

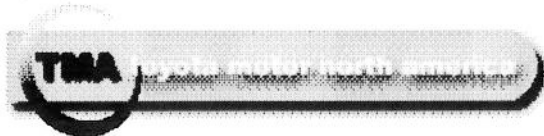
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# A New Era for Toyota and TMA in North America

September 20, 2006

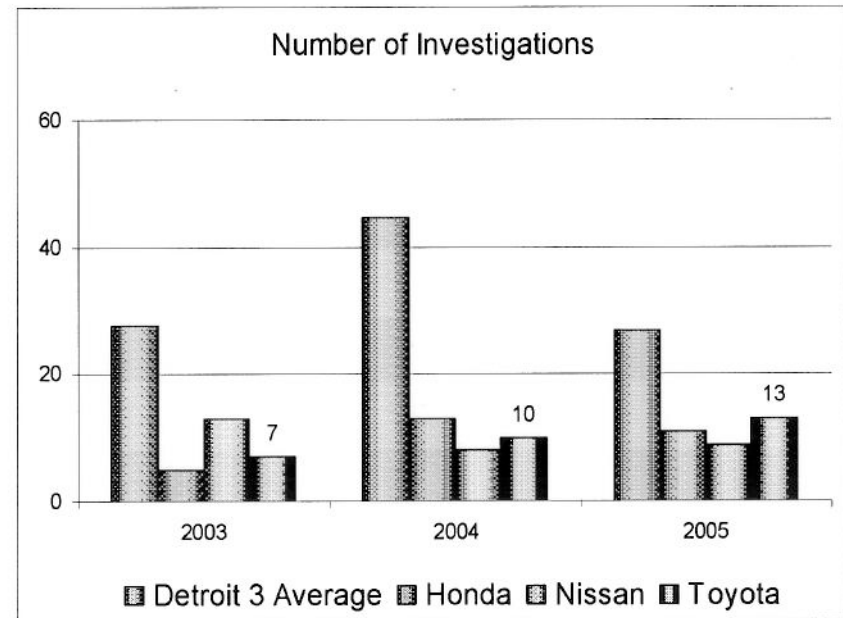
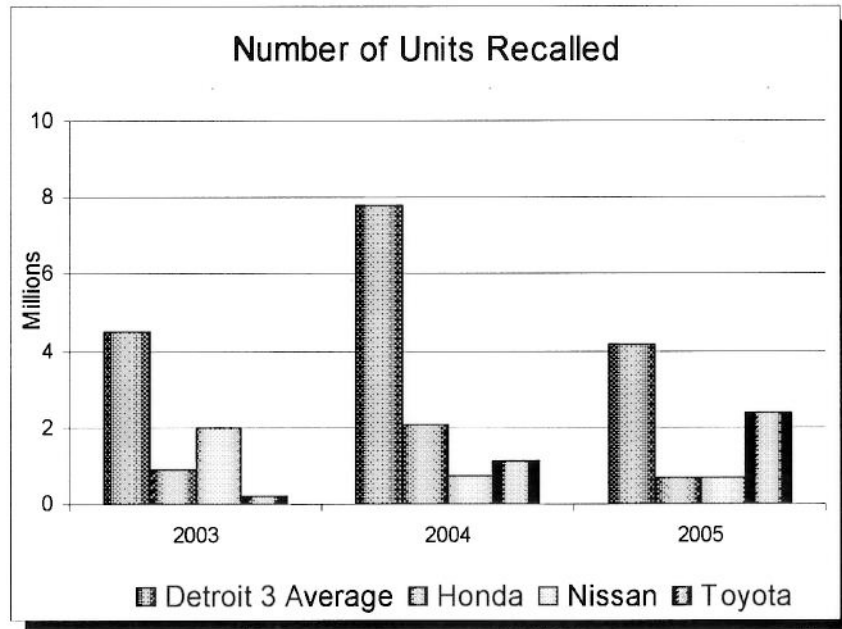
Jim Press, President

Toyota Motor North America (TMA)

