Oct. 31st, 2023

TOYOTA BOSHOKU CORPORATION

Summary of Q&A at FY2024 2nd Quarter Financial Results

Q 1 : Regarding the results for Q2, in Japan, operating profit has increased more than revenue has increased. In the Americas, operating profit declined while revenue and volume grew. Please tell us if there were any transitory factors.

A 1 : On a consolidated basis, total amount of JPY5.2 billion were included as transitory factors. There were profits from the tooling costs and price pass-through from customers, especially high amount in Japan. In the America, there were production preparation costs of the model which has currently launched.

Q 2 : Please tell us how you have adjusted to make the forecasts of production volume for the 2nd half, such as how much of the information from your customers was reflected and how much of the risk buffer was taken into account.

A 2 : We have revised our forecast for 2nd half based on Toyota's announced plan of approximately 10.4 million units as annual basis. As for the recent suspension of operations, only the portion of lines that ceased operations is taken into account as an impact on profit decline and the future recovery is not factored in.

Q 3 : Regarding the annual forecast, the cost reduction factor has improved significantly by JPY6.3 billion. I would appreciate your explanation of the breakdown of items and let us know what kind of things are becoming entrenched in the constitution.

A 3 : In addition to the impact of a decrease in the rate of APR from our customers, we have factored additional internal cost reduction, especially incorporating manufacturing improvements and VA in Japan. We have also factored in the effects of improvements at manufacturing sites in Asia, Europe, and other regions.

Q 4 : About your company's current earning power, I believe that the additional internal rationalization and improvements are connected to the constitution of

the Company, while the transitory items such as appeal of selling prices will be stripped away. Please let us know what is your assessment of the operating profit forecast of 4.7% in the current fiscal year, and how do you prospect the next fiscal year and beyond?

A 4 : We expect the tooling costs and lump sum settlement of unit prices to be approximately JPY10.8 billion per year. Of this amount, if the near-transitory contents excluding tooling costs will be about JPY4.0 billion, operating profit would be about JPY89 billion. We will firstly aim for 5% in this fiscal year in order to achieve our target of 6% to 7% by FY2026. Also, mass production volume has been increasing, variable costs have been improving, and the recovery of material market conditions has been making progress. Therefore, our marginal profit is improving. Under Mr. Shirayanagi's direction, including during the COVID-19 pandemic, we have made improvements and the results of these efforts are showing up in the figures. For the fixed costs, we have reviewed the timing of execution for some of the R&D, depreciation, and some other expenses, from first half to second half of the fiscal year. This causes the profit ratio of second half lower than that of the first half.

Q 5 : About the decrease in profit in the China region, please tell us what your concerns are, such as model mix, unit pricing, and competitive environment, besides volume. Also, please show us your view of China for the next fiscal year.

A 5 : We see the automobile market in China is still growing moderately. Not only for domestic demand in China, but also for exports from China to other countries, we expect the total market to increase. Our concern is about the rapid increase in battery EV and Japanese or Western affiliated companies struggling to maintain market share. We view Toyota as doing relatively well among Japanese companies, we first would like to establish a system that can respond firmly to Toyota with more flexibility. Model mix has been improving by increasing in the number of minivans we have launched in the previous fiscal year. We will pay close attention to determine how long this will continue. New models are being proposed more and more in a very short cycle in China. We will review our development structure in China with spending a certain amount of expenses in order to propose to Chinese capital auto manufacturers.

Q 6 : Within the Toyota group companies, AISIN CORPORATION has announced zero cross-shareholdings. Please tell us what you are thinking about now regarding

these group policies.

A 6 : We are aware that each company has been talking about this at their financial results announcements, IR meetings, and so on. We would like to disseminate correct information while being aware of change in the composition of shareholders.

I believe that we are at a major turning point, a time when each company is securing resources for the next stage of growth and the Toyota Group's overall competitiveness is increasing. So, we would like to be well informed and will consider our shareholder structure. We would like to continue to examine our cross-shareholdings with the consideration of its significance and so on. We also believe that it is an important time to review our balance sheet by improving the efficiency of our overall assets, not just our cross-shareholdings.

Q 7 : I think the rising cost of labor in North America will be an issue. I believe that you have been working on reorganizing your production sites. Please tell us again, how you would like to improve profitability to the extent possible. Do you have any plans at this time to move production sites to other locations such as Mexico?

A 7 : In the US, we are currently experiencing a very difficult labor situation such as soaring labor costs and turnovers. We have been working to improve the work environment at each workplace in order to improve in retention of employees. The effect has been gradual and the turnover rate is decreasing. We would like to continue to do this kind of steady work. As we have recently announced, we will build a production site for in-house production of the business that we have received from AISIN and SHIROKI in Kentucky. We are promoting more mechanization in order to stabilize production, and distributing the components made there to the North American region. Using this as a starting point, we will be looking into the specifics of reorganizing production locations for components. We intend to vigorously improve profitability in the Americas. We also have a production site in Mexico. However, our products are relatively bulky parts, such as seats and doors, we are not considering assembling products in Mexico and bringing them to the US since transportation costs have risen all over in the US. Our priority is to improve the efficiency of our current system, in which we deliver from the production sites close to our customers.