Financial Strategy

05

CFO Message

We will implement a minimum return ratio, and actively invest in businesses in the domains of natural and social capital, to achieve long-term growth.

Hideyuki Iwamoto
Member of the Board & Chief Financial Officer (CFO)

Review of the Mid-term Business Plan and Main Points of the New Plan

Our policy of safeguarding our supply chains has borne fruit, with three consecutive fiscal years of record-high earnings.

In terms of business performance and financial structures, our Mid-term Business Plan for the fiscal years ended March 31, 2022, through March 31, 2024, produced great results.

The main reason behind our three consecutive fiscal years of record-high earnings was that we were able to meet the expectations of customers and society. We did this by conducting a detailed review of our businesses in each country and region in line with our policy of safeguarding our supply chains, even during the COVID-19 pandemic. We also successfully launched a series of businesses that helped us mitigate new issues that have developed in society, including the deterioration in U.S.-China relations and other geopolitical risks, and natural disasters. What was perhaps most significant was our ability to instantly respond to problems in the workplace as a trading company with very close ties to the front lines.

In terms of financial structures, we focused on eliminating waste from our operations and became deeply involved in each business to appropriately control working capital turnover periods, which we prioritize in our businesses. As a result, we were able to steadily strengthen our balance sheet over three years after it had excessively grown.

With operating cash flow of more than 500.0 billion yen also exceeding our target, I am happy to say that this three-year period has gone exactly as I had hoped.

We are continuing to strengthen our foundations for long-term growth while targeting 400.0 billion yen in profit for the year attributable to owners of the parent (hereafter "profit for the year").

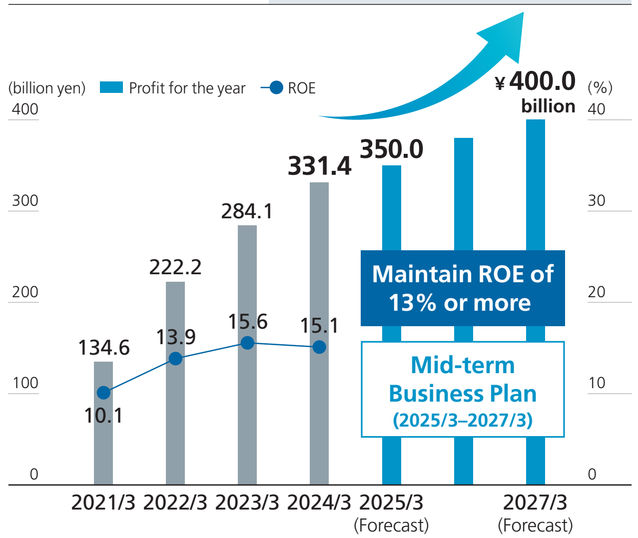
In our Mid-term Business Plan for the fiscal years ending March 31, 2025, through March 31, 2027, announced at the end of April 2024, we established an aggressive target of 400.0 billion yen in profit for the year ending March 31, 2027. As we enter a time for reaping the benefits from the businesses and investments we built up over many years, coupled with enhancements to our lean operations, we are improving our cash-generating capabilities, and it seems highly likely that we will achieve just under 7% average annual growth.

In this Mid-term Business Plan, we have established and announced our approach to three medium- to long-term growth investment domains from qualitative and quantitative angles. The first domain is core value (our core businesses), which is where our strengths lie, including our mobility, semiconductor-related, and African businesses. The second domain is social value (value generated by businesses that contribute to resolving social issues), where we use the social capital of our battery, recycling, and other businesses and return the added value generated to social capital. The third is nature value (value generated by businesses that reduce impact on the environment), where we return added value to natural capital, including our renewable energy and hydrogen-related businesses. Fundamentally, we maximize revenues through the distinctive traits of Toyota Tsusho that we have developed through our core value, and we invest in sustainable domains, including social value and nature value, that will become the main pillars of our businesses in the future.

During the period of this Mid-term Business Plan, we will invest in additional CapEx* in our core value domain, the base of our company, and further enhance functions and efficiency to strengthen our ongoing cash-generating capabilities.

