TABLE OF CONTENTS

Company Overview........................................................................................................3
Key Facts.........................................................................................................................3
SWOT Analysis................................................................................................................4
COMPANY OVERVIEW

Toyota Tsusho Corporation (Toyota Tsusho or “the company”) is a general trading company which trades products such as metals, machinery, electronics, automotive parts, chemicals, foodstuffs, consumer products and services. The company operates in Japan, Asia, Oceania, North America and Europe. It is headquartered in Nagoya, Japan and employed 33,845 people as of March 31, 2012.

The company recorded revenues of JPY5,916,759 million ($74,965.3 million) during the financial year ended March 2012 (FY2012), an increase of 3% over FY2011. The operating profit of the company was JPY92,403 million ($1,170.7 million) in FY2012, an increase of 8.3% over FY2011. Its net profit was JPY66,205 million ($838.8 million) in FY2012, an increase of 40.4% over FY2011.

KEY FACTS

<table>
<thead>
<tr>
<th>Head Office</th>
<th>Toyota Tsusho Corporation</th>
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<tbody>
<tr>
<td></td>
<td>9-8 Meieki 4-chome</td>
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<tr>
<td></td>
<td>Nakamura-ku</td>
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<tr>
<td></td>
<td>Nagoya 450 8575 JPN</td>
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<tr>
<td>Phone</td>
<td>81 52 584 5011</td>
</tr>
<tr>
<td>Fax</td>
<td>81 52 584 5659</td>
</tr>
<tr>
<td>Web Address</td>
<td><a href="http://www.toyota-tsusho.com/">http://www.toyota-tsusho.com/</a></td>
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<tr>
<td>Revenue / turnover</td>
<td>5,916,759.0</td>
</tr>
<tr>
<td>(JPY Mn)</td>
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</tr>
<tr>
<td>Financial Year End</td>
<td>March</td>
</tr>
<tr>
<td>Employees</td>
<td>33,845</td>
</tr>
<tr>
<td>Tokyo Ticker</td>
<td>8015</td>
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</tbody>
</table>
SWOT ANALYSIS

Toyota Tsusho is a general trading company which trades products such as metals, machinery, electronics, automotive, chemicals, foodstuffs, consumer products and services. The company has a diversified product portfolio, which not only provide protection against unfavorable forces in specific sector but also enable it to benefit from opportunities available in various sectors. However, intense competition may eventually have an adverse impact on the financial position and results of operations of Toyota Tsusho.

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified product portfolio Strong global network Robust growth in the financial performance</td>
<td>Poor allocation of resources as compared to peers Heavy dependence on Toyota and concentrated operations</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of the bio-plastics supply chain Strengthening of energy business through acquisitions and joint ventures Recovery of global automobiles industry Expanding presence in the growing iodine market</td>
<td>Intense competition Environmental regulations Risk of natural disasters</td>
</tr>
</tbody>
</table>

Strengths

Diversified product portfolio

Toyota Tsusho has a diversified product portfolio. The company trades a wide range of products, including metals such as steel and aluminum, machinery and electronics, energy and chemicals, and various consumer products. The metals segment manufactures, processes, sells and disposes various products, including ordinary and special steel products, steel construction materials, unwrought nonferrous and precious metals. The machinery, energy and project segment provides machine tools, industrial machinery, textile machinery, testing and measuring instruments, electronic machinery, environmental equipment, industrial vehicles and construction machinery.

The chemicals and electronics segment processes, manufactures and sells communications devices, electronic devices, semiconductors, automotive embedded software development, electronic
equipment, network integration and support, PCs, PC peripherals and software, component parts for automobile production and ITS (Intelligent Transport Systems) equipment.

The automotive segment primarily provides passenger vehicles, commercial vehicles, light vehicles, two-wheeled vehicles, trucks and buses, and automotive parts. The global production parts and logistics division manufactures, processes and sells automotive parts. The segment also operates a logistics business and a tire assembly business. The produce and foodstuffs segment manufactures, processes and sells livestock feed, grains, processed foods, food ingredients, agricultural products, marine products, livestock products, and alcoholic beverages.

Additionally, the consumer products, services and materials segment handles condominiums, commercial buildings, construction materials, housing materials and furniture. The segment also deals with textile raw materials, apparel, interior goods, sleepwear products, textile products, textile materials, jewelry, automotive interior parts, packaging materials, and paper and pulp products.

Hence, diversified business operations not only provide protection against unfavorable forces in specific sector but also enable it to benefit from opportunities available in various sectors.

Strong global network

The company has a strong global network. Toyota Tsusho operates through a network of 485 subsidiaries, and 238 affiliates in more than 60 countries. It has presence in Japan, Asia, Oceania, North America, Central and South America, Europe, Russia, Africa, Middle East, and in many other regions of the world. Moreover, for the supply of parts to overseas automobile production units, the company has established logistics bases globally. The automotive segment sells automobiles and automobile parts to about 150 countries worldwide. The automotive segment is engaged in direct sales of vehicles and spare parts, as well as provision of services, to customers through a consolidated retail network of more than 172 sales outlets globally. In addition, the company plans to expand its dealership network in China, Russia, Africa, Australia, Asia and Oceania. Thus, the company’s strong global network provides a robust platform for the optimum transfer of goods, funds, and information. It also helps the company to increase its earnings and gain competitive advantage over its peers.

