

Financial Results 3Q FY2018

Questions and answers in the briefing session for analysts

5th February, 2019
SUZUKI MOTOR CORPORATION

(Japan segment)

Q1: The Japanese segment in the 3Q (October-December) period seems to have a large decrease in profit as opposed to sales increase?

A. Although ongoing changes in the composition of sales continued to be a positive factor for the Japanese segment's 3Q (October - December), due to increased expenses including quality related expenses and operating policy expenses, increased research and development expenses, and impact of foreign exchanges, profit decreased by 9.9 billion yen from the previous year.

Q2: There were explanations that domestic sundry expenses increased somewhat, but is there a movement that will once again rekindle the intense sales competition?

A. Regarding domestic, both minicars and compact cars are in positive trends. The sales of height wagon "Spacia", including the spin-off model "Spacia Gear", have increased greatly. Although we continue to compete in the mini market, we have stopped selling in an unregulated way like in the past, so product improvement and advertisement are fully utilized under normal distribution. Compact cars are gradually selling more units, and the sales forecast for the full term also increased to 130 thousand units (the previous forecast 125 thousand units) this time. Looking at the cumulative total up to the 3Q, the average unit price of domestic automobiles is 1,505,000 yen, which is about 91 thousand yen higher than the previous year, and a mix effect is also emerging.

Q3: The full-year sales forecast has been revised upwards, but are you also incorporating the rushing demand toward consumption tax increase?

A. It is not especially taken into account. Since the government introduced a leveling policy of demand unlike the previous time of consumption tax increase, we would like to respond while steadily following customer trends.

(India operations)

Q 4: The sales forecast for Indian automobiles has been revised downward, but how do you view the outlook for 4Q, including the situation at the retail sales? There seems to be influence of stricter credit, etc. on motorcycles?

A. As inventory has already been at the appropriate level due to marketing efforts at the end of last year, we will continue to firmly manage inventory. The orders for new models such as Ertiga that we launched last November and the WagonR that we just launched in January are also strong, so we also incorporate the new car effect.

However, although it seems that way in the short term, India is also subject to the political situation such as the general election in the country, the influence of the currency depreciation of the emerging countries triggered by the rise in the US interest rate, and so on, we should firmly look at those trends as well.

In addition, while the rate of utilization of credit in the Maruti Suzuki domestic sales is about 80%, there is no major change in the ratio, and the sales at the current level are flat, so we do not recognize the big impact on credit problems. There was also the problem of system revision of compulsory insurance (subscription period for new car purchase changed from one year to three years for automobiles), but we do not recognize the big impact here as well.

Either way, while thinking about such trends in the Indian market, we believe that there is no doubt about the long-term growth potential, and we aim to establish a structure that will make profitable in India properly while addressing issues such as technological development, increasing the number of factories, and electrification of vehicles in advance.

Q 5: What are Indian sales forecasts for the coming year? Will it be possible to expect a rushing demand toward introducing BS6 (strengthened environmental regulations) from April 2020?

A. Compared to China, India has a new car sales volume of just over 10%, despite the momentum in overtaking their population, so we believe that it is still a growing market. Therefore, even if there are various trends, it is important to position how to go over the next few years through back-casting from the long-term perspective from 2030.

Here, we believe that the penetration of hybrid cars in the Indian market becomes a point. As for EV, while we are preparing for launch in 2020, they will not spread instantly at that point, but rather we want to urge popularization from mild hybrids as affordable environmental vehicles.

Regarding this point, we are doing the same with our partner Toyota, but also regarding the introduction of BS6 which starts from 2020, we will promote technological development and model development so as to meet the regulations being enhanced. Meanwhile, upon strengthening regulations, it is also necessary to supply fuel that is compatible with it, so we are asking the government as a consensus of the industry regarding the spread of BS6 compliant fuel.

Regarding market prospects for the next fiscal year, we also need to identify uncertainties such as the elections and the macro environment mentioned above, so we would like to keep a close eye on it.

Q 6: While the demand is not growing, the second plant of Gujarat began operation, but what do you think of the future profit contribution of the plant?

