

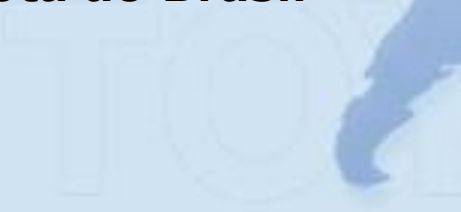


***The 20th Joint Meeting
of the Brazil-Japan Economic Cooperation Committee***

Towards Global Competitiveness of Brazilian Auto Industry

August 28, 2017

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Toyota do Brasil**



Recommendations by the Meeting of the Wise-Men Group for the Strategic Economic Partnership between Brazil and Japan

- Recommendation during the meeting
 - 1) **Importance of consistent policies**
 - 2) **Improvement of the logistical efficiency** by infrastructure development & **Simplification of internal taxes**
 - 3) Promotion of policies **to enhance global competitiveness**
 - 4) **Next automotive policy**
 - being aware of possibly discriminatory measures or extreme local content requirement
 - harmonization of Brazil regulations with global standard

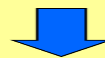


【Recent trends in global situation】

- Rise of protectionism
Renegotiation of NAFTA etc...
- Mexico may recognize markets in Latin America as important destination for export



⇒ **Competition between Brazil and Mexican products may intensify**



We recommend that Brazil promote free-trade policy and further enhance global competitiveness

【Toyota's basic policy】

- Once we start operation in a country, Toyota remains committed
- Continue to work with Brazilian government to contribute to enhancement of Brazil's industrial competitiveness and development of Brazilian economy and society

Review of recent proposals in this meeting

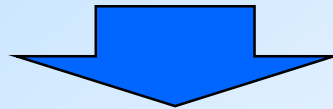


<Major proposals>

- 1) Promotion of Free Trade
- 2) Development of Human resources
- 3) Promotion of new technologies

➡ **Some progress made by Brazilian Government**

- ✓ Tariff reduction for environmentally-friendly vehicles
- ✓ Policies to promote export



Fundamental reform towards **enhancement of global competitiveness** still needed

➡ How can this dialogue
lead to concrete policy planning?



Our requests to Brazilian Government



【First】

■ We welcome reform by President Temer



【Proposal 1】

⇒ Request continued implementation of consistent policies like labor and social welfare reform.

(Policies not to be influenced by short term economic situation or trade balance)



Request Brazilian government to promote the enhancement of competitiveness of Brazilian industry

Our requests to Brazilian Government



【Proposal2】 (Comparison with Mexico)

- Improve efficiency of logistics by development of infrastructure
- Simplification of tax system
- ⇒ Request drastic measures by Brazilian Government leading to reduction of manufacturing cost

<Manufacturing costs >

	Brazil	Mexico	△
Electricity	0.22 US\$/Kwh	0.15 US\$/Kwh	<u>+ 47%</u>
Labor cost	10.70 US\$/h	6.80 US\$/h	<u>+ 57%</u>
Logistic cost (Export)	2,323 US\$/Container	1,499 US\$/Container	<u>+ 55%</u>

<Taxes on acquisition of vehicle >

	Brazil		Mexico	
	Made in Brazil	Imported CBU	Made in Mexico	Imported CBU
Tariff	0%	35%	0%	20%
Internal tax	37%	67%	19%	19%
Total	37%	102%	19%	39%

Note1: These figures are in 2016. Figures from World Economic Forum(Electricity), United States of Department of Labor(Labor cost), and World Bank(Logistics cost)

Note2: Taxes in Brazil are composed of federal tax and state tax. The former are IPI and PIS/COFINS. The latter is ICMS(i.e. VAT). Taxes in Mexico are IVA (i.e. VAT) and ISAN.

Note3: Assume displacement of vehicle is 1,500cc in taxes on acquisition of vehicle.

Our requests to Brazilian Government



[Proposal 3](We Repeat)

- **Promotion of policies to enhance global competitiveness**
⇒ Especially, to **promote new technology** and **free trade**

[Proposal 4](Next automotive policy)

- **For ROTA2030**
 - ✓ **Be aware of possibly discriminatory measures or extreme local content requirement**
 - ✓ **Promote introduction of new technologies**
 - ✓ **Harmonization of Brazil regulations with global standard (e.g. Fuel economy regulation)**

【Suppliers Development and local content increase】

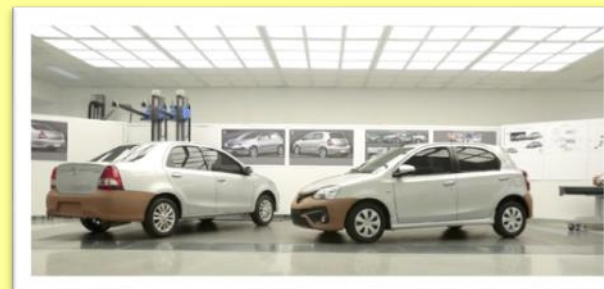
□ SBC Reborn (2015/16)

<Result>

New Design Center

New Raw Material Lab

Visitor Center Opening on August 11th



□ PFZ Engine Plant expansion

<Result>

To localize Corolla Engine until 2019

200 new jobs

R\$600MM investment

+ 70,000 engines / year



□ Vehicles electrification

CAFE targets

Hybrid cars introduction

Toyota's contribution towards competitiveness of Brazilian auto industry



【Examples using Toyota Production System】

□ Job Kaizen activity of “Hospital Santa Cruz” in Sao Paulo

<Result>

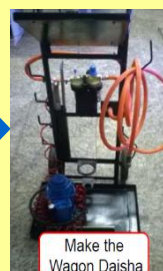
20% reduction in waiting time



□ Kaizen activity in harvesting Sugarcane

<Result>

Improved safety and shortened working time



Implement Kaizen activities
at each points



Improvement of efficiency through
introduction of visualization board

Toyota's contribution towards competitiveness of Brazilian auto industry

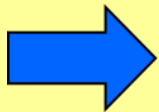


【Activities in Japan】

❑ Mechanic School for Brazilians in Japan (ends in 2017)



- ✓ **Now considering alternative program**
- ✓ **To contribute to development of human resources and enhancement of competitiveness of automotive industry in Brazil**



Your ideas and proposals are welcome.

Finally



We would like to cooperate with Brazilian government to contribute to the developments of Brazilian economy and industry