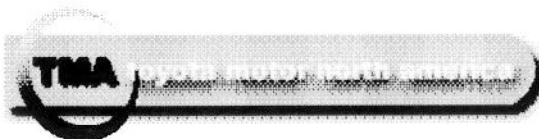


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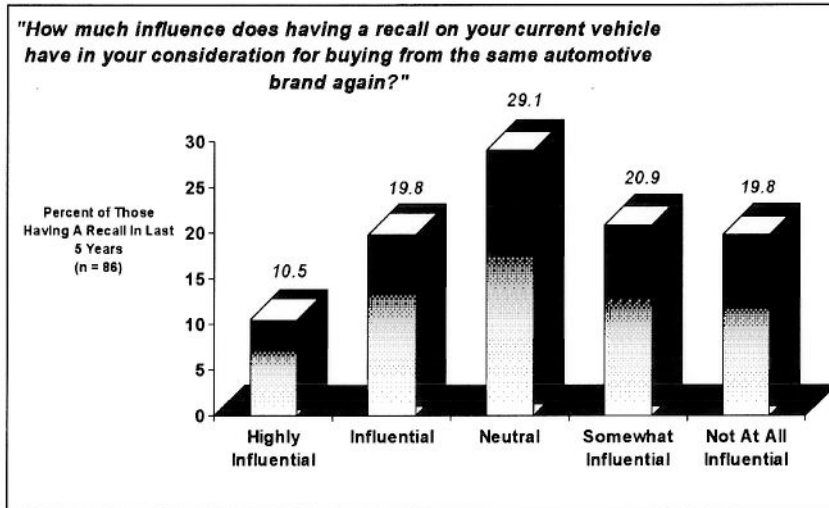
# Recall Activity Increases



Source: National Highway Transportation and Safety Administration (NHTSA)  
 TMS Technical & Regulatory Affairs - Safety

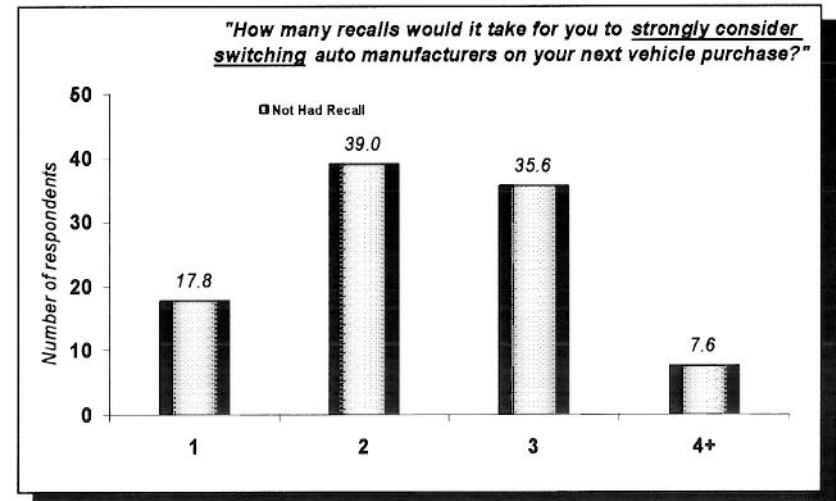
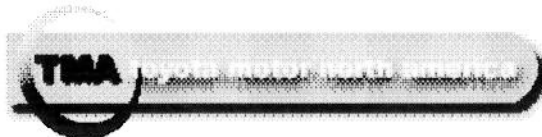


# Recalls Impact Customer Loyalty



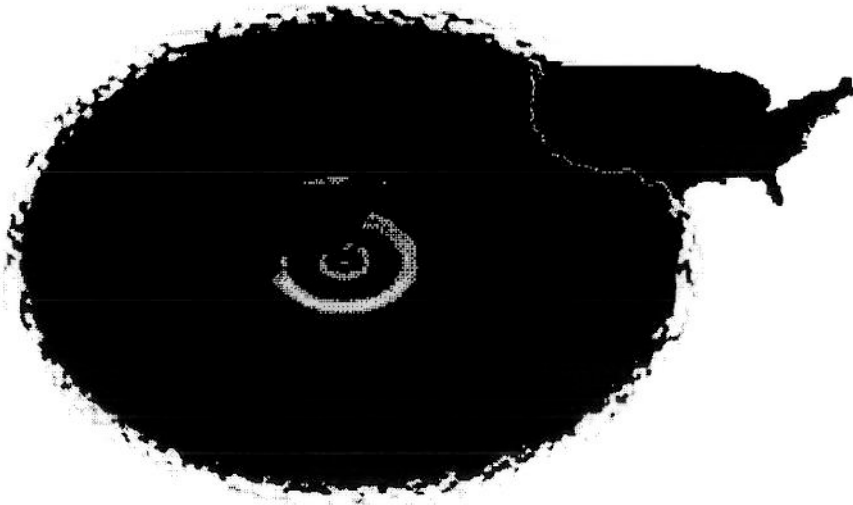
Source: Polk Center for Automotive Studies

