

May 24th, 2024

TOYOTA BOSHOKU CORPORATION

Summary of Q&A at FY2024 (ending March 2024) Business Briefing

Q 1 : About slide 8 and 9, could you give more concrete details on the progress of improvement in North America and China?

A 1 : For North America, since April this year, we have established a special organization in Japan to provide company-wide support. There, we have established six working groups to tackle with (1) negotiating material costs and sales prices with our customers, (2) improving efficiencies in manufacturing, (3) increasing equipment utilization and efficiency, (4) enhancing quality, (5) logistics, and (6) cost management. The main focus is on how to ensure lean production. By gathering people with a variety of expertise, we have been able to identify room to improve, so that profit improvement cycle has started to take effect. We will continue to support from Japan while ensuring that the local teams become self-sufficient, establishing sustainable improvements.

In China region, we make an investment in the Xiaohudao plant, aim to reduce costs, particularly in logistics and automation. By spreading these efforts throughout our 20-plus locations in China, enhance competitiveness and aim to restore our operating profit margin to pre-COVID levels.

Q 2 : On slide 15, about the organizational changes in the development structure, are there any changes in cooperative relation within the Toyota group? Besides, don't you expect any negative impact by this organisation change, like it may bring difficulty to handle both complete assembly and single parts businesses?

A 2 : To strengthen our proposal and planning capabilities for our customers, we have aggregated and organized planning and development functions into the Mobility Space Planning Division and the Mobility Space Development Division, respectively. In the Mobility Space Planning Division, we have collaborated with the group companies like Toyoda Gosei, Denso, and Aisin. And, we have two

departments in the Mobility Planning Division : the one that plans comprehensive proposals and another that plans individual proposals for various customers. This structure allows us to propose individual products such as seats, headliners, and carpets, as well as comprehensive interior proposals.

Q 3 : In the past six months, the external environment has changed significantly. For example, change in BEVs market forecast, rising labor costs at a pace exceeding forecasts. And we assume that TOYOTA are focusing on strengthening their work foundation, they strive to generate reserve capacity and reassess quality in various aspects. How might these changes in the external environment affect the initiatives you originally had in mind in 2030 Mid-term Business Plan? What discussions are taking place regarding these changes? Could you please explain the impact of changes in the external environment on your mid-term goals and strategies?

A 3 : We preemptively formulated the 2030 Mid-term Business Plan due to various events such as the impact of COVID-19 and changes in customer production trends. Our strategy of becoming an interior space creator, for comfortable mobility interior space, remains unchanged. However, we are keenly aware of the global inflation impact including labor costs, and competition for securing talent. As for our largest customer, TOYOTA, we are anticipating a slight decrease in the number of units compared to our initial expectations, as they focus on strengthening their work foundation. Meanwhile, as for non-TOYOTA sales, our initiatives within the 2025 Mid-term Plan have started yielding results. On the other hand, impact of inflation significantly affects our costs on a macro level. Especially in Japan, we have been making progress to recover these expenses, however, the situation remains mixed overseas. We need to solve these issues and ensure marginal profit from MONOZUKURI capability and implement R&D and capital investment for 2030. In response to the change in environment where the working population is decreasing or the level of labor costs is increasing, we accelerate investment to DX and AI, and take actions promptly. The strategy itself has not changed significantly, but the structure of cost generation has changed a little, so we would like to reorganize this time

around and make sure that management is in place.

Q 4 : About the top line going forward in China region, will you focus on local OEM for sales expansion, or will you prioritize creating a stable profit structure under a certain sales volume? Please share your thoughts on this.

A 4 : We will continue to expand sales based on our Mid-term Business Plan. At the same time, it is crucial for us to compensate for the reduced volume by securing business with other OEMs operating in China. Our overall approach is to take risks into account, but fundamentally, we want to continue challenging ourselves. Although we may face setbacks, we believe there is a lot to learn from these experiences, and we must continue this effort. While the effort, we must also enhance our competitiveness through automation. Additionally, we are strengthening our R&D capabilities in China region to keep up with the development pace of Chinese manufacturers.

Q 5 : On slide 11, about the Interior entertainment system in the technology roadmap, could you elaborate on what kind of systems does it mention? What added value can your company provide?

A 5 : In illumination and interior lighting, new features are being added to integrate with music and safety features, such as alerting to warn of danger. After establishing systems that can control light, sound, and heat, ultimately, we want to pursue comfort in various forms of entertainment. For example, we are currently conducting proof-of-concept experiments where specific content appears on the monitor when you reach a certain location.

Q 6 : On slide 20, about sales expansion to MaaS providers, what aspects of your seats and space creation capabilities were evaluated positively, and what business model are you considering going forward?

A 6 : Through our discussions, we have learned that MaaS providers are looking for suppliers who can design and develop the entire interior space, not just individual components like seats, headliners, or carpets. This insight has led us to understand that our business model should focus on providing

comprehensive interior space solutions.

Q 7 : On slide 8, about the improvement in the US, why is Canada profitable while the US and Mexico are not? It assumed that there are certain sales volume, is the issue related to sales prices, labor costs, or quality? I would like to know what stands out as the primary factor in your company.

A 7 : In Canada, we manufacture high-class car, which results in higher profit margins. Additionally, our operation in Canada has a culture of improvement and a strong sense of employee contribution to the company, which leads to efficient and smooth operations. Management member have been engaged for a long time in Canada, that makes differences that improvement culture is quite firmly rooted. Currently, we have established the BR America Support Office to promote improvements in the US. we need to ensure that these improvements become ingrained locally to achieve a sustainable profit structure. We would like to make efforts to it.

Q 8 : About the motor core business projects in the US and India for localization, these are crucial projects, so I would appreciate it if you could explain the reason that you chose the US and India.

A 8 : In the US, the market is large, and there is a policy to increase the EV ratio to over 30%. Partnering with a manufacturer of electromagnetic steel sheets allows for environmentally friendly and highly efficient production. Regarding India, 8 million units annual production is assumed by 2030, with expected market growth. The Indian government is likely to increase EV production, providing significant volume potential. Currently, there are not many manufacturers of motor cores for EVs in India. By entering the market early, we aim to establish a strong position.