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Katsuaki Watanabe
President
Agenda

1. Business Environment
2. Strategic Priorities
3. Growth Strategy by Region
4. Initiatives towards a Low Carbon Society
5. Management Foundation
6. Sales Plan
7. Targeted Operating Income Ratio
8. Shareholder Return
## Business Environment

### Major changes

<table>
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## Strategic Priorities

Focus corporate resources on the three strategic priorities

1. **Increase supply of low CO2 / fuel-efficient vehicles**  
   (HVVs and compact vehicles)

2. **Improve profitability through cost reduction**

3. **Expand operations in resource-rich countries and emerging markets**  
   (Full entry into Indian and Brazilian markets)

4. **Accelerate PHV and HV development**
### Growth Strategy by Region

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Growth Strategy by Region

Operations tailored to various conditions in each region

**W. Europe**
- Increased interest in a low carbon society
  - Low-emission vehicles

**China & Russia**
- Market growth
  - Expansion of sales network
  - Increase in supply

**United States**
- Changes in demand
  - Flexible response

**Japan**
- Core of global operations

**India & Brazil**
- Market growth
  - Full-fledged entry
- U.S. is a growing market in the mid-to-long term
- Demand shift towards fuel-efficient vehicles is a structural change
Optimize production system to meet demand

- Increase supply of fuel-efficient vehicles: Increase of Corolla / Yaris
  U.S. production of HVs (TMMMS)
- Trucks (full-size pickups): Consolidate production (TMMTX)
- Flexible production of frame/unibody type models (TMMI)

**TOYOTA**
Western European Market

Successive launches of low-emission vehicles

- World class low-emission models: iQ, Hybrid vehicles
- 18 low-emission models to be launched in late 2008 to 2009
- Maintain and improve model mix by reducing CO₂ emission across full product line-up

iQ: CO₂ emissions 99g/km
New 1.3 Liter gasoline engine
Hybrid Vehicles
Indian & Brazilian Markets

Make a full entry through new plants & newly-developed compact models

- Entry into the compact vehicle market
  - Attract users that upgrade to higher models
- Thorough cost reduction that meets local needs
  - Secure profitability and apply cost-cutting measures to different models

**Toyota & Lexus Vehicle Sales (Calendar Year)**

**India**
- New plant: 100 K vehicles per year

**Brazil**
- New plant: 150 K vehicles per year
- China: Increase local production and expand sales and service networks
- Russia: Expand sales and service networks to regional cities

**Chinese & Russian Markets**

*Increasing supply to growing markets*

**Toyota & Lexus Vehicle Sales (Calendar Year)**

<table>
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<tr>
<th>Year</th>
<th>China Dealers</th>
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<tr>
<td>'06</td>
<td>200</td>
<td>100</td>
<td>60</td>
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The core of global development & production system

- Strengthen development capabilities and product appeal in Japan
- Production system that flexibly responds to demand changes by region or model

Introduction of models that reflect market characteristics

Alphard  Crown  Tanto (Daihatsu)
Sales plan by region

Sales volume by region (retail sales, calendar year, including Hino & Daihatsu)

Europe
- Approx. 1.25 (2006)
- Approx. 1.30 (2009)

Japan
- Approx. 2.25 (2006)
- Approx. 2.25 (2009)

North America
- Approx. 2.70 (2006)
- Approx. 2.70 (2009)

Asia (including China)
- Approx. 1.65 (2006)
- Approx. 1.75 (2009)

Central and South America, Oceania, Africa, and the Middle East
- Approx. 1.65 (2006)
- Approx. 1.70 (2009)

(millions of vehicles)
## Initiatives towards a Low Carbon Society

**Market**
- Growth of the global market (esp. resource-rich countries and emerging markets)
- Decline in U.S. & Western European markets

**Environmental Issue**
- Increased interest in a low carbon society

**Raw Materials**
- Increase in raw material prices

**Rapid changes in current situation**
- Soaring gasoline prices
  - Rapid growth in demand for fuel-efficient vehicles
- Steep rise of raw material prices (esp. steel)
Initiatives towards a Low Carbon Society

Achieve both corporate growth and a low carbon society

Toyota’s policy

“There can be no future for motor vehicles unless we pursue the goals of a low carbon society.”