Toyota Motor Sales, U.S.A., Inc.



# Quality Coverage in U.S. Media

- Topic came to media attention following Japan investigation



**"Recalls Dent Toyota's Image"**

*July 31, Detroit News*

**"Toyota recalls prove auto juggernaut is fallible, but fixable"**

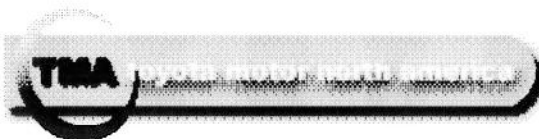
*August 28, Detroit News*

**"Toyota's shiny image has dents"**

*August 26, Associated Press*

**"Recalls leave Toyota at 'tipping point'"**

*August 19, San Antonio Express News*



# Investors Question Long-term Impact

## Avalon shows dent in Toyota quality

### Fixes sought for 'problematic vehicle'

**Mark Swartz**  
PHOTO COURTESY OF TOYOTA

LOS ANGELES — Alan Foster has owned 11 Toyotas since 1982, but his 2005 Avalon likely will be his last.

He says quality glitches have bedeviled his Toyota sedan, which he has driven less than 20,000 miles since he bought it last July. His dealer could not solve the car's problems. Toyota headquarters stalled his

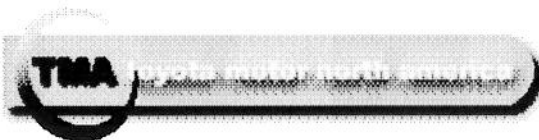
### Quality glitches

Since the Avalon's 2005 redesign, Toyota has issued service bulletins to dealers on these topics:

- **NOISE/VIBRATION**
- Faulty catalytic converters
- Leak in oil-supply line for engine valve timing
- Poor door seals
- Vehicle drifting

(Data furnished by Toyota)

*Automotive News,*  
May 1, 2006



# Credibility is slipping with NHTSA

**CNNMoney.com**

**Toyota's totally bizarre recall**  
Why would Toyota issue a recall designed to make vehicles less safe?

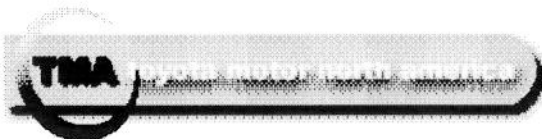
**detnews.com**

## **Toyota to recall Tundra air bags**

To comply with U.S. child safety rule, front passenger switch will be disabled, not replaced.

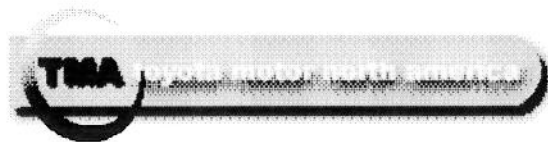
**David Shepardson / Detroit News Washington Bureau**

**WASHINGTON** -- Toyota Motor Corp. will spend millions to deactivate front-seat passenger air bag cut-off switches in nearly 160,000 Tundra pickups to avoid having to install a costlier child safety seat anchoring system.



