

Summary of Q&A at FY2023 2nd Quarter Financial Results

Q 1 : Regarding the costs related to the withdrawal from Russia, please tell us how much expenses were incurred in the second quarter alone, including the impact on the second half.

A 1 : Our Russian business is conducted on the premises of Toyota Motor Corporation, and buildings and land are not included in our company's assets. Losses included approximately JPY3.0 billion for provision for retirement benefits and disposal of inventories, JPY0.5 billion for retirement costs such as employee reemployment support, and JPY2.3 billion for impairment of fixed assets and certain compensation to suppliers. Since the Russian business was profitable, it will be a factor in the decrease in profit in the second half of the year.

Q 2 : In the three months of the second quarter, the increase in profit due to market fluctuations increased by about JPY400 million. Please tell us the reason for the increase in profits. In addition, please tell us what kind of assumption you make as the forecast is for a negative figure of JPY6.4 billion in the second half.

A 2 : Regarding market fluctuations, the timing of incurring and collecting expenses is off, and those from the previous fiscal year are recorded in the first half. Therefore, cost recovery appears to be progressing in the second quarter. We have been received positive responses from overseas customers ahead of time, and in the second half of the year, we will proceed with the recovery of costs from overseas. Discussions are gradually progressing on the Japan, and we would like to gradually recover costs by passing on the increase to the price.

Q 3 : Has the assumption of the seat production forecast been revised from Toyota's production volume of 9.7 million units to 9.1 million or 9.2 million units? Please tell us the planned number of the seat assembly volume for the full year.

A 3 : Compared to Toyota's global production plan of 9.7 million units, we planned to produce 8.4 million units globally. On the other hand, as a result of exchanging information with customers in each region, including overseas, and incorporating the risk of production cuts, the global forecast was revised downward by 500,000 units to 7.9 million units. Especially in the Japan region, we calculated the number of units per day based on the current number of units

per day, compared to the previous setting of 3 million units, and forecast a decrease of 300,000 units to 2.7 million units.

Q 4 : Among the factors behind the increase or decrease in operating income in the full-year earnings forecast is the recording of expenses associated with the termination of the Russian business of JPY8.9 billion.

Please tell us about the difference from the amount of JPY5.8 billion which you explained earlier.

A 4 : There was a difference between recording of expenses and loss provision. Expenses associated with the termination of the Russian business were recorded at JPY6.1 billion in the first half. It includes the aforementioned increase in retirement costs, impairment of fixed assets, disposal of inventories, and compensation for suppliers. In the future, there will be costs for the disposal of fixed assets and inventories that cannot be taken out of the country, as well as expenses such as support for the reemployment of employees.

Q 5 : Regarding the expenses associated with the termination of the Russian business, please tell us what the total amount of one-time expenses for this fiscal year will be. Please let us make sure that it will not occur next fiscal year?

A 5 : We recognize that the approximately JPY6.5 billion in expenses associated with the termination of the project is a one-time expense for the current fiscal year. We have decided to terminate the business, but since it has not yet been decided in terms of liquidation, we expect to incur a small amount of the remaining employee costs and fixed costs next year.

Q 6 : The large amount of the internal efforts by 10.4 billion was included in the mix difference and various expenses in slide 12 page. Please tell us what kind of initiatives you are taking, including the risk of not achieving the target here, and what kind of accuracy you are accumulating numbers.

A 6 : Regarding the mix difference, we are making big efforts to reduce loss costs due to production cut and recover the impact of the fluctuations in market conditions. Rationalization is to accumulate various cost reduction items and do as much as possible globally, and we are accumulating an additional JPY1 billion. The biggest factor is overhead expenses, and this fiscal year, we have been working with the will to carry out carbon neutral initiatives, equipment renewal and maintenance, etc., which could not be done in the past two years due to

the coronavirus crisis. However, we are focusing on proceeding with cost reductions of about JPY4.6 billion globally against this production cut.

Q7 : Regarding the relationship between the number of seats and sales, in the Japan region, sales were 1.28 million units in the first half and 1.42 million units in the second half, and it is assumed that the number of seats in the second half will increase by about 10% compared to the first half. In contrast, sales increased by only a few percent. The Asian region is in a similar status. Please tell us why sales do not grow as much as the number of units.

A7 : In Japan region, the average selling price per vehicle is declining. For example, in the mainstay SUVs, high-value-added products such as genuine leather specifications, power seats with motors with synthetic leather seats, and seat ventilation systems were the mainstay of production. But the product mix ratio is decreasing, and there is a shift to manual specifications that do not have a motor even for fabric specifications and synthetic leather seats. In Asia, due to the impact of the launch of small cars in August, the mix of models in the second half of the year is expected to shift toward small cars.

Q8 : Is the change in the product mix ratio due to consumers no longer choosing high-end options when purchasing, or because OEMs are more likely to make base grades in the face of various supply constraints?

A8 : We just guess that the situation is occurred mainly in Japan region because the models in Japan have many parts that use semiconductors, such as safety related parts and connected parts. However, since there are also preferences of the end user, the cause cannot be measured.

Q9 : In addition to the number of units, please introduce us if you have something confidence in the profit making for the next fiscal year.

A9 : During production number fluctuation, we learned a lot; for example, securing personnel within group companies, and cost improvement activity with Value Analysis. As a result, we expect that the productivity will increase even further when we start to increase production. In addition, we brushed up on the fixed costs and R&D expenses based on those prioritization in order to achieve the results earlier toward the realization of the mid-term management plan in 2025.

Q10 : The number of seats produced by 7.9 million units is quite high, and I think there is a view that profit prospects are low for that level. Please explain the current situation and the deviation from the operating income target of JPY 100 billion for 2025.

A10 : As a feature of this financial results, we are operating while maintaining the employment of skilled people in anticipation of increasing production. Due for the variable cost to become the fixed in order to improve operators' skills, marginal profit level down made the financial results become difficult. If the conventional leveled production continues, we will be able to improve our competitiveness by improving productivity, which is our specialty, and we believe that it is the time for patience.