 21st Century Diversity Strategy. For more information on Toyota's Diversity Strategy, please visit **www.toyota.com/diversity**.

Toyota Manufacturing Spending with Minority-Owned Businesses



In Kentucky alone, Toyota's arrival spurred the development of new plants by automobile suppliers such as Japanese-owned Toyodabo Manufacturing Kentucky LLC and American-owned DENSO International America, Inc. that combined have invested some $25 million and created 250 new jobs. This economic activity has sparked a major industrial revival in the area. Small and multinational aerospace and plastics companies have built new plants, integrating Kentucky into the national and international economy. Beyond this, economic and social infrastructures — schools, professional services, retail environments — emerge to meet the needs of these employees and their families.

Further, we are committed to ensuring that Toyota's indirect economic and social investments are made equitably. For an example of how we do this with our suppliers, please see the box above.

GEOGRAPHIC AND FUNCTIONAL PRESENCE

The map on the following page shows our locations across North America. For more information on our affiliate companies, please visit **www.toyota.com/about/operations**.

Toyota Motor North America, Inc. is a holding company for Toyota's U.S. sales and manufacturing operating units, with locations in Washington, D.C. and New York City. In addition, it coordinates the business activities for all of Toyota's North American companies.

Toyota Technical Center, U.S.A., Inc., headquartered in Ann Arbor, Michigan, is a comprehensive research, design and development company.

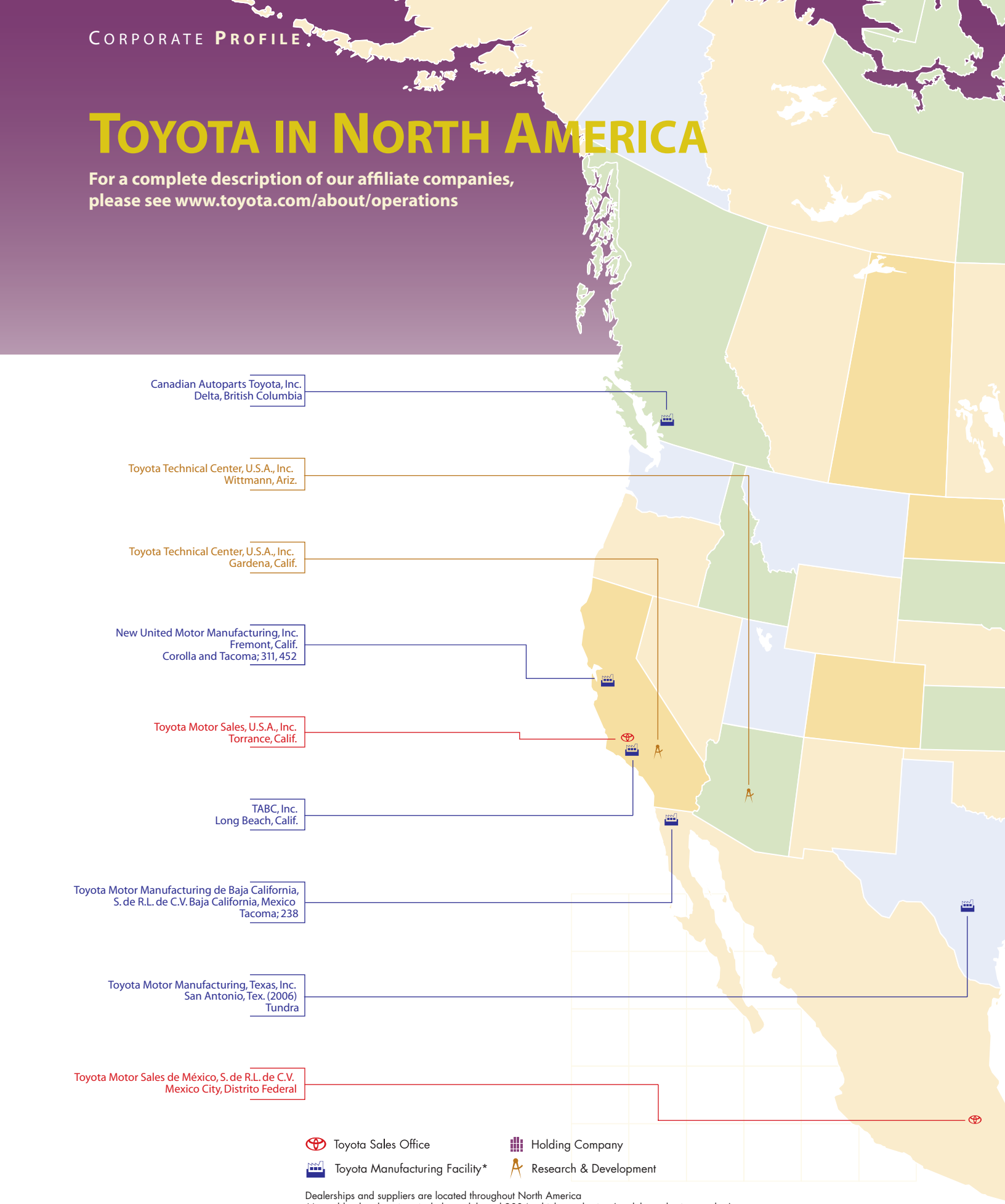
Toyota Motor Manufacturing North America, Inc., in Erlanger, Kentucky, is the headquarters of Toyota's manufacturing operations in the United States, Canada and Mexico.