# Strengthen NHTSA Relationship

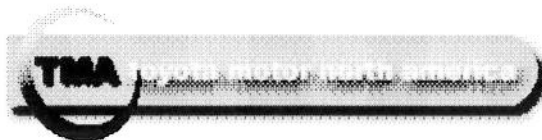
- Strengthen relationship with NHTSA and related organizations
- Request TMC to support with timely, reasonable requests to investigations
- Consider image impact of technical responses





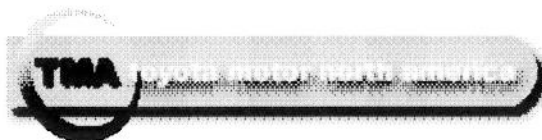
# Support NA Messaging

- Better information on progress of quality countermeasures
- Improved communication with TMC to create timely messages on quality issue for NA audience



# Continue One-voice Quality Messages

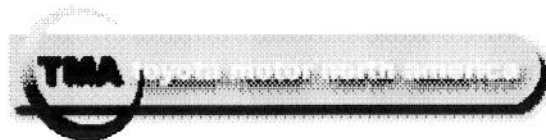
- Continue speaking out frankly on our countermeasures
- Promote safety theme in corporate advertising and philanthropic activities
- Timely monitoring of media and web interactions to catch new threats early



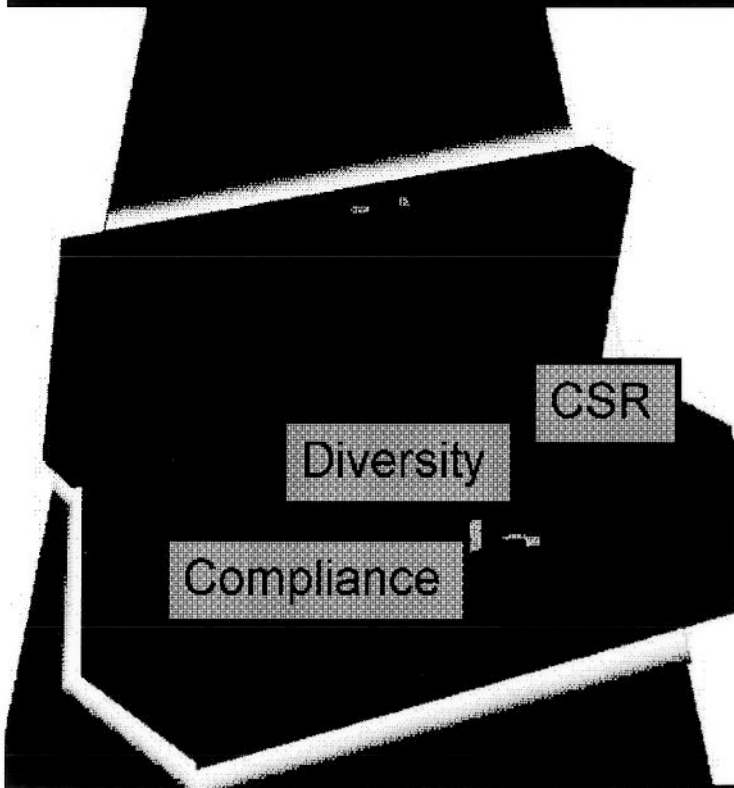
WSJ Front-page Ad

# Request to TMC

1. Schedule of localization announcements, including:
  - ✓ Announce U.S. plant decision soon after November 7, 2006 elections.
2. Keep TMA informed of quality countermeasure status to support NA message creation
  - ✓ Establish visualized process to strengthen communications among TMA/TMS/TEMA and TMC



# Re-tooling TMA



Risk Management

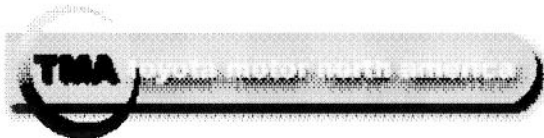
Strong teamwork  
with our business  
partners

