

Summary of Questions & Answers for Financial Results Briefing for Year Ending March 2022

《Results for FY2021》

Q : I have the impression that both sales and profits were properly generated despite the uncertain factors. You seem to be controlling costs well in response to production fluctuations. Please let me know what kind of measures you have taken.

A : I believe that the 4Q reflected the results of our past efforts. We have made various improvements and implemented measures even before the Covid-19 disaster, but two years ago, when it began and a major production cutback occurred, I think the major effect was that we were able to control costs, including fixed and variable costs, by making expenses and labor costs visible on a weekly basis.

By quickly sharing the latest information within the company, we are able to take corrective and recovery measures more quickly, which has resulted in minimizing losses. The production situation changes on a daily basis, and we have been forced to conduct extremely difficult operations over the past three months, but I think the fact that we have been able to maintain and improve our ability to control costs is the reason why we have been able to secure profits.

Q : As for information sharing, have you introduced any new management tools? I think it is difficult to control labor costs even if they are visualized, but I would like to know if you have any specific measures in place to control them.

A : For example, we utilize web conferencing and have conversation in our daily operations with each other, including domestic and overseas locations. It used to be that when a problem occurred, we would discuss countermeasures at the next regular meeting, but now the necessary parties take action as soon as a problem arises, and it is very important to be able to share problems quickly, make correct decisions, and make judgments quickly through the use of web conferencing. During the past two years, good relationship of trust has been established whereby everyone at each location is able to cooperate with each other, whereas previously there would have been a delay of one or two tempo.

Regarding Cost control, for example, when making an investment decision, the department in charge of the project does not consult with the decision

maker at the final stage after examine the details, but at first, when the theme of the project is raised, consults with the decision maker or with a higher-level person who can consult with the decision maker and who can think about the correct approach. This allows the person in charge of each investment to proceed the project with a sense of security and without redoing the work.

As for the labor cost, it is difficult to adjust it in case the production is to be reduced by half from tomorrow. But if there is an announcement in advance one week before, it is possible to forecast the latest production volume, review the man-hours required for each production line, and change the work system to accommodate the required number of workers. In addition, while production trials for new model changes are usually conducted on holidays when facilities are free, when production is to be reduced, we are working to eliminate work on holidays by pulling production hours to weekdays to make free time for facilities and conducting trials on weekdays.

《Forecast for FY2022》

Q : Please tell us how you have incorporated assumptions, risks, and opportunities into your plan. Is it correct to understand that sales of stamping and molding are planned to increase by about 15% excluding the impact of the application of revenue recognition, and that Toyota's production volume assumptions are around 10 million units globally and 3.2 to 3.3 million units domestically?

A : Although there are many points of current change in our plan for this fiscal year, we expect a gradual recovery in production in the future.

Although it is difficult to make assumptions regarding the number of units, etc., we believe that the stamping and molding business will increase in revenue due to the certainty of increased production compared to FY2021 and the measures we have continued to take to improve sales per vehicle.

Q : In the stamping business, there is also the prospect of a domestic production cutback due to the China lockdown, but I would like to get some hints on the considering for the risk. Specifically, have you factored in risk based on the customer's monthly production forecast in the latest April-June?

A : The FY2022 forecast announced this time is a planned figure based on the assumptions that can be expected as of March. As reported in newspapers, due to the Shanghai lockdown, Toyota's production plan for May will be reduced by 50,000 units from 750,000 units. It means, the production in Japan will be reduced by approximately 30,000 units as included number. Since this is not included in the initial FY2022 forecast, we need to closely monitor the future plan to see when the effects of the lockdown will be resolved and what backup measures will be taken. Although what we can do is limited, we will strive to

operate our production system without loss and make effective use of our time to enhance improvements.

We also believe that the reason for the production cutback in May is not due to the impact of semiconductors. We recognize that semiconductors are the main reason for the overall production constraints, and we will be able to increase production as soon as the impact of the lockdown recovers. We do not expect any major impact for the full year.

Q : The plan for valves is also to increase sales by 10%, but what kind of future direction do you see, given the current situation in Schrader and Europe?