Toyota Motor Sales, U.S.A., Inc., headquartered in Torrance, California, is responsible for sales, marketing, distribution, service and parts support for Toyota, Scion and Lexus products in the continental United States.

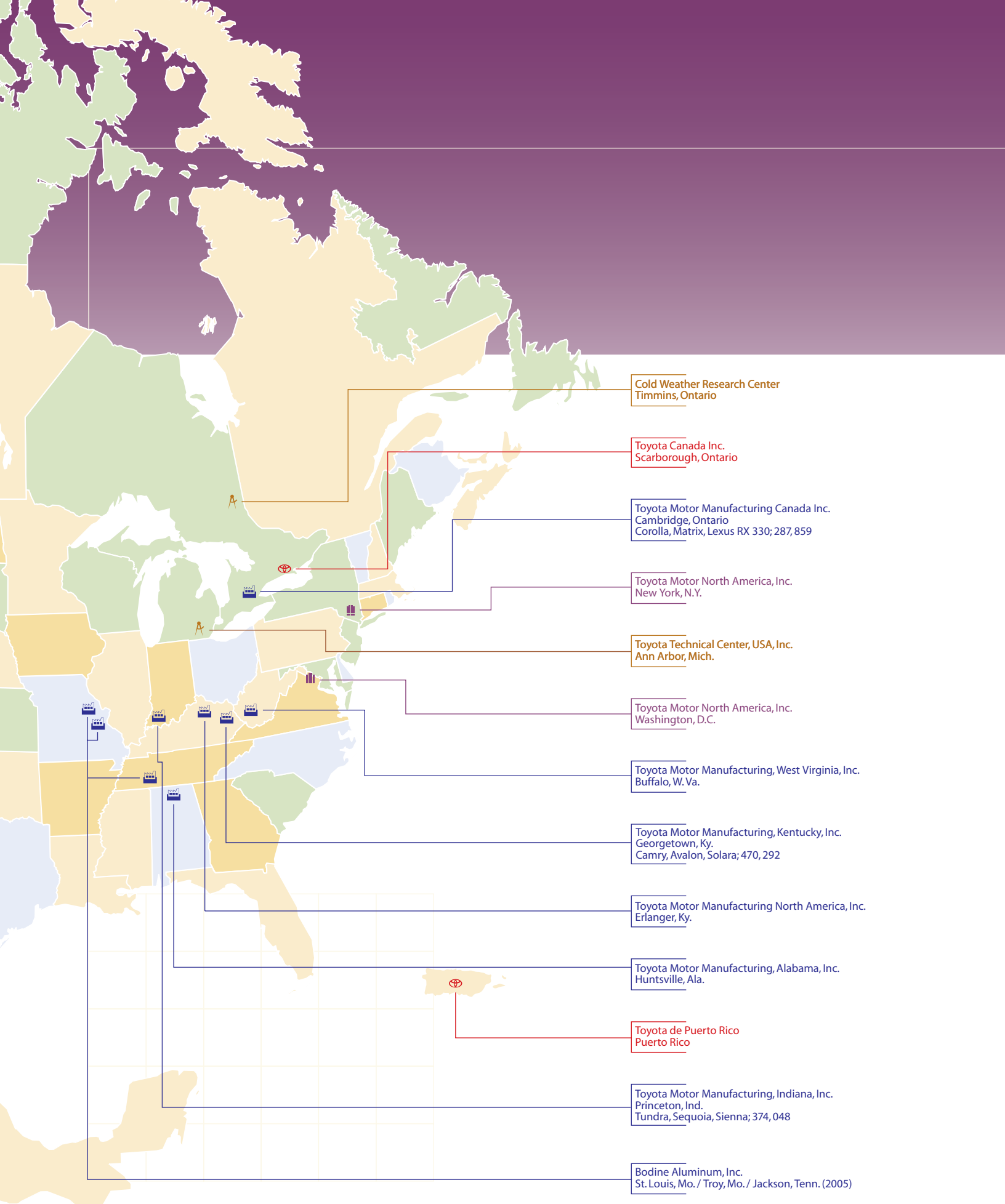
Toyota Canada Inc., headquartered in Scarborough, Ontario, is the head office for all divisions of Toyota's sales, marketing, parts, service, Lexus and industrial equipment operations in Canada.