Robust growth in the financial performance

The company witnessed a significant growth in its financial base in the past year. Toyota Tsusho has witnessed a consistent decline in its revenues and profits from 2007 to 2010 due to the economic slowdown. However, the company’s performance has improved significantly in the past few years largely due to improvement in market conditions and an increase in automobile sales volumes. For instance, the company revenues grew by 3% in FY2012 as compared to FY2011 to record JPY5,916,759 million ($74,965.3 million). Similarly, Toyota Tsusho’s operating profit and net profit also increased considerably in FY2012. The operating profit of the company grew by 8.3% to JPY92,403 million ($1,170.7 million), while the net profit increased by 40.4% to JPY66,205 million ($838.8 million). As a result of this, Toyota Tsusho’s operating margins also increased. The company’s operating profit margin increased from 1.5% in FY2011 to 1.6% in FY2012 and the net profit margin increased from 0.8% in FY2011 to 1.1% in FY2012. Thus, strong financial performance provides
financial stability to the company, which could then be leveraged to seek growth avenues in the future.

**Weaknesses**

Poor allocation of resources as compared to peers

The company has low return on equity (ROE) and return on assets (ROA) compared to its peer companies. The company's competitors such as Marubeni Corporation and ITOCHU Corporation have more ROE when compared to Toyota Tsusho. Marubeni Corporation's ROE was 18.8% and ITOCHU Corporation's ROE was 17.7% during FY2012. In contrast, Toyota Tsusho's ROE was 9.5% in FY2012. Lower ROE compared to its peers indicates that the company is not using the shareholders' money efficiently and that it is not generating high returns for its shareholders.

Moreover, Marubeni Corporation and ITOCHU Corporation have more ROA when compared to Toyota Tsusho. In FY2012, Marubeni Corporation's ROA was 3.3%, while ROA of ITOCHU Corporation was 4.6%. In contrast, the ROA of Toyota Tsusho was 2.4% in FY2012. Low ROA indicates that the company has been deploying its assets in an inefficient manner and indicates the inefficiency of the company's management towards allocation of resources compared to its peer companies.

Heavy dependence on Toyota and concentrated operations

The company is largely dependent on few specific customers for a majority of its revenues. The main business line of the company is the sale of automotive-related parts and other products in the domestic and overseas markets. In FY2012 the company's sales to the Toyota Group accounted for 13.6% of net sales, with sales to Toyota Motor representing 6% of net sales. Therefore, trends in the automobile output of Toyota Motor's may impact the operating results of Toyota Tsusho. The loss of all or a substantial portion of sales to Toyota Group would cause the company to lose a significant portion of its revenue and would lower its operating profit margin and cash flows from operations.

Moreover, the company is dependent on Japan for a majority of its revenues. In FY2012, Japan, Toyota Tsusho's largest geographical market, accounted for 44.6% of the total revenues. Overdependence on one geographic region makes it susceptible to changes associated with the economic and political situation of the country.

Therefore, dependence on a specific customer and concentrated operations could restrict the company's ability to conduct its operations in a flexible manner, thus affecting overall operations and profitability.

**Opportunities**
Development of the bio-plastics supply chain

The company has taken a number of strategic decisions in the recent past to develop the bio-plastics supply chain. According to the company, as of FY2011, the annual demand worldwide for polyethylene terephthalate (PET) was 53.2 million tons, representing a market worth JPY8,000 billion (approximately $81.5 billion). Furthermore, the demand for PET is growing at an annual rate of 8%, primarily driven by demand from the emerging markets.

In order to create a supply chain, the company signed an off-take agreement with Brazilian oil company Petroleo Brasileiro (Petrobras) for 1.4 million kiloliters of sugarcane-derived bioethanol annually over the next 10 years. As a second step, the company established a joint venture with a Taiwanese company to supply Bio-MEG (mono ethylene glycol) to PET manufacturers in Asia, who will produce finished PET products. The company aims to produce and sell 200,000 tons of Bio-PET annually in 2012 and is targeting annual production of 1 million tons by 2015. The company plans to supply the finished PET products to Toyota for use in the interiors of some of its automobile models, and to other textile manufacturers and food manufacturers through collaboration with other divisions. Thus, the company's ability to create a robust supply chain for the bio-plastics business provides a long-term growth opportunity.

Strengthening of the energy business through acquisitions and joint ventures

Toyota Tsusho has been expanding its presence in the global energy business to boost long-term earnings. For instance, in April 2012, the company acquired a 32.5% interest in a coal bed methane (CBM) project from Encana, Canada-based natural gas producer. This project covers 480,000 acres in and around Wheatland County in Alberta, Canada and is Canada's largest CBM resource play. Over the seven-year development period, 1,500 wells are expected to be drilled and 1,600 recompleted in order to increase the production volume. The peak production volume is expected to be about 140 MMcf per day.

