Financial Results 2Q FY2018
Questions and answers in the briefing session for analysts

1st November, 2018
SUZUKI MOTOR CORPORATION

(Domestic operations)

Q1: What are the factors that worsen domestic earnings in 2Q (July - September)?

A. Changes in sales and model mix among factors of change for the second quarter (July - September) in the Japan segment have a sense of considerable slowdown compared to the first quarter (April - June). However, there is no significant change in domestic sales. Instead, it is due to reduction of production in Hungary in order to switch the model corresponding to the new exhaust emissions regulation in Europe. Exports from Hungary are traded through Japan as trilateral trade, which in turn led to a decrease in Japanese brokerage sales.

Q2: Suzuki has revised the domestic sales outlook upwards. What is your view of the domestic market, and automotive tax discussion?

A. The full-year sales forecast of our mini vehicles has been revised upward by 17 thousand units from the initial plan (555 thousand → 572 thousand units), but we assume the total demand at 1.85 million level, and it is our intention to go beyond our planned market share of 30%. Meanwhile, the sales forecast for non-mini vehicles also increased by 5 thousand units from the initial plan (120 thousand units → 125 thousand units) due to the stable sales of "Swift", "Solio" and "XBEE". We will continue to expand our sales of both minicar and non-mini cars, and for such purpose, we will concentrate on appealing reduction of tax on cars including minicars towards the announcement of outline of tax reform at the year-end.
The industry as a whole shares the same intention to lower the automobile tax on registered vehicles that is significantly higher than those in other countries as soon as possible, but as the story of alternative funding sources will inevitably come up, we will continue to appeal that "It is impossible to opt for alternative sources from automobile users again, moreover, and it is absolutely impossible to increase the burden on minicar car users who were already burdened 3 years ago with more than 100 billion yen". On behalf of the users, we are willing to work hard to express the tax system's argument in a good direction and I would like to ask all of you for your understanding and support.

(India operations)

Q3: What is the financial market trend in India? Are loan conditions of non-banking finance companies becoming strict?

A. It is true that the interest rate also tends to rise due to the influence on the currencies of emerging countries arising from US interest rate hikes and China–United States trade war. Currently, we are not aware of any special actions taken by Maruti Suzuki, but there are also various issues to increase the burden on the user side, such as an increase in the initial subscription period of auto insurance. Users in India are sensitive to such burdens, so we believe that we need to look closely, including the future financial situation.

Q4: Suzuki increased the outlook for domestic sales in India for the full year (+6% ⇒ +8%). Does it take into account the situation that sales in October stayed at (+1.5%)?

A. Various special factors overlapped for sales of India in July - September. September seems to have been influenced by the shift in festival season from the previous year, but we do not blame such special factors so much, instead we would like to try to recover in the second half with marketing efforts including sales network and service network. While paying attention to the financial trends and the impact on insurance trends and other factors, we will strive for our goal of "5 million units in 2030", with focus on reinforcement of sales structure and manufacturing facilities including the battery factory, based on a long-term perspective.

Q5: While the Indian sales growth is moderating, the production capacity of your company will expand in the future. What is your view including the future plan of 5 million units, about responding to changes in the situation?

A. It is not our view that Indian growth is slowing down. Since some models still have back orders in part, factories have to strive to increase production, rather than adjust production time.

To achieve the goal of "5 million units in 2030", it can be calculated that we have to build a factory with 250,000 units capacity every year. Besides capital investment, acquisition of land, development of production models and many other issues have to be tackled with. Furthermore, timeframe of at least 3 to 4 years is necessary for training all personnel involved in such plants, design department, administrative department, or sales, so it is necessary to plan firmly in advance. We believe that we cannot follow the growth of the Indian market in the future if we and Maruti Suzuki are truly unity to respond.

By the way, the Gujarat Factory starts operation of its second plant in January next year, and the third plant is preparing for start up in April 2020.

(Asia operations other than India)

Q6: The operating profit of the Asian segment in 2Q (July-September) seems that Asian subsidiaries excluding Maruti Suzuki will be in the red?

