

To Our Stakeholders

Positive Net Income Generated in Worse-Than-Expected Economic Conditions

In fiscal 2009, the year ended March 31, 2009, Toyota Tsusho faced extremely harsh economic conditions. As we explained in last year's annual report, we had always remained conscious of several risks that could hinder our sustained growth, such as further appreciation of the yen, and a U.S. economic recession caused by contraction in financial markets. However, the speed of the economic downturn and the extent of its impact on the global economy ended up surpassing our expectations.

The worsening business environment had an impact on our consolidated performance for fiscal 2009. Consolidated net sales declined 10.2% year on year to ¥6,286.9 billion; operating income decreased 30.9% to ¥91.0 billion, and net income was down 40.4% at ¥40.2 billion. Consolidated net sales and earnings both underperformed our initial forecasts.

Toyota Tsusho is aiming for ROE of at least 15% in five years as a long-term target. However, in fiscal 2009, ROE declined 4.4 percentage points year on year to 7.2%. This was partly due to an accounting effect in which foreign currency-denominated net assets of overseas group companies declined on a yen basis due to the stronger yen, in addition to lower net income.

In terms of cash flows, Toyota Tsusho posted positive free cash flow of ¥68.9 billion. Free cash flow is cash flows from operating activities minus cash flows from investing activities. This positive free cash flow reflected our ongoing efforts to manage the company with an emphasis on cash-flow efficiency, through such means as the efficient use of working capital related mainly to trade receivables and inventories, and operating assets such as land and machinery and equipment.

However, we faced a challenging environment shaped by what is referred to in some quarters as a "once in a century" downturn, and by losses posted by the auto industry and many other manufacturing sectors. In this context, I believe that our positive net income, despite falls in net sales and earnings, is an encouraging result. This is because it shows that efforts to boost our earnings power in non-automotive fields, such as the produce and foodstuffs business, have helped to give us an earnings structure that is resilient to changes in economic conditions.

Playing "Offense" and "Defense" in an Increasingly Challenging Business Environment

The auto industry, which is a major source of earnings for us, is now entering a period of profound transformation. Faced with an unprecedented drop in global automobile sales, the auto industry has been forced to drastically cut back production, curb capital investments, and reduce personnel, among other measures. Against the backdrop of this harsh business environment, Toyota Tsusho must unavoidably forecast sharp falls in net sales and earnings for fiscal 2010.



JUNZO SHIMIZU
President

Conversely, I believe that these transformative periods also harbor many business opportunities. Eco-friendly cars such as hybrid and electric vehicles are a perfect example. Helped partly by preferential government policies in Japan and the U.S. as well as various European and Asian nations, business opportunities for eco-friendly vehicles are rapidly increasing around the world. In the resource and energy field, the markets are finally returning to normal after the influx of speculative money had caused the price-formation process to decouple from actual supply-demand dynamics. This is giving us a growing number of opportunities to make business investments in projects at appropriate price levels. Looking ahead, Toyota Tsusho will “play offense” by seizing on many different business opportunities of this kind, with the view to creating new earnings sources and growth opportunities. Meanwhile, we will also “play defense.” This will involve reaffirming the principle of “real places, real things, and reality,” to raise operating efficiency and rigorously ensure safety at actual business sites.

The difficult business environment also provides a prime growth opportunity for our human resources, which are the greatest asset of Toyota Tsusho. For younger staff who joined the company during the boom times that had continued through the first half of the previous year, this is a great chance to learn in depth about risk management—the basis of the trading company business—in such areas as credit management, receivables collections, and controlling trading positions. I’m confident that the development of younger staff will ultimately help to drive the future growth of Toyota Tsusho.

Toward Sustained Growth

In July 2008, Toyota Tsusho celebrated its 60th anniversary. During the past sixty years, Toyota Tsusho has faced many economic downturns, including the two oil shocks, the high-yen recession, the collapse of Japan’s economic “bubble,” and the Asian currency crisis. Time and again, we have rode out each crisis with the support of our strong partners like our customers, business partners, and shareholders. Going forward, we will bring together our high aspirations, open-mindedness, and passion for excellence as well as our tough-minded spirit and initiative to develop businesses that give first priority to the needs of customers and society at large, as we work to achieve sustained growth in a challenging business environment.

Finally, I would like to extend my sincerest thanks to all stakeholders for their long-standing support and understanding of Toyota Tsusho’s values, business foundations and growth strategies. I look forward to your continued support and advice in the years ahead.

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Junzo Shimizu, *President*