Pursuit of Sustainability through Technological Innovation
Hybrid Vehicle ("HV") Strategy

No. 1 sales in the HV market / Increase in sales and variety of models

HV Sales Volume (Calendar Year)

HV annual sales
Target volume: 1M vehicles/year

Target:
full line
Develop.
in the 2020s

Top left: Hybrid Vehicle ("HV") Strategy

Japan

Overseas

TOYOTA
<Batteries> Establishment of 1-million unit production capacity of PEVE* in 2010
<Vehicles> Large increase of production capacity in 2009
(new Prius & new HV-only vehicle)

*PEVE: Panasonic EV Energy

Prius production in Mississippi planned to start in the second half of 2010
Camry hybrid production planned
Hybrid Vehicle ("HV") Strategy

Make HV systems smaller and lighter, and reduce cost

- Smaller size and lighter weight
- 50% cost reduction achieved
- Further cost reduction and smaller/lighter system

First Prius → Current Prius → Next Prius

HV System

TOYOTA
Hybrid Vehicle ("HV") Strategy

Increase in models and vehicle sales
- No. 1 in HV sales performance > increase in sales and variety of models

Increase supply capacity
- PEVE unit supply capability
- 1 million units

Cost reduction of hybrid vehicles
- Make HV systems smaller and lighter, and lower the cost
  - 50% cost reduction achieved
  - Further cost reduction and smaller/lighter system

Increase in earnings from HV models
Mid-to Long-term Strategy of Environmental Technology

Response to energy diversification

Alternative Energy to Oil

Electricity

Bio-energy

Hydrogen
**Mid-to Long-term Strategy of Environmental Technology**

Comprehensive powertrain development with HV system

*The ultimate eco-car*

- HV technology
- Alternative fuel HV
- Diesel HV
- Gasoline HV (THSII)
- FCHV
- PHV
- Gasoline HV
- D-4
- EV
- WT
- Electricity

Alternative fuel engine

Bio-energy

CNG

DPNR

Common rail DI

TOYOTA
Mid-to Long-term Strategy of Environmental Technology

Development of the PHV

The ultimate eco-car

HV technology

Alternative fuel HV

Bio-energy

CNG

Alternative fuel engine

Diesel engine

DPNR

Common rail DI

Gasoline HV (THSII)

D-4

WT

Gasoline engine

EV

Electricity

TOYOTA
Mid-to Long-term Strategy of Environmental Technology

Development of the PHV

Introduction of PHV for fleet users by the end of 2009

Drive as an EV = CO2 free

Drive as a HV

EV for short distance driving

HV for long distance driving

Energy Cost Comparison (Indexation as energy cost of Prius = 1)

Driving 25 km (of which 13 km driven as EV)

Prius

PH-V (night-time power consumption)
Mid-to Long-term Strategy of Environmental Technology

Accelerating R&D of EV

The ultimate eco-car

- HV technology
- Alternative fuel HV
- Bio-energy
- CNG
- DPNR
- Diesel engine
- Common rail DI
- Gasoline HV (THSII)
- D-4
- WT
- FCHV
- PHV
- Gasoline engine
- Electricity
- EV

Accelerating R&D of EV

- Alternative fuel engine
- Diesel engine
- Gasoline engine
- Electricity
Mid-to Long-term Strategy of Environmental Technology

Accelerating R&D of EV

[Challenges of EV]
(1) mileage (2) cost (3) charging time (4) dedicated charging infrastructure

For the time being, realistic use is limited to commuting short-distances

Toyota RAV4 EV ('97-'03)

Toyota e-com ('99-'06: Tested on public roads)

Production of next-generation EV (in the early 2010s)

- Accelerating R&D for next-generation battery
- Establishment of battery research division & joint research by industrial & academic sectors
## Management Foundation

### Major changes

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Organize a special team to work on compact vehicles

The Concept

Optimize product specifications and performance to meet customers’ needs

- Thoroughly review vehicle size, weight, and number of parts in order to realize cost reduction

Cost reduction activities

By Parts

By System

By Model

Special Team

VI Activity

CCC21 Activity

TOYOTA
Develop human resources to ensure Toyota quality and implement the Toyota Way.
Sales Plan

Total sales volume (retail sales, calendar year, including Hino & Daihatsu)

(millions of vehicles)

Continuous Growth

Approx 9.70

2006 2007 2008 2009

TOYOTA
Achieve 10% operating income ratio by overcoming various obstacles

- Steep rise of cost
- Increasing cost
- Shift toward raw material costs
- To respond to the environment
- Compact vehicles

Targeted operating income ratio
10%

• Cost reduction in HV system and compact vehicle
• Development of efficient production system
• Strong marketing, etc.

Targeted Operating Income Ratio
Focus corporate resources on the three strategic priorities

1. **Increase supply of low CO2 / fuel-efficient vehicles**
   - HVs and compact vehicles

2. **Improve profitability through cost reduction**

3. **Expand operations in resource-rich countries and emerging markets**
   - Full entry into Indian and Brazilian markets

4. **Accelerate PHV and HV development**
Create a new future for people, society, and our planet

The car and its evolution create new market value

Applying HV technology to all Toyota models

Implementing advanced driving assist systems

Realizing next-generation mobility

Evolution in new areas derived from the car

Developing next-generation batteries for various industries

R&D of Partner-Robots

Establishing biotechnology & fostering bio-resource distribution

Inheritance & Evolution of Toyota’s Production Know-how