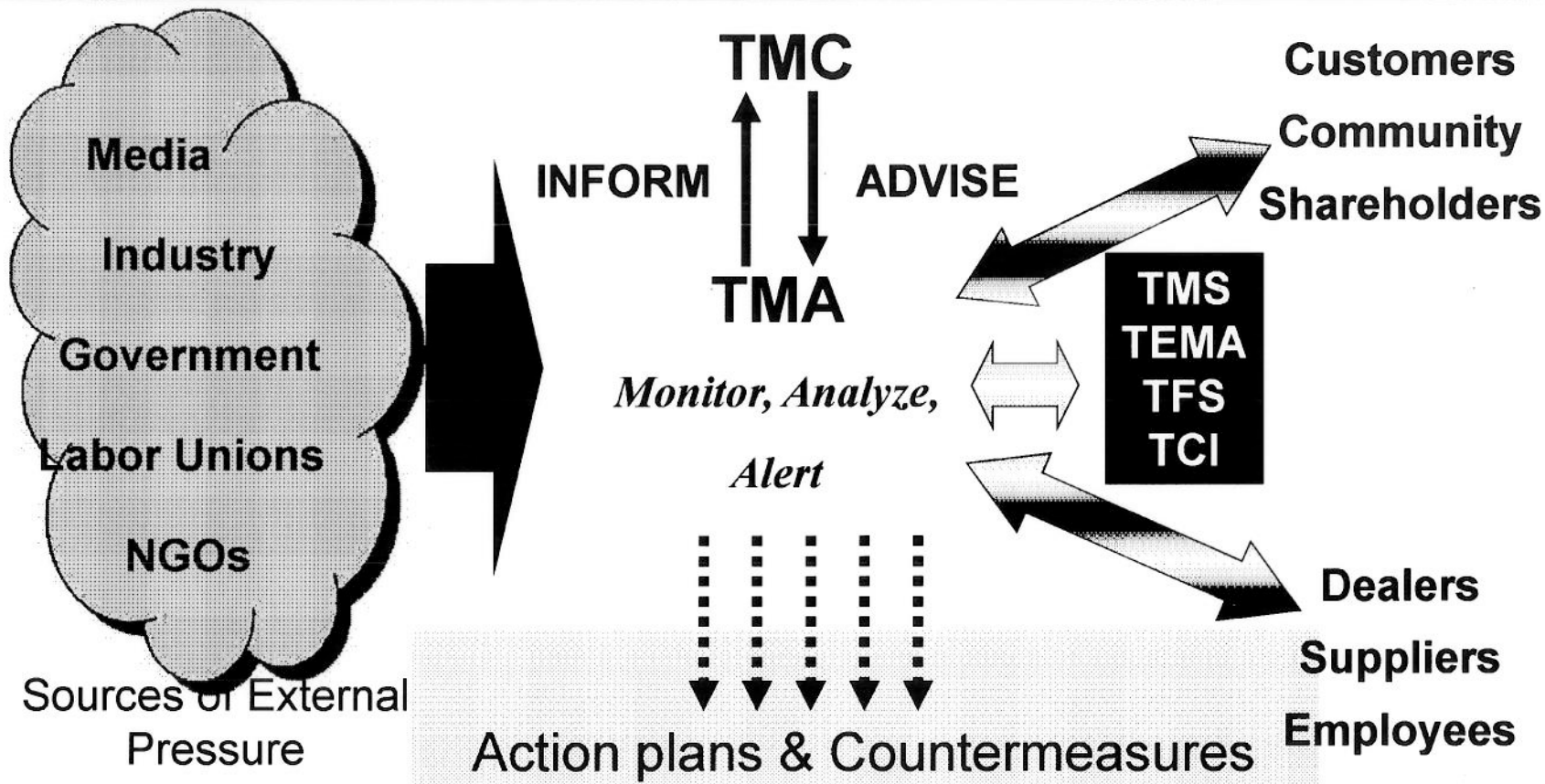
Governance

Good working  
relationships with  
outside organizations

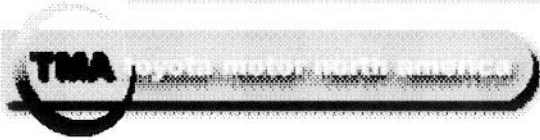
Technology  
for the future

No barriers  
between group  
companies



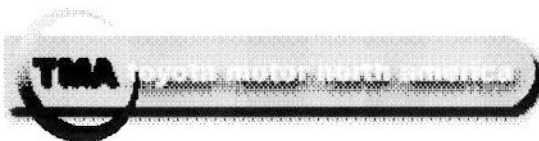


Society Approves & Appreciates Toyota's Future Growth in the Region



# Request to TMC

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## Slide Notes

Slide 20:

[REDACTED]

Now, I would like to move on to the second critical vulnerability: our quality image.

Slide 21:

The public's perception of quality is currently focused on safety recalls.

As you can see in the charts, Toyota's numbers are on a steady rise, in both recalls and NHTSA investigations, while the Detroit 3's average is actually trending downward.