Mid-term Business Plan (2025/3–2027/3) Targets

Profit for the year (2027/3)	¥400.0 billion
ROE (2027/3)	Maintain at 13% or more



We consider social and nature value domains to be business domains that offer future upside. By adding our specialized "Be the Right ONE" vision to the mix, we will create further value that will increase corporate value going forward.

* CapEx: Capital expenditures are funds used for maintaining and improving the value of assets.

WEB Refer to Mid-term Business Plan for the fiscal years ending March 31, 2025, through March 31, 2027, for a review of Mid-term Business Plan for the fiscal years ended March 31, 2022, through March 31, 2024.
https://www.toyota-tsusho.com/english/ir/earnings-presentations/upload_files/E_chukei_103_4Q.pdf

Cash Allocation Plan

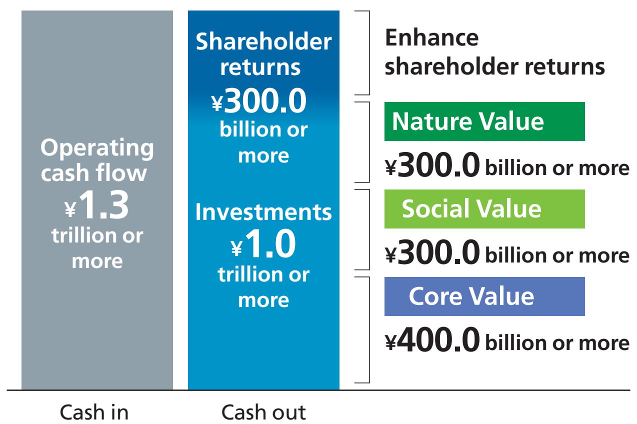
We are investing 1.0 trillion yen for long-term growth while managing ROE and net DER.

Over the three years of the Mid-term Business Plan, we expect to generate 1.3 trillion yen or more in cash by refining our existing businesses, centered on the mobility-related value chain, and reaping the benefits of years of investments. Of that amount, we plan to spend 1.0 trillion yen or more on growth investments and return 300.0 billion yen or more to shareholders.

Of this allocation to growth investments, we will spend 400.0 billion yen or more in the core value domain and specifically on businesses that contribute to advancements in the supply chain. We will also spend 300.0 billion yen or more each in the nature value domain, which includes renewable energy, and the social

Finance basic policy	Net DER	RA/RB*
	Control to within 1.0x	Control to less than 1.0x

2025/3–2027/3 (3-year Totals) Cash Allocation



* RA/RB: An indicator that signifies whether the total amount of risk is within the scope of financial strength
RA = Risk assets (maximum expected loss that can arise in the event of a contingency)
RB = Risk buffer (Toyota Tsusho's financial strength [Total equity – Non-controlling interests + Allowance for doubtful accounts (current) – Goodwill])

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value domain, which includes helping to develop resource recycling systems. When investing in the domains of nature value and social value, we need to think about returns from the medium- to long-term time frame. However, we again set our company-wide ROE target at 13% or more over the coming three years based on growth investments that promise shareholders a return of shareholders' equity over the short term as well.

Net DER is another important indicator that we manage. From the perspective of increasing borrowings to create leverage as a trading company, we consider our current DER of 0.48 times to be a little low. It is important therefore that we lift this figure and tightly control it within the range of 0.6 to 1.0 times. In the current situation, even if we were to borrow around 1 trillion yen for large-scale M&A activities, we would still be able to hold DER to around 0.8 times. Therefore, we hope to maintain this level of safety over the coming three years.

Growth Investments and ROIC Management

We set separate ROIC targets for each of our three value domains, and we are managing with an awareness of the cost of capital while working to merge ROIC and TVA, a unique Toyota Tsusho indicator.

In addition to setting a company-wide ROE target, we have also set separate ROIC[*1] targets for each of the three value domains in which we invest and clarified the returns to achieve in each domain. Our ROIC targets are 5% or more for the nature value domain, 10% or more for the social value domain, and 15% or more for the core value domain. Rather than ignoring nature value because it is a domain in which it is difficult to achieve profitability, investment is possible whenever the target line is exceeded in any value domain. However, we consider it important to invest with an eye to higher returns with additional upside synergies after three years. The ROIC figures at this stage are our first step in ensuring that all employees and people outside the Ccompany understand the importance of investments that aim to resolve environmental and social issues. I have had several opportunities to speak with investors since announcing this Mid-term Business Plan, and I noticed a significant reduction in the number of people questioning why we are involved in low-return renewable energy businesses, so I feel people are gradually coming to understand our way of thinking.

