

## **Summary of Questions & Answers for Financial Results Briefing for Q1 Year Ending March 2023**

《Results for Q1》

Q1 : Are there any one-time expenses incurred in 1Q? Especially in Europe and the U.S., where profits declined in the previous year's QonQ, what are the factors behind this?

A1 : There were no special one-time expenses incurred in 1Q.

As for business performances in Europe and the U.S., sales increased due to the effect of exchange rate with the yen's depreciation, but the production volume decreased.

In addition, the production fluctuations of our customers have been significant, and the increase in their labor costs and expenses has been a factor in the decline in profits.

Q2 : Until the Q4, I think you have successfully controlled costs in response to production fluctuations. In this Q1, repeated production fluctuations caused profitability to decline because fixed costs were beyond the limit of control. Is it correct to understand ?

A2 : Your understanding is correct; the business environment from Q4 FY21 to Q1 FY22 was very challenging due to several production fluctuations and the further impact of material and energy prices hike. In this Q1, we have focused on cost control not only in Japan but also in overseas companies, and we continue our efforts in Q2, especially in July and August, as the same situation continues.

Q3 : I understand that for the stamping business, the burden of raw material price fluctuations does not arise, and for the valve business, are you able to pass on material price fluctuations to selling prices?

A3 : As you understand, there is no burden for stamping business, because the raw material price is linked to the selling price. As for valves, we have been persistently negotiating with each customer since last year, and the accumulated efforts are gradually becoming apparent.

《Forecast for FY2022》

Q4 : Regarding the assumptions for the Q2 forecast, please let us know how you

have factored in the current situation. Both sales and operating income are not expected to change significantly from Q1.

Is it correct to understand that the forecast is based on the following assumptions?

Due to fluctuations in Toyota's production levels, the environment in Q2 will not change significantly from Q1. Therefore, earnings will not move much from Q1 to Q2. Recovery will start in the second half of the year.

A4 : In Q1, production was on a downward trend, especially in Japan; in Q2, production is on an upward from Q1, but has not recovered as much as initially expected. For the second half of the year, we are assuming a production volume close to the initially planned figure.

In addition, the financial results of Chinese companies are delayed by three months, so the impact of the suspension of Toyota's production in China due to the Shanghai lockdown will be included in the Q2 results. Although Japan and North America are on the road to recovery, we expect Q2 performance to decline for the Asian segment, especially China.

Q5 : There have been reports that Toyota will not be making regular price-cut request for the second half of the year; have these been factored into your forecast?

A5 : No. We have not incorporated the assumption of that. If no price-cut request, we believe there would be a slight positive impact.

Q6 : Could you give me your impression on the certainty of a production recovery after September, whether it should be viewed as firm or whether there is still a risk of a slight shift? Should we expect to move into a phase of more-than-normal production, such as a recovery production phase, around the end of the period?

A6 : Although our judgment is based on the information we now have, we do not believe that production will return to normal levels all at once, but rather that it will recover gradually from September onward. What we need to do is to make sure that we can demonstrate the effects of the improvements we have made so far when production volume recovers, and since we secured personnel in Japan and overseas based on the assumption that production would recover in the Q1, we will closely monitor trends so that we can operate our business with the appropriate number of personnel when production recovers.

Although we do not have definite information on recovery production, we expect that production will be at normal levels or even higher in the second half of the year or later. We will continue to prepare our production system based on the assumption that production will recover, and we will continue to implement cost controls etc. to ensure that we can withstand production fluctuations.

Q7 : This time, operating income for valves has been reduced for the full year.

What is the background and how do you see the second half of the year?

A7 : We are forecasting a decrease of more than 1 billion yen for the full year from the previous forecast. As for global automobile production, we are assuming a decrease compared to the previous forecast. The biggest factor behind the decrease in profit is the production volume down due to this.

Other factors include the impact of material price hike, it's higher-than-expected, which is a factor in the decrease in profit, although there is some positive effect of exchange rates due to the yen's depreciation.

Q8 : Comparing the factors for the increase/decrease with those at the beginning of the term, we understand that there has been no major change. Is it correct to assume that this is due to the large impact of marginal profit accompanying the decrease in sales volume and that profits will increase steadily once the production volume returns with continued cost control?

A8 : The largest factor in the decrease in profit from the initial forecast is the impact of the production volume down. Although sales have not been revised, the exchange rate assumption has been changed from 120 yen to 130 yen from Q2 onward, and the exchange rate difference due to the weaker yen alone is an increase of over 5 billion yen. Almost the same amount is due to the sales volume down. Since this decrease in volume is the main reason for the decline in profits compared to the initial forecast, profits will also increase if volume recovers.

Q9 : Please explain the background behind the 1 billion drop in the operating income forecast for the second half of the year compared to the previous forecast.

A9 : We have factored into our current forecast a decrease in profits due to higher material prices and an expected increase in expenses due to higher energy costs. These effects are larger than planned at the beginning of the period.

Q10 : Looking at the annual forecast, it appears that you have lowered your assumptions for automobile production. I would like to confirm whether this is due to Toyota's unofficial announcement or your company's assumption.

A10 : We have not received any information from Toyota for the full year, but only for the near term, so we have made our forecast from that point forward, not based on the assumption of 9.7 million units, but on our assumptions based on Q1 results, current conditions, and future prospects. In terms of domestic automobiles volume, our forecast for the second half of the year is based on our initial plan, and we will revise it according to the information we receive from our customers.