In both indicators, while we still trail the Detroit 3, we exceed both Honda & Nissan.

Slide 22:

As more of our customers experience recalls, customer loyalty will suffer, according to a survey commissioned by TMS. More than 30% said 'having a recall on their current vehicle, would make them seriously consider not buying from the same automotive brand again.'

More than 50% of the respondents who had never had a recall would strongly consider switching manufacturers if their vehicle was recalled twice and 90% would consider switching by the third recall.



## Slide Notes

### Slide 23:

The Kumamoto case in Japan was covered in early July news reports in the U.S. It triggered a number of investigative reporters to focus on our U.S. quality in general and specifically on recalls.

### Slide 24:

Our institutional investors are looking at the long-term impact of rising concerns about Toyota quality. The Kumamoto case is of minimal concern in the U.S.

After the Automotive News story on Avalon, TMA Investor Relations staff received the first round of questions about long-term brand implications, particularly in marketing.

Toyota's response to the problem is still unclear.

### Slide 25:

Our ability to manage the tide of safety investigations rests largely on our ability to work well with NHTSA.

Over the last few years, we have seen our relationship begin to slip slightly with NHTSA. The reasons are complex. They include a combination of increased recalls, more investigations, and tougher negotiations between Toyota and the agency.

Not all of the recall increase can be blamed on slipping Toyota quality. The Congressional TREAD Act now requires faster and broader reporting and filing of recalls - all resulting in more pressure on the OEMs. In addition, the current NHTSA management is much more aggressive than in the past.

NHTSA is also much more sensitive to public and Congressional criticism and pressure.

## Slide Notes

There is a "new dynamic" in the US. As your face to NHTSA, we ask TMC to trust our judgment when we need your urgent help in getting issues resolved. We need faster information flow, and more technical support when hot issues arise.

### Slide 26:

We propose a three-part countermeasure to the quality perception issue at this time.

First, we need to safeguard what is left of our good working relationship with NHTSA. Working together with TMC, our technical responses to investigation-related requests from NHTSA should be vetted internally with respect to their potential public relations impact, as well as their technical appropriateness. This is an essential step to rebuilding their confidence in Toyota.

### Slide 27:

Second, we ask TMC's Technical side to keep us better informed on the progress of TMC's quality countermeasures.

Even after an engineering solution for a recall is determined, we may still have a serious public affairs problem if we cannot manage the relationship with NHTSA and the American public.

We need better ways to exchange information with TMC if TMA is to manage the public's perceptions of our quality.

## Slide Notes

### **Slide 28:**

Finally, we continue our daily work of promoting safe driving, and other positive aspects of our safety and quality story. In the past month, TMA spokespeople have followed Mr. Watanabe's lead in addressing the quality issue head-on.

We are also continuing our cycle of corporate ads on the safety issue, including a series of teen driving safety ads appearing on the front page of the Wall Street Journal. And we our PR team is meeting regularly to catch hot issues.

### **Slide 29:**

As presented earlier, 2007 could become a pivotal year in terms of risks to our business. As TMC's public affairs face to North America TMA has two requests.

First, work with us to set a schedule of local investment announcements, covering the next 3-5 years.

Second, TMA appreciates TMC's leadership and quick action on the quality issue. Our Regulatory and Public Affairs leaders need to know the current status of TMC's countermeasures, so we can develop appropriate messages and protect Toyota's reputation.

Transparency is the key to regaining trust.

### **Slide 30:**

## Slide Notes

To support the role we have defined, we are re-tooling TMA to be a stronger advocate, image keeper and strategic advisor for TMC and the North American operating companies. Our objective is to make North American society better able to accept and appreciate our future growth in the region. We want to become the neighbors they want to have and be known as respected citizens in North American society.

We will do this by building on the key qualities that have made Toyota great.

We plan to complete this re-tooling by the end of the year. I look forward to hearing your thoughts and direction.

### Slide 31:

TMA will continue to be the listener, the monitoring system and the early warning system about the North American social and political environment. This is a new era in our organizational life. We will be focusing on our customers at TMC, TMS, TEMA and our other stakeholders, and working as a team to improve the business climate for Toyota in the NAFTA region.

Thank you.

### Slide 32:

I am happy to take your questions.