In the domains of nature value and social value, we can increase returns at the same time as solving our Key Sustainability Issues (Materiality). We will promote long-term sustainable businesses with a balance between these two ideals while pursuing the realization of our "Be the Right ONE (a one-and-only, essential presence)" corporate group vision.

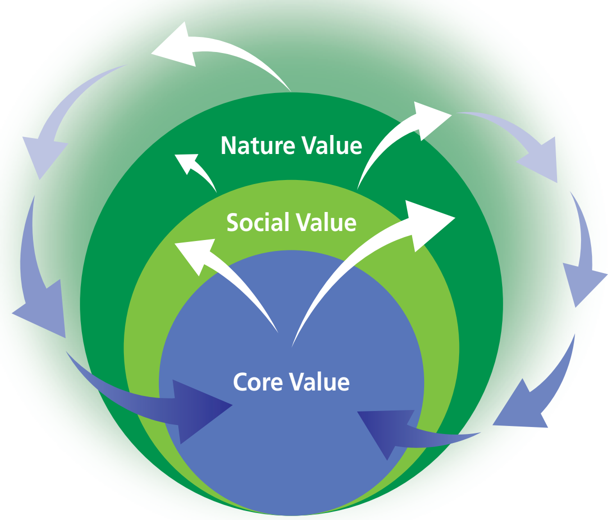
At Toyota Tsusho, we use a unique in-house indicator called Toyotsu Value Achievement (TVA),[*2] in addition to ROIC. TVA is an indicator that measures the amount of added value over expected profits (cost rate of invested capital) from invested capital (funds used), so we monitor TVA to ensure we achieve the income expected of our invested capital. ROIC, as an indicator of profit ratio, is better for gauging the level of achieving the ideal image for which we aim when creating new businesses, but TVA, as a quantitative indicator, is more suitable for monitoring whether a business is profitable. However, trying to use these two indicators together can be confusing, so we are currently working on a project to develop a key performance indicator (KPI) that merges the two. With many of our younger members also participating in the project, we hope to achieve a KPI that can function for the next 20 or 30 years.

*1 An abbreviation for "return on invested capital," ROIC indicates the level of profits generated from funds borrowed from creditors.

*2 TVA = (Ordinary income – Interest income or expenses) × (1 – Respective country's tax rate) – Invested capital × Cost rate of invested capital by country; ordinary income is profit before income taxes, adjusted for non-recurring, extraordinary, and significant gains and losses arising from non-operating activities, which indicates the "earning power" of a sales division or business entity. The cost rate of invested capital by country is the cost rate derived from the weighted average of the cost of capital and government bond yields by country, resulting from the invested capital used in operating and business activities.

Investment Approach: Corporate Value Enhancement Cycle

Our investment approach is to generate cash through businesses having strengths unique to Toyota Tsusho (core businesses) and to reinvest that cash for the future into businesses that contribute to resolving social issues and businesses that reduce our environmental impact. Improving nature value and social value in this way will flow back to us by way of corporate value.



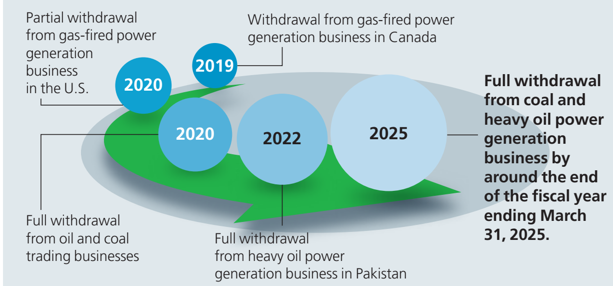
	Relevant seven priority domains and core businesses	ROIC
Nature Value Achieve long-term value through businesses that support a sustainable global environment	Renewable Energy & Energy Management Hydrogen & Alternative Fuels	5% or more
Social Value Strengthen relationships with customers and communities through businesses that contribute to resolving social issues	Circular Economy Batteries Economy of Life	10% or more
Core Value Actively generate cash through businesses having strengths unique to Toyota Tsusho and maintain the core for long-term growth	Core Business Africa Next Mobility	15% or more

We will continue to focus on renewable energy businesses in the nature value domain.