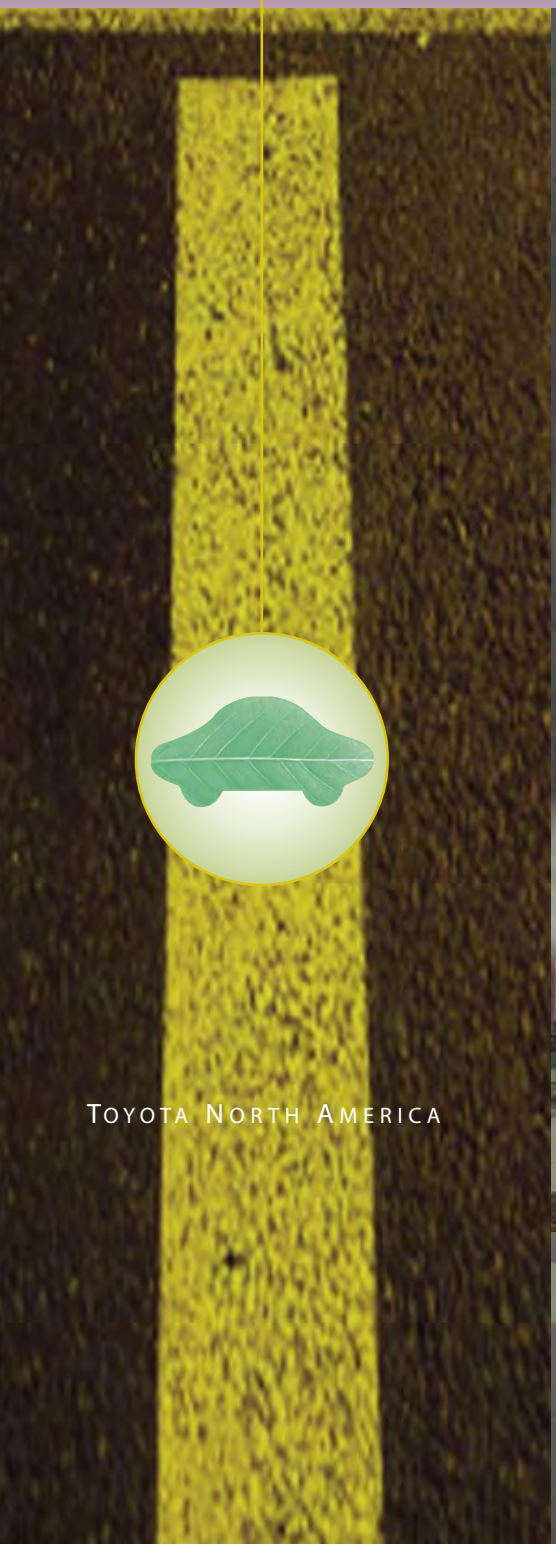
TOYOTA IN NORTH AMERICA

For a complete description of our affiliate companies, please see www.toyota.com/about/operations



Dealerships and suppliers are located throughout North America
*Assembly plant locations include models and 2004 vehicle production (model; production number)


Cold Weather Research Center
Timmins, Ontario
Toyota Canada Inc.
Scarborough, Ontario
Toyota Motor Manufacturing Canada Inc.
Cambridge, Ontario
Corolla, Matrix, Lexus RX 330; 287, 859
Toyota Motor North America, Inc.
New York, N.Y.
Toyota Technical Center, USA, Inc.
Ann Arbor, Mich.
Toyota Motor North America, Inc.
Washington, D.C.
Toyota Motor Manufacturing, West Virginia, Inc.
Buffalo, W. Va.
Toyota Motor Manufacturing, Kentucky, Inc.
Georgetown, Ky.
Camry, Avalon, Solara; 470, 292
Toyota Motor Manufacturing North America, Inc.
Erlanger, Ky.
Toyota Motor Manufacturing, Alabama, Inc.
Huntsville, Ala.
Toyota de Puerto Rico
Puerto Rico
Toyota Motor Manufacturing, Indiana, Inc.
Princeton, Ind.
Tundra, Sequoia, Sienna; 374, 048
Bodine Aluminum, Inc.
St. Louis, Mo. / Troy, Mo. / Jackson, Tenn. (2005)



Toyota North America

Environmental Report

Printed on recycled paper, 10% post-consumer waste.

Lead, cadmium, mercury and hexavalent chromium are not used in our coating formulations.

For additional information or comments, please contact:

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