A : Regarding the valve business, the current business environment at Schrader in France is showing a slight decline, but production is steady. The situation in the Ukraine is still uncertain, and it is very difficult to predict the future impact, but we will continue to manage the business while keeping a close eye on the situation.

We cannot change the current situation by ourselves, but for the future, we are also developing electric expansion valves and others for use in future EVs and battery EVs, in cooperation with our bases in France, United States and mainly in Japan.

Q : With regard to profit increase/decrease factors, the results of the past several years indicate that the cost improvement effect exceeded the negative impact of selling prices and material costs, it appears to be difficult to achieve in the current fiscal year's forecast. On the other hand, other companies seem to be negotiating with OEMs to bear the impact of higher raw material costs this year. Is there a possibility that Pacific will also reduce its material cost burden in the same way and that the situation will have an upside?

A : Improvements have been factored into our current plan, but we are continuing our efforts and hope to exceed them.

Regarding the sharp rise in material prices, we are still asking our customers to pass on the price to us, and we are working to keep the amount of impact below the 1.3 billion yen in our current plan. We anticipate that the price hikes will continue, so we will continue our efforts and hope to be able to report back to you in the direction of improvement.

《Stamping and Molding Business》

Q : When considering the next-generation body parts structure from a long-term perspective, is it possible that you run until 2030 with the current direction, that is, ultra-high-tensile strength Steel stamping? Is there any discussion on how the Toyota Group as a whole can cooperate in order to maintain the competitiveness

of the vehicle body parts against Tesla's Giga-Press?

A : I think the Giga-Press is a threat in that it can make the underfloor, which normally consists of many stamped parts, in one shot. However, there is a big problem from a carbon neutrality point of view, and I think there may be some issues when repairing.

We are engaged in the press business mainly for Toyota, but so far we have not heard anything about going in the direction of Giga-Presses, and we believe that the trend toward ultra-high tensile strength will not change because the need for lighter vehicle bodies will further increase due to the shift to EVs.

I believe that Toyota will make a decision on how much aluminum stamping products to adopt, while balancing the overall cost of the vehicle body, including the price of aluminum material. We are good at ultra high tensile strength Steels and aluminum stamping, so we will continue to communicate closely with them and contribute to Toyota's car manufacturing.

《Valve Business》

Q : Please give us an update on the expansion of TPMS applications in the market with regard to the medium-term direction of TPMS. Also, when considering in-vehicle systems as a whole, I think there is an emerging trend toward sensing air pressure, road surface conditions, etc. using indirect systems. Will there be more competition with indirect systems in the future? Or, since direct systems are superior in terms of accuracy, will there be a division between the two? Please tell us about the future potential of the in-vehicle type.

A : Regarding TPMS, I think that the continuation of orders, mainly from Toyota, is going well. However, we also have competitors, and our customers are demanding improved performance and cost competitiveness. I believe that we will be able to offer a cost-competitive product lineup by introducing new models in the future, and we would like to maintain and secure our business as well as expand sales to other companies.

In addition to passenger cars, we are also developing TPMS with small volume for motorcycles. We are also furthering development these, because in some areas, there will be an obligation to install TPMS on buses and other commercial vehicles in the future.

Regarding the indirect and direct types, the indirect type has sufficient merits, but the direct type is more accurate, and the indirect type has some demerits, such as the challenge of obtaining vehicle certification. Currently, there are many European manufacturers and Chinese markets that use the indirect method, but I think they will shift to the direct method, even if it takes some time. Regarding valves for automotive applications, we will continue to focus mainly on TPMS, we are working to expand our product lineup using sensors. We have the ability to use ICs that are used in the harsh conditions of in-vehicle use, so we are taking

on challenges in fields we have never experienced, such as "e-WAVES" applied in other fields and the agricultural field with "CAPUSLE SENSE" scheduled for market launch at the end of May, and we are developing products and sales channels to solve social issues.

Q : I would like to know more about control valves for heat pump air conditioners, such as what kind of customers you can promote sales to in the future and how much market share you can expect.

A : Since the product is still under development, it is difficult to give specific customer names or timing, but we are currently developing the product with Japanese, European, and U.S. manufacturers. We would like to tell you when we are ready to announce the product. We apologize for the inconvenience.