In the nature value domain, we are continuing to focus on renewable energy businesses. We have been implementing priority investments since our previous Mid-term Business Plan, such as wholly owned subsidiary of Eurus Energy Holdings Corporation and Terras Energy Corporation as our acquisition. Eurus Energy Holdings Corporation brought with it years of knowledge and data from its work in renewable energy businesses from the 1980s, and that is something that cannot be replicated overnight. Going forward, we aim to establish a solid position for ourselves as Japan's No.1 renewable energy company. We will continue to focus on renewable energy businesses as we pursue the considerable potential of this field, including the utilization of hydrogen, and virtual power plants (VPPs*), which are gaining attention as a method that eliminates the disadvantages of unstable power supply from renewable energy.

Ten years ago, we anticipated the unsustainability of fossil fuel-related businesses, so we set about quickly divesting ourselves of those businesses as we shifted to businesses that are unique to us. We have now decided to completely withdraw from the coal and heavy oil power generation business during the fiscal year ending March 31, 2025, which will mark the end of our investment in power generation-related businesses that use those energy sources.

* VPPs utilize IT technologies to control the many small-scale energy resources that surround us in our daily lives, from solar and wind power generation-based renewable energy to storage batteries and electric vehicles, and make them function as a single large-scale power plant.



We are in the process of withdrawing from businesses related to fossil fuels. Our remaining interest at present is as a minority participant in a coal-fired power generation business in the Philippines, but we hope to withdraw from this business as well by around March 2025.

We aim to create a circular ecosystem of above-ground resources in the social value domain.

For more than 10 years now, we have not invested in the development of underground resources and have instead focused on businesses related to above-ground resources, which means resource recycling businesses.

Amid calls for the creation of a circular economy, there is an increasing need for the recycling of metal resources, including lithium from EV rechargeable batteries and scrap aluminum. In Europe, for example, a proposed regulation has been announced that makes it compulsory to use recycled material for 25% of plastic parts in the production of new vehicles. Going forward, we will continue to quickly identify such regulations and requirements to take the lead in creating a circular ecosystem.

Shareholder Returns Policy

We plan to return a total of 300.0 billion yen or more to shareholders, which will greatly exceed shareholder returns during the previous Mid-term Business Plan.

In terms of shareholder returns, we promised progressive dividend increases during the current Mid-term Business Plan, so we expect that the fiscal year ending March 31, 2026, will mark our 16th consecutive fiscal year with an increased dividend. We believe this will appeal to shareholders and earn their further trust. We also expect to achieve our targeted dividend payout ratio of 30% or more.

When formulating the new Mid-term Business Plan, we conducted extensive discussions within the Company on our

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medium- to long-term capital allocation. In other words, we carefully incorporated medium- to long-term numerical targets in our investment strategy, investments in three value domains, targets for their returns and ROE, and movement in leverage. As part of that, we set a total shareholder returns target of 300.0 billion yen or more over the coming three years. In our Mid-term Business Plan announced in May 2021, we set a shareholder returns target of 130.0 billion yen or more but paid out 226.0 billion yen, which greatly exceeded that target. Despite the ability to conduct a share buyback if needed, our basic policy of returning profits to shareholders via dividends means that we will prioritize progressive dividend increases instead.

What Is Important to Me as the CFO

A deep understanding of businesses and products is essential for managing risk and building the optimal business portfolio.

Having worked in the domain of finance and accounting for many years, I believe that in addition to the actual numbers, it is important to have a firm understanding of businesses and products. This is because you cannot perceive real risks and numbers without an understanding of such things as the realities of your business, trends in countries and regions in which you do business, and market conditions for your products. I, myself, strive for an extremely granular understanding of the status of our businesses. I believe it is possible to operate at levels that exceed ROIC targets by managing risks with a grasp of the conditions and changes of each business.

