Financial Results 1Q FY2020
Questions and answers in the briefing session for analysts

3 August 2020
SUZUKI MOTOR CORPORATION

(Impact of COVID-19: Domestic)

Q1. As of the end of May, there were over 100,000 backlogs for automobiles in Japan. What is the latest status?

A. There are still about 110,000 backlogs for domestic market, and about half of them are Jimnys. We give priority to customers who are waiting long, and we take into consideration production balance. Minicar sales in July improved (11% increase over the previous year), but this is due to reduced production during the same period last year to cope with the final inspections issue, so we cannot simply compare these two.

Meanwhile, number of visitors at dealerships has returned to around 80 to 90% level compared with previous year due to the calming down of voluntary curfew. However, as dealer visits do not lead to immediate orders, we will make further efforts to ensure that new orders are received.

While we enjoy some benefits from subsidies given by the government to drivers aged 65 or older upon purchasing cars equipped with safety support systems, we will concentrate on selling cars one by one by explaining to our customers the features and advantages of our product, and at the same time, ensure to take necessary measures to prevent COVID-19 infection so that customers do not feel uneasy at dealerships.

Q2. Is there any change in demand after the spread of COVID-19?

A. There has been no significant change in demand since the outbreak. In India, there are signs of a shift to online sales, but in the domestic market, conventional sales at dealerships are still strong. Even under the current circumstances, customers have a strong desire to see the actual car and test drive upon purchase a car. However, we are also working to establish a system for the domestic market, albeit little by little, to enable online car sales.

Furthermore, a firm analysis of changes in customer preferences has not yet been made. However, it is true that the demand for antimicrobials is increasing as a trend of customers, and we are moving toward the development of specifications for antimicrobials, sterilization, etc.

Q3. What is the current rate of new orders compared to the previous year?

A. In the first half of July, when the declaration of a state of emergency was lifted and there was a strong desire to go out, the number of visitors reached 90% level compared to the previous year. However, since then, the number has dropped to below 80% due to the fear of a second wave of COVID-19. This is the situation of last weekend, but it seems likely to be more significant in August.

Orders for minicars and compact cars tend to be affected by this trend. Overall, orders from our company's 52 subsidiary dealers were about 80% of the previous year's level.

(Impact of COVID-19: India)

Q4. What is the current inventory level and the demand environment?

A. Wholesale volume in July has returned to the same level as the previous year, but as you are well aware, sales had been low during the same period last year, so it is only that we have finally reached 100,000 units, and we are not yet in a situation where a full-scale recovery has been achieved. The good news for us is that customers are increasingly looking for smaller, inexpensive cars like our Alto 800. In addition, since there is more potential demand in rural areas than in urban areas, we have been actively promoting the development of rural areas, and we shall continue with this policy, by utilizing our resident sales executives in the rural areas.

Currently, although area-wise lock-down effects remain, the number of dealers operating in India has barely exceeded 80%. The impact of COVID-19 on India's macroeconomy remains to be seen, but since there is always potential demand for cars in India, we will promote sales activities to fully capture the demand of compact cars and rural areas mentioned above under the "coexistence with COVID-19" situation.

As of end of June, the stock level had been around 80,000 units (25 days), but has returned to just under 90,000 units as of July.

Maruti Suzuki is making considerable efforts to expand its automobile loan business with its partner financial institutions. Currently, it has partnerships with 36 financial institutions, and 18 of them offer special loans. Reflecting the current economic situation, we are conducting a campaign to stimulate customer demand in terms of down payments and interest rates.

Q5. Sales financing was a major bottleneck last year, but are you worried about future trends? How do you see the loan loss rates and prices of second hand cars?

A. Speaking about loan offers with partner financial institutions, interest rates on auto loans have not dropped in spite of the decline in policy interest rates, but are finally beginning to come down. If it would be another step lower, the loan will be easier for our customers to use. Maruti Suzuki will continue to work closely with the partner companies to introduce attractive offers.

As we do not have any figures for the credit loss ratio, we have to refrain from speaking on this issue.

The price trend of used cars has been referred to at Maruti Suzuki's briefing, that given the current economic situation, there is a movement to "a used car rather than a new one". Therefore, the price of used cars is expected to be in line with this trend, however, we will continue to introduce compact and affordable products that meet the needs of Indian customers.

(Impact of COVID-19: Production in Japan and India)

Q6. There must be backlog of orders in both Japan and India, but what is the image of the production plan in both countries between August and September?

A. First of all, the production in Japan dropped to about 65% of the previous year in April to June, so we need to gradually recover it. In fact, we plan to produce more than previous year in July and August, and will increase speed while carefully monitoring the supply of parts.

In India, production has fallen to about 13% of the previous year's level, so we will strive to make up. In July, the plant was operating at about 70% of the previous year's level, but in August, we would like to see a slight increase over the previous year's level. Considering profitability, we would like to produce at least 90,000 units per month.

However, the situation is unstable and unforeseeable that the infection of COVID-19 is surely increasing recently, and once the infection is discovered, the human resources management becomes difficult. Therefore, we would like to carefully manage the operation including the prevention and the response in case of the infection in the "coexistence with COVID-19" situation.

(Automobile business in Europe)

Q7. What is the image of the penalty in this 1Q (Apr-Jun) due to the stricter European CO2 regulations?

A. As you know, the European CO2 penalty is calculated based on the sales volume for the January to December calendar year, so the annual amount is not fixed at this point. However, as you may understand, we are in a situation where payment is unavoidable due to our product lineup, so for the current 1st quarter, unpaid figures are included in approximate figures. Please understand that we are unable to disclose the exact amount.

On the other