A. The deteriorating factors in the Asian segment for the second quarter (July - September) were due to lower sales this year (see Q10 below), compared with high sales in the same period (July - September) last year as a result of special factors.

In addition, the impact of currency fluctuations reduced profit by 7.7 billion yen in this Asian segment alone, as well as increased expenses.

In addition to India, the impact of currency exchange also has a large effect in Indonesia and Pakistan, and the profit reduced in comparison with the previous year.

Q7: In the explanation, there was a story to introduce 660cc mini vehicles in Pakistan. Is the idea to introduce it as Japan's mini vehicle standards?

A. Although we cannot answer in detail as it is still in the planning stage, basically we are planning to go with the same displacement and size standards as Japanese mini vehicles. In the case of Pakistan, used mini cars are already in the market, and even in preliminary market research, it was found that mini vehicles can fit road conditions in Pakistan as is sold in Japan. As I said in the explanation above, already in India and many countries the mini-based cars with an overall width of 148cm are penetrating, so we will to leave it at 660cc as a challenge in order to rebound the Galapagos ridicule*.

*Galapagos ridicule: Mini vehicles criticized as "Japan only" standard that cannot be offered globally.

(Other)

Q8: What are the transient factors in this 2Q (July-September)?

A. First of all, in India, due to a tax reduction accompanying the introduction of a new tax system from July last year, the sales in the immediately preceding month of June declined sharply, and significantly increased in July onwards as rebound. On the other hand, flood in August resulted in some decrease in sales. These were the special factors in Asian automobile sales decline. Furthermore, due to the model changeover to meet the new exhaust emission regulations in Europe, August and September production was reduced, and European sales in the second quarter (July - September) decreased, as the result, the Japanese segment was also affected because of triangular trade scheme.

Furthermore, in the non-operating profit and loss in the second quarter (July - September), Maruti Suzuki replaced bonds in response to the hike of interest rates in India and the gain on such sale was recorded in the consolidated results.

Q9: Suzuki reviewed the change in sales composition for the full year. What is the background for the second half to be negative compared to +461 billion in the first half? Why did you review the initial forecast of various expenses -20 billion to -32 billion?

A. The change in sales composition is that the full year forecast is +40.8 billion yen, while the first half actual result was +46.1 billion yen, and consequently, there will be a decline factor of -5.3 billion yen in the second half. This includes the price rise effect of raw materials, and the substantial change in sales composition excluding it is almost ±0. In the realistic part, not only the direct effect of currency conversion but also the rise in the parts procurement cost in the local area leads to a deterioration in profit margin per unit as the influence of depreciation of the currency has already emerged in emerging countries. Therefore, although there are positive factors due to strong domestic sales, taking these negative factors into consideration, it is the premise of this business performance revision that the sales composition change in the second half will be roughly the same as the previous year.

Regarding the various expenses, we have revised it to -32 billion yen today, which we

regarded as the decline factor of -20 billion yen for the full year in the original plan at the beginning of the fiscal year. This is based on the fact that selling expenses, transportation expenses, personnel expenses, etc. in the first half results increased more than anticipated, and reexamined the forecast for the full year.
Incidentally, the impact of quality-related expenses of -18.9 billion yen in various expenses in the first half results is +0.8 billion yen, which has hardly been affected. We consider it to be almost the same as the previous year in the second half.

Q10: Although progress of increase in expenses is large compared with the initial forecast, is there any impact of inspection fraud?

A. About the inspection fraud problem, we are currently having investigation by outside experts.
Although we need to wait for the result, we are also aware of the insufficiency in the placement of facilities and personnel, or in the management system, even in our internal survey. In response to such issue, we consider it an issue that investment in expanding facilities etc. must also be done firmly.

Q11: Redemption of CB has advanced more than expected, but what are your future plans?

A. As a result of sharp rise in conversion requests, cash outflow exceeded 170 billion yen as explained, but as a result, equity capital ratio exceeded 40% by the end of September.
However, taking into consideration the demand for funds for growth investment in the future, and the fact that we have reserved cash on hand on a non-consolidated basis for the purposes including BCP countermeasures to a large extent, we think it may become necessary to raise fund in the future. However, it is only at the examination stage and there are no concrete plans at the moment.

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