Earlier in January 2012, the company increased its stake in wind and solar power projects company Eurus Energy to further expand its energy business. Similarly, in 2010, Toyota Tsusho purchased a 45% interest in the Oyster Creek Cogeneration Plant in Texas, the US from GE Energy Financial Services, a member of the General Electric group. Owned by an affiliate of GE Energy Financial Services, the plant is located inside a Dow Chemical petrochemical complex. Thus, strategic acquisitions such as these would enable the company to strengthen its market position in the global energy sector, increase customer base, and generate incremental revenues.

Recovery of the global automobiles industry

The global automotive industry was severely affected by the economic downturn, with a decline in revenues being recorded in 2008 and 2009. However, 2011 saw a strong rebound which has continued into 2012. According to MarketLine (a unit of Informa plc), the global automotive manufacturing industry grew by 8.9% in 2012 to reach a value of $1,563.9 billion. The cars segment was the largest segment of the global automotive manufacturing industry, accounting for 55.9% of the industry's total value.
The performance of the industry is forecast to accelerate, with an anticipated compound annual growth rate (CAGR) of 6.7% for the four-year period 2012-16, which is expected to drive the industry to a value of $2,025.4 billion by the end of 2016. Toyota Tsusho, through its automotive business segment, exports automobiles and automotive parts of the Toyota Group, including passenger cars of Toyota Motor and Daihatsu Motor, and trucks of Hino Motors, respectively manufactured in Japan by the Toyota Group. The recovery of global automotive industry thus provides Toyota Tsusho an opportunity to gain more customers and expand its revenues.

Expanding presence in the growing iodine market

The distribution of iodine resources across the globe is more imbalanced than rare earths. Iodine is used in the pharmaceuticals industry, primarily for X-ray contrast media, as well as for food and livestock feed additives, commercial-use catalysts, and polarizing films. Roughly 70% of iodine’s applications are forecast to see demand grow due to population growth and the aging of society in the emerging countries. According to the company, the market for iodine resource is expected to grow at an annual rate of 3.8% to 35,000 tons by 2016, as compared to 29,000 tons in 2011. As part of the company’s strategy to boost iodine production, the company invested in Algorta Norte, an iodine production company in Chile. The company plans to boost production at this plant to 4,000–6,000 tons per year, as compared to the current production capacity of 2,000 tons per year. As a result, Toyota Tsusho expects to increase its share of the iodine market from 7% in 2010 to around 14%. Hence, such investments would help the company to strengthen its global iodine distribution supply chain that in turn will enable the company to serve its customers more efficiently.

Threats

Intense competition

The company’s major export and other international trade are conducted in a fiercely competitive environment. Toyota Tsusho competes with domestic and overseas manufacturers and trading companies operating in international markets on a global level. Some of its principal competitors include Hanwa, ITOCHU, Marubeni, Nippon Steel Trading, Shinsho, Sojitz and Sumitomo, among others. Some of the company’s competitors have superior experience, technology, and funding capacity, and are in a position to provide products and services that meet customer needs. In addition, to ongoing competition from companies in European and North American industrialized countries, the competition from companies in newly developing countries like China is also increasing due to the economic globalization. Therefore, intense competition may eventually have an adverse impact on the financial position and results of operations of Toyota Tsusho.

Environmental regulations

Toyota Tsusho is engaged in businesses in Japan and overseas that are exposed to a broad range of environment-related risks. It is regulated by federal, state, and international environmental laws governing the use of substances, control of emissions, waste disposal, and other factors. Specific
activities include promoting traceability in the food domain, and enforcing compliance with laws and regulations concerning the handling of hazardous chemical substances in the chemical products domain. Furthermore, the company’s businesses in Japan and overseas are susceptible to various environmental risks associated with waste disposal and other factors. Furthermore, the company could incur additional costs in these businesses, due to changes in environmental regulations, environmental pollution caused by natural disasters and other factors. The stringent environmental regulations may impose new liabilities or increase operating expenses, which could result in a decline in the company’s profitability.

Risk of natural disasters

The company primarily operates in Japan which is a highest earthquake prone region in the world. The country has witnessed many devastating earthquakes in the recent years which seriously disrupted the economy. Recently, in 2011, the country witnessed one of the worst hit earthquakes in its history in the form of 2011 Tohoku earthquake (the Great East Japan Earthquake) off the Pacific coast of Tohoku. The earthquake triggered powerful tsunami waves that reached heights of up to 40.5 meters. The tsunami caused a number of nuclear accidents, primarily at three reactors in the Fukushima I Nuclear Power Plant complex. The earthquake and its aftermath electricity cuts had a significant impact on the company’s operations. The company was forced to suspend its automotive production. Such natural calamities, if occur frequently, could severely disrupt the company’s supply chain and operations and in turn impact the overall revenue base and profitability.