For example, the mobility industry, which is one of our domains of specialization, is conducting a reevaluation of hybrid vehicles as expectations for EVs diverge from actual markets. In the countries of Africa as well, conventional gasoline-powered vehicles are necessary because the infrastructure required for EVs is still not in place. With different government policies in each market, the best way for us to proceed is to look closely at each policy and conduct business along the most appropriate timelines. Additionally, looking back on the past 20 or so years, we have been able to achieve results by reviewing our investment ratios by country and domain and enhancing our investment in Africa while focusing on the global situation and business trends. When we talk about Africa, it is important to remember that Africa comprises 54 countries with different languages, business customs, and risks. We therefore need to, and we do, tailor strategy and risk control individually to each of these 54 countries. Apart from these country- and domain-specific perspectives, we also verify risks from multiple angles, including on a product-by-product basis, to build our optimal business portfolio.

In terms of quantitative indicators, we have also established the RA/RB (risk assets/risk buffer) indicator and are working to maintain it at less than 1.0 times.

I value learning from history as a way to improve the accuracy of forecasts.

Something else that I value is learning from history. Whichever economic indicator you look at, rather than continuing to climb forever, there will always come a time when it falls. I always try to keep in mind the status of our main indicators over the past 50 or so years.

And as a trading company operating businesses around the world, understanding the history of each country is imperative. It is firmly stamped on my mind that history will always repeat itself, so I strive to improve the accuracy of our forecasts by learning from the past.

New challenges coming

As I have indicated, we want to give back to nature and society. I would therefore like to suggest that contributing through companies is one way that we as individuals can contribute to the planet. We will also invest in domains in which the future may still be unclear, but with the support of all our stakeholders, we will be able to keep our promise as a company. In other words, for our part, we are committed to maintaining an ROE of 13% or more. To our shareholders, we ask that you watch over and support us as we take on these challenges.

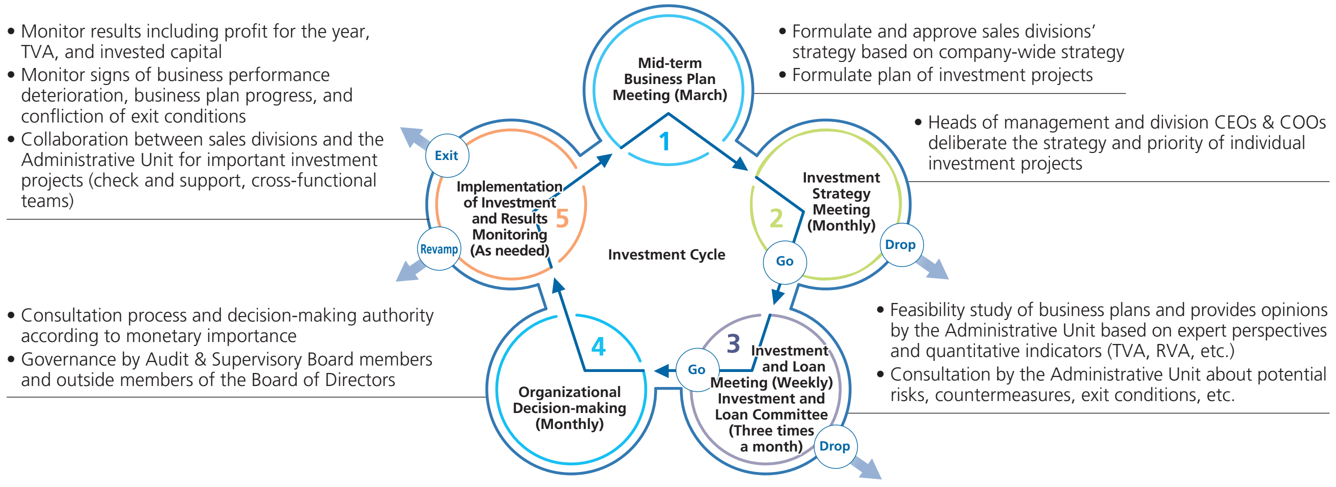
Investment Cycle Management

We support the medium- and long-term improvement of corporate value by implementing management that is conscious of capital efficiency and the cost of capital.

