Toyota Tsusho Corporation
Earnings Briefing for the Nine Month ended December 31, 2017
Condensed Transcript of Q&A Session

1. Date & time: February 2, 2017 (Thursday) 18:00-19:00
2. Attendees:
   Hideki Yanase, Managing Director
   Hiroshi Tominaga, Executive Officer
   Hideyuki Iwamoto, Executive Officer

What are the factors behind the 15.0 billion yen upward revision of your operating income, ordinary income and profit forecasts?
The main factors are revision of our exchange rate assumptions and improvement in non-operating income, including net interest income, dividend income and our share of the profit of entities accounted for using the equity method. We raised our ordinary income and profit forecast by the same amount as a result of an in-depth review of tax calculations in light of our earnings for the first three quarters of the fiscal year. None of the upward revision is attributable to one-time gains or the like.

Was there any change in auto sales between the second and third quarters?
Our auto dealers' sales in Russia, Eastern Europe, Asia, Oceana and Africa appear to have bottomed, but CFAO's auto sales continue to languish.

What is CFAO's current status on each business?
The pharmaceutical and retail businesses are holding steady. There has been no major change in the auto business. Auto sales have improved a bit in certain countries but are flat in the core sub-Saharan region.

Can you explain in detail the changes in demand/trading volume in the Machinery, Energy & Project Division, Chemicals & Electronics Division and Food & Consumer Services Division?
[Machinery, Energy & Project Division]
One factor is that Eurus Energy's sales, which have historically tended to z be disproportionately concentrated in the fiscal second half, have held up well throughout the current fiscal year to date, partly by virtue of newly commissioned projects' contributions. Another factor is that automotive machinery trading volume has returned to normal in the current fiscal year after growing last fiscal year, largely as a result of vehicle model changes.

[Chemicals & Electronics Division]
In the electronics business, automotive electronics sales have remained buoyant, but consumer electronics, smartphone component and other device sales have been weak. We believe that consumer electronics sales have bottomed but visibility is still poor. We are not optimistic. The chemical business is performing well by virtue of declines in petroleum-derived feedstock prices.

[Food & Consumer Services Division]
Grain, oil and fat import and offshore trading volumes have decreased in response to yen depreciation and depressed Southeast Asian demand. Even in Brazil, export volumes were hurt by a poor harvest in northern areas.

Why did you recently raise your dividend even though your core businesses do not appear to have recovered much?
We did so in accord with our dividend policy of distributing stable shareholder returns on an ongoing basis while aiming to pay dividends equivalent to 25% of our consolidated profit before goodwill amortization.

You seem to be cutting back on investment in the current fiscal year. Will you change your investment stance next fiscal year? Is Eurus Energy, for example, deferring investment from the current fiscal year into next fiscal?

Having incurred a loss last fiscal year, we are screening investment opportunities more rigorously this fiscal year. We are investing within the bounds of our operating cash flow, not intentionally cutting back on investment. We plan to maintain a highly selective investment approach next fiscal year and beyond, but as long as we are generating operating cash flow, we intend to proactively invest up to the amount of that cash flow.
Euros Energy has a long list of investment projects and is developing them at its own pace. Its projects simply take time. Wind measurement studies for wind power projects take around three years to complete.

You are reportedly working on adopting IFRS. Will you release an IFRS-basis earnings forecast for next fiscal year? If so, what would be IFRS adoption's impact?
Our Board of Directors has not yet approved the switch to IFRS. If it does so during the current fiscal year, we plan to publicly disclose an IFRS-basis earnings forecast. Under IFRS, we would no longer amortize goodwill on CFAO and other acquisitions. IFRS adoption would boost our earnings to the extent of discontinued goodwill amortization.

What is the extent of your exposure to Mexico and what would be the earnings impact if Toyota Motor increased auto production in the US in response to the initiative by the new US administration?
We have about 90 million US dollars of Mexican assets in the form of currently operational parts and tire-mounting operations. Toyota is currently preparing to commission a new plant in Mexico in 2019.
In the US, we expect to benefit from an already announced capacity expansion at a Toyota plant in Indiana, but we are concerned about the US imposing a border adjustment tax. Specific concerns include large sales price increases and cost burden.