

Summary of Q&A for the financial results briefing for the 3Q of FY2023, ending March 2024

February 7, 2024

JTEKT CORPORATION

Q1. You updated the revenue forecasts for each region. How was the result of your review? Also, how do you forecast your earnings for the next fiscal year?

A1. Our forecast was updated based on the most recent customer production plan. The main changes are caused by the following factors.

- Japan: Production adjustment due to certification irregularities at some customers.
- China: Impact from shift to EVs and lower demand.
- ASEAN: Risk of production cutbacks due to stricter loan approval process.

Next fiscal year's earnings for each region are as follows.

Japan: Information from customers indicates that production volume will be likely to increase, but there is a risk of production cutback.

North America: Despite strong performance in this fiscal year, there is concerns about a recession.

China: Severe market conditions remain.

ASEAN: There are concerns about impact of BEV exportation from China.

Q2. Why will the revenue of industrial & Bearings increase in the 4Q?

A2. Because customer compensations of inflation will be concentrated at the end of the fiscal year.

Q3. The machine tools business has been greatly affected by the strong performance in North America.

How do you forecast your revenue and profit in the 4Q and in the next fiscal year?

A3. We expect that strong performance in North America remains strong.

We expect that demand for our current business model will continue to grow in North America, and we will work to expand this business further.

Q4. Your forecast of the cost reduction effect has been revised downward. Does this mean the cost reduction activity is slowing down?

A4. There is an impact due to reduced production. Our cost reduction activities are promoted as planned.

In the next fiscal year, we will continue to accumulate more improvement items to improve the break-even point.

- Q5. Your forecast of the impact of selling price reductions seems to be decreasing. Will this trend continue in the fourth quarter?**
- A5. In addition to the impact of the decrease in revenue, the 3Q results also reflected by the retroactive effect of the conclusion of negotiations with customers in China where we have significant requests for selling price reductions.
- Therefore, since one-time retroactive effects are included, this trend will not continue merely in 4Q.
- Q6. Please let me know the background why the president will be replaced and what do you expect from this change of the management.**
- A6. We nominated the most suitable person for the current company situation. The candidate for new president, Mr. Kondo, is manufacturing professional and he has a background as the president of the in-house company organization in Toyota Motor Corporation, so he has management skills sufficiently.
- He has realized giga-cast and conveyor less self-propelled production lines, etc. in Toyota Motor Corporation, so we believe he is the best person to challenge manufacturing improvement and new manufacturing.
- Q7. How was the 3Q results compared to the plan? Also, were one-time factors to increase profit such as customer compensations included in 3Q?**
- A7. Although there are increases and decreases by region and by business unit, the overall result was almost in line with the plan.
- In the first half of the year, the impact of inflation has been recovered from customers in North America and other regions. 3Q result includes one-time profit.
- Q8. Does North America profit in the 3Q show the current strength of the company's business in North America?**
- A8. All the results cannot be considered as current strength of our North America business, as it includes one-time factors such as customer compensation for the impact of inflation.
- However, our North America business faced various problems last fiscal year, such as rising logistics costs due to strike issues in the in the North America ports, etc., which we resolved one by one, and profits were improved.

Q9. In response to the rising cost of labor, how do you proceed to request customer compensations?

A9. Without compensations from customers, it will be difficult to compensate for our Tier 2 and Tier 3 suppliers, so we will continue negotiations with customers in accordance with the guidance provided by the Small and Medium Enterprise Agency and other governmental organizations.

Since customer compensation of material and energy costs has been systematized in the pricing process with the customers, we would like to apply same kind of systematized method to get customers' compensation for labor costs.

Q10. How do you consider the impact of rising labor costs in your profit forecast for the next fiscal year?

A10. How much risk on profit should be considered is under consideration.

Not only customer compensations, but effects of our internal productivity improvement need to be considered.

Especially, since the industrial & bearings and machine tools business have a wide range of customers, it may not be able to recover impact of labor cost increase only by customer compensations. This will be a challenge.

Q11. Other companies in Toyota Group are dissolving cross-shareholding. What will JTEKT do if the stocks are sold?

A11. We are still discussing the dissolution of cross-shareholdings with the counterparties, so we cannot provide details.

We are seeking the best way to react against sales of the stocks including share buybacks as one option.

Q12. Is the policy or approach of the medium-term business plan changed by the replacement of the president?

A12. When management changes, company policies and approaches also change.

However, some aspects will remain the same since companies operate on the principle of consistency.

We are in the process of discussing specific details, so we cannot comment further at this time.

Q13. Do you get the cost recovery from customer as planned?

A13. On plan.

Q14. Your profitability in Europe seemed to be improved from the 2Q to the 3Q. Does this mean that your activities are progressing as planned?

A14. Just as planned. From the 4Q onward, we will also continue our structural reform activities as planned.