

Toyota Tsusho Corporation
Earnings Briefing for Third Quarter of Fiscal Year Ending March 31, 2018
Condensed Transcript of Q&A Session

Date & time: February 2, 2018 (Friday) 18:00–18:45

Attendees: Hiroshi Tominaga, Member of the Board/Managing Executive Officer/CSO/CIO
Hideyuki Iwamoto, Member of the Board/Managing Executive Officer/CFO

How much one-time gains and/or losses did you book in the third quarter?

The Metals Division booked a one-time loss; the Machinery, Energy & Project Division booked a one-time gain on the sale of a gas project. The loss and gain netted out to a roughly one billion yen positive contribution to our overall profit for the third quarter.

Why did you refrain from raising your earnings forecast even though cumulative profit for the period through the third quarter is over 90% of your forecast? Are you anticipating some sort of one-time loss in the fourth quarter?

We decided against raising our forecast because we lacked confidence in our ability to formulate an accurate forecast in the face of numerous uncertainties, including uncertainties surrounding exchange rates and market prices. We currently do not anticipate any one-time factors that will detract from fourth quarter earnings.

What factors contributed to the Metals Division's good performance?

The Metals Division performed well across all regions and products, partly by virtue of favorable metals prices. Looking ahead, however, we see a risk of the US economy embarking on a downtrend from this summer.

Could you explain how import duties affected the Metals Division's earnings as a one-time factor?

Some developing countries started newly assessing import duties. We paid the duties all at once, largely to avoid accruing interest, and expensed them. The expense detracted from profit for the period by about two billion yen relative to the year-earlier period.

You issued a press release on expansion of your lithium operations. What is the lithium business's current profit level and how much do you expect profits to increase as a result of the expansion?

The lithium business as a whole was able to produce at full capacity last quarter. It has started to contribute positively to earnings from the current fiscal year. In the first three quarters of the fiscal year, it contributed about one billion yen, mostly in the form of equity-method investment income and trading profits. The planned expansion is slated to increase production from 17,500t to 42,500t by 2020. It does not involve construction of a new plant from scratch. Mining pond expansion is relatively easy and will not take very long. Assuming that lithium prices remain at their current level, we project that the lithium business will contribute some four to five billion yen of profit annually.

What was the rationale behind your acquisition of an equity stake in the lithium miner Orocobre, your partner in the lithium business, through a private placement offering?

The acquisition's primary aim was to avoid concerns about Orocobre being acquired by another company such as a Chinese rival. Under the terms of the equity offering, the capital we invested in Orocobre will flow into our project in Argentina.

What is your impression of auto production plans for the next three months?

We do not foresee any change in trend. Auto production remains robust in our assessment.

Why has the Global Parts and Logistics Division performed so well?

Because of improvement in Toyota's model mix driven largely by strong IMV and CH-R sales. Another contributing factor is growth in non-Toyota (e.g., Mazda, Suzuki) trading volumes.

Was the Machinery, Energy and Project Division's good performance attributable mainly to Eurus Energy? Besides Eurus Energy, what other businesses performed well?

Yes, it was mostly attributable to Eurus Energy, which accounted for around 60% of the Division's profit growth. We expect Eurus Energy to perform well again in the fourth quarter because wind conditions are favorable in the winter. The vehicle equipment business also performed well. None of the Division's businesses has been performing poorly recently.

Did the Chemicals and Electronics Division experience a year-on-year earnings slowdown in the third quarter?

The main factor behind the slowdown is that the Chemicals and Electronics Division's third-quarter earnings growth rate includes the earnings impact of its device business's past transaction volume in value terms. Excluding this factor, the Division performed well in the third quarter in our assessment.

What is the status of each of the Africa Division's businesses?

The automotive business continues to perform well in non-resource-producing countries such as Cote d'Ivoire, Senegal and Burkina Faso. While the automotive business continues to struggle in Cameroon and Gabon, it appears to have bottomed in Nigeria and the Congos. The beverage business is in a downturn due to the impact of competition in addition to deterioration in the Congolese economic environment. The technology business's earnings also are down year on year. In sum, the automotive and pharmaceutical businesses are on upswings while the beverage and technology businesses are in downturns. On balance, the Africa Division's overall performance is roughly flat.

How will US tax reform affect your earnings?

The corporate tax cut will have a positive impact while derecognition of deferred tax assets will have a negative impact. In the current fiscal year, we expect the impact to be negligible. We expect to benefit from the tax cut from next fiscal year onward.