Basic Approach to Investing

Our basic approach to investing is not to target short-term profits but rather to make strategic investments whereby a business is developed over the medium- to long-term, thus leading to the expansion and strengthening of the Toyota Tsusho Group's value chains. We focus our management resources on businesses in which we can demonstrate Toyota Tsusho's unique strengths through discussions of each division policies based on company-wide policies and the formulation of investment pipelines. For investment projects that exceed a threshold level, the strategic value and order of priority of the investment are discussed at the Investment Strategy Meeting to determine whether it should be pursued.

At the feasibility study of an investment, the Administrative Unit examines the business plan from an expert perspective and then discusses and provides opinions on risk assessment and mitigation measures. A final investment decision is then made through discussions at the Investment and Loan Meeting and Investment and Loan Committee. For important investment projects, the Administrative Unit and each divisions put in place a collaborative team to resolve issues. In addition, to speed up decision-making on investments, decision-makers are assigned based on predefined conditions and monetary importance, and decision-making authority is delegated to some affiliates.



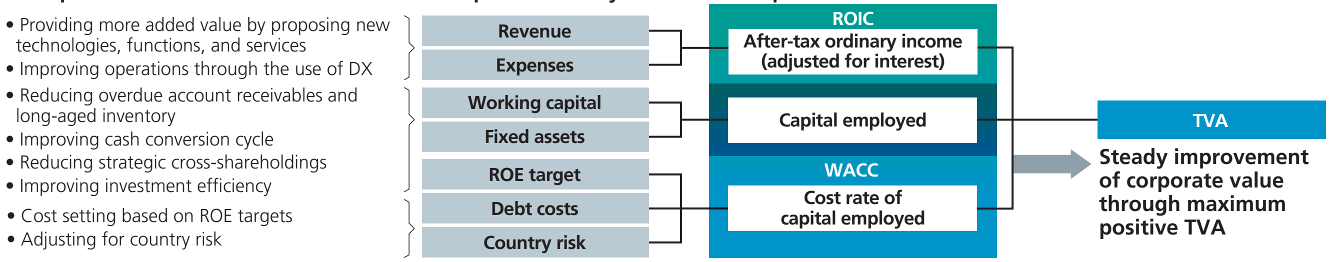
Structure Conscious of Capital Efficiency and Cost of Capital

For many years, we have used Toyotsu Value Achievement (TVA)—an indicator that measures the value added beyond the cost of capital employed—for monitoring the performance of divisions and business units and as a quantitative evaluation indicator for investment.

The cost of capital employed, which is a weighted average of shareholders' equity and debt costs, is designed based on ROE targets so that achieving the maximum positive figure for TVA through improvement in capital efficiency and profit growth will lead to the achievement of ROE targets. In addition, by adjusting for country risk, we ensure an approach that matches the global nature of our business.

We seek to steadily increase corporate value by seeking improvements through investment and performance monitoring for divisions and business units that are showing deterioration in the indicators that make up TVA. We also discuss measures to achieve the maximum positive TVA when considering new investments.

Examples of On-site Initiatives Conscious of Capital Efficiency and Cost of Capital



Risk Management

Risk Management System

We define "risk" as "an event with the potential to cause unexpected losses in business operations, or cause damage to the Toyota Tsusho Group's assets and trust, etc." as laid out in our Risk Management Basic Policy. Our fundamental approach is to identify and consider the various risks that occur in the course of business operations, ensure management safety, and increase corporate value by exposing ourselves to risk only within an appropriate and controlled range. In concretely implementing the Risk Management Basic Policy, we refer to the COSO*1 ERM Framework and other concepts. As a result, to supplement the existing risk management carried out individually by the department responsible for the respective risk, in April 2020 we evolved the former Enterprise Risk Management Committee into the Integrated Risk Management Committee, which verifies the state of risk management on a more global basis. The committee is chaired by the CFO and consists primarily of regional CFOs and the heads of risk management in each overseas region, as well as the general managers of the planning department of each sales division and the directors and general managers in charge of each risk. The committee clarifies risks that could have significant impacts on the Toyota Tsusho Group's management, identifies important company-wide risks related to management objectives, discusses and decides on response policies, verifies the effectiveness of the risk management process, and reports to the CEO. The committee also proposes risk management-related items for discussion at Board of Directors meetings, based on which the Board of Directors meeting continuously supervises the effectiveness of the risk management process and takes appropriate action when changes are necessary.