A. The Gujarat Plant No.2 started operation from this January, but as the trend of demand is changing, we think that more detailed production response is needed. As to which stage we will take to full operation in two shifts, at the time of Plant

No.1 there were situations where we had many back orders, so we had to operate in full capacity as soon as possible, but in Plant No.2, we will carefully make judgments while firmly monitoring demand trends based on the trends and situation of other Gurgaon and Manesar Plants.

(ASEAN Business)

Q 7: What are the profit trends in ASEAN regions?

A. Regarding the trend of ASEAN, we also believe that it is necessary to firmly determine the influence of emerging-market currencies including interest rate trends in the United States, but we expect that such trends will improve from around January - March period. Speaking country-wise, in addition to the movement that commercial vehicles are getting strong in Indonesia, and sales of "Swift" has been increasing in Thailand, although the market is still small, there is also movement such as the sales of Myanmar rapidly tripled.

(Motorcycle Business)

Q8: The motorcycle business is severe in terms of seasonality but the business fell into the red in 3Q (October - December). What is the outlook for the full year?

A. In the 3Q (October - December) of the motorcycle business, although the seasonal factors did not generate revenue, the current period saw a large deficit (-3.9 billion yen).

Meanwhile, in addition to Asia where we expect to be profitable owing to increased sales in India and other factors, shipments of large models for the Northern Hemisphere will also begin in the 4Q (January - March), so the overall motorcycle business as a whole is expected to be in surplus.

(Other)

Q 9: The increase in various expenses in this 3Q (October - December) is -21.3 billion yen, but what is the transient factor?

A. The operating profit of the 3Q (October - December) declined by 28.9 billion yen from the same period last year, of which the decrease in expenses was -21.3 billion, the increase in research and development expenses was -6.2 billion yen, exchange rate impact was -9.7 billion yen, etc.

Among these, special factors unique to 3Q were increase in quality-related expenses in various expenses, and an increase in sales related expenses. Quality-related expenses increased by 3.7 billion yen (decrease factor) and sales related expenses increased on the back of increase in advertising expenses such as of the new WagonR, in addition to those accompanying inventory adjustments in December in India. The market inventory is already at the appropriate level.

Q 10: The forecast for operating income in 4Q (January - March) will increase by 35.4 billion yen as compared to 3Q (October - December), but is it a plan that has stretched out more than usual?

- A. Basically, indeed in the 3Q (October - December) Indian earnings were slightly more severe than internal budget, but the full-year forecast of consolidation as a whole has been unchanged in expectation for 4Q (January - March) to secure revenues comparable to the previous year in India.
We have a fairly conservative anticipation stance from the past, but there is a part that plans somewhat stretched in that sense.

Q 11: What is the medium-term view of capital expenditure and depreciation? Is capital expenditure of 250 billion yen forecast for the current term going to continue? What is the impact of the operation of Gujarat Plant No.2?

- A. In the current fiscal year, capital expenditure is expected to be 250 billion yen, which is slightly higher than in the past due to the relationship of investment projects both at home and abroad, but considering that investment necessary for increasing production capacity will occur in future years, the scale of 200 to 250 billion yen is not regarded as a remarkably high figure.
The Gujarat Plant No.2 officially started operation from January, but some production started from the previous month, so it also affected the increase in depreciation expenses (-2 billion yen) in the 3Q (October - December).
Also, since the company adopts declining-balance method overseas, amortization expenses in the first year of operation of the factory will be considerably large, but in terms of capital expenditure, we believe that it will be an increase of about a dozen billion yen as an image. Besides that, although there is depreciation of mold and jig cost etc. accompanying model introduction, it is a declining-balance method, so please understand that it gradually decreases from the first year onwards.

Q 12: What is the progress status of mutual supply of hybrid vehicles etc. in India in collaboration project with Toyota?

- A. Regarding the tie-ups of the two companies, we have announced various talks such as the start of negotiation of joint projects in development, production, etc., but we would like you to understand that they are progressing smoothly towards the realization of each.

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