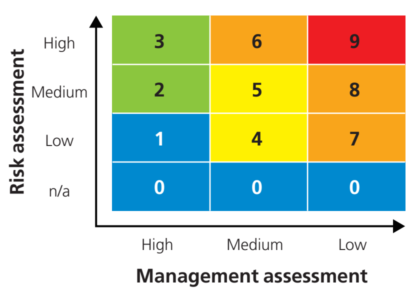
The committee has introduced the Check10 system, under which it identifies from among the range of risks 10 items to be given the highest priority. Each company in our corporate group then conducts a self-assessment of its degree of achievement in items corresponding to each of the risks, the regional headquarters review the assessment results and the group company implements improvement activities based on the review findings. As part of Check10 activities, the 10 risk items (product, credit, business, finance, internal control, human resources and labor, information security, misconduct, logistics, and occupational safety and environment) selected as risks to be given the highest priority are assessed and scored by each business entity on a two-axis matrix of risk and management systems, and a heat map is created to visualize both quantitative and qualitative risks. The relevant risk assessment is then analyzed with support from the department responsible for the risk. To identify global risks and problems, and then work to eliminate and minimize them, we discuss and promote the necessary countermeasures to establish and strengthen the risk management system on a consolidated basis.

*1 Committee of Sponsoring Organizations of the Treadway Commission

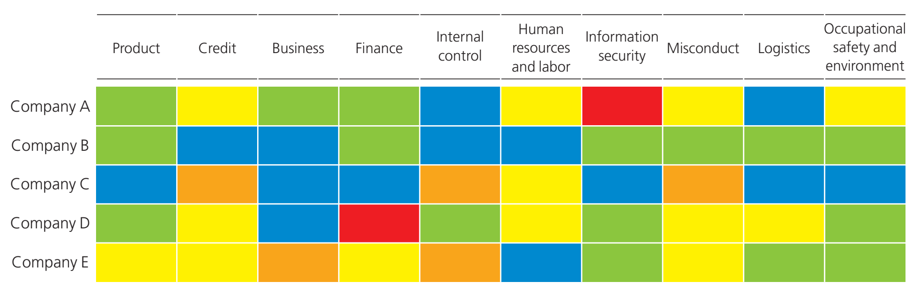
Check10

Risk items	Risk details	Department responsible for risk
(1) Product	Long-age inventory, product positions	Business Accounting Department, Investment and Credit Department
(2) Credit	Overdue account receivable, low-rating transaction counter party	Investment and Credit Department
(3) Business	Downturn in performance, low revenue	Investment and Credit Department
(4) Finance	Foreign exchange positions, balance sheet management, prevention of remittance fraud	Finance Department
(5) Internal control	Long-term fixed personnel postings, Personnel holdings concurrent duties	Audit Department
(6) Human resources and labor	Labor disputes and human rights violations	Global Human Resources Department
(7) Information security	Fulfillment of All Toyota Security Guideline*2 (ATSG) and cybersecurity	IT Strategy Department
(8) Misconduct	Compliance	Legal Department
	Corruption prevention	Compliance & Crisis Management Department
(9) Logistics	Logistics compliance	Global Logistics Management Department
(10) Occupational safety and environment	Lost-time accidents, STOP6 incidents*3 (prevention of serious accidents), fires, explosions, and environmental compliance	Global Safety & Environmental Promotion Department

Two-axis Matrix of Risk and Management Systems



Risk Assessment Results (Heat map)



*2 All Toyota Security Guideline: A system to prevent information leakage from inside the company and to respond to cyberattacks

*3 Six types of incidents that can lead to serious accidents (1) contact with moving machinery, (2) contact with heavy objects, (3) contact with vehicles, (4) falls, (5) electric shock, and (6) contact with objects at high temperature.

Risk Asset Management

We engages in risk asset management, in which Risk Asset (RA) are calculated by multiplying risk exposure (RA principal) on a consolidated basis by risk weight (RW)—the maximum expected loss ratio based on credit rating and country risk—and balancing it with risk buffer (RB) based on financial corporate strength.

Our basic financial policy is to maintain a ratio of RA to RB below 1.0. To achieve this, we simulate the ratio of RA to RB based on the investment pipeline and other factors to achieve both investment in growth and financial soundness.

For exposure in emerging countries with relatively high country risk, we hedge risks through insurance by Nippon Export and Investment Insurance (NEXI) among other measures. We also manage country risk by setting country-specific maximum limits based on RB to prevent excessive concentration in specific countries.

In addition, we conduct Risk-adjusted Value Added (RVA) assessments during transaction screening and investment discussions to raise awareness of the need to secure sufficient return for the risk.

Although RA has increased in each region due to business expansion as well as country risks that materialized in Russia and emerging countries, our RA continue to be well diversified by region. As a result of RA management and the continuous accumulation of RB, in the fiscal year ended March 31, 2024, RA was again held within the range of RB (ratio of RA to RB of 0.6, which is below 1.0). We thus maintained a sound and stable financial structure.

Main Financial Risks

We closely examine the soundness and efficiency of our assets through performance monitoring. In addition, we carry out daily market risk analysis in areas such as foreign exchange, interest rates, credit, and commodity market conditions.

Product Risk

We set position limits for market product transactions that are exposed to the risk of commodity price fluctuations, such as non-ferrous metals, rare earth resources, foodstuffs, and textiles, regularly monitors whether these limits are being applied, and takes measures to mitigate price fluctuation risks.

Credit Risk

We rate business partners on eight levels based on their financial position using independent criteria and specifies limits for each type of transaction, such as accounts receivable or advance payments. For business partners who receive low ratings, we establish loss-prevention transaction policies such as reviewing transaction conditions, protecting accounts receivable or withdrawing, and conducting individually focused management.

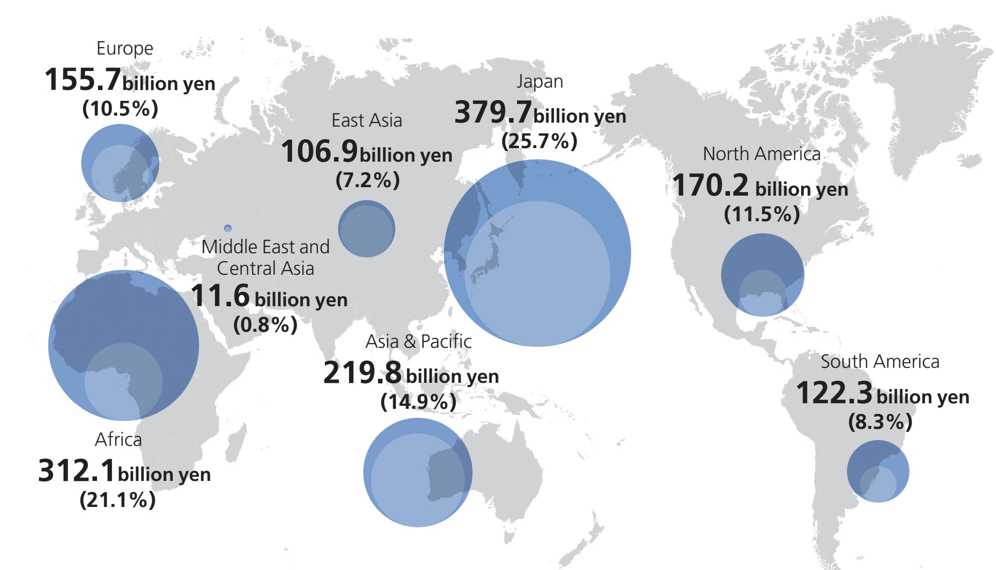
Business Investment Risk

Please see page 66, "Investment Cycle Management."

Foreign Exchange Risk

We implement hedge measures, including using forward exchange contracts, for transactions denominated in foreign currencies, as they are exposed to the risk of fluctuations in foreign exchange rates. In the event we are unable to hedge a transaction, we implement measures that mitigate foreign exchange rate fluctuation risks by setting position limits and regularly monitoring the results of these transactions.

Diversification of Risk Asset by Region



- Size of the circle corresponds to size of RA
  ● End of March 2024 ● End of March 2021
- Compiled based on the location of credit and investment destinations for Toyota Tsusho Group's consolidated assets, guarantees, etc.
- Figures on the map are compiled figures as of March 31, 2024, and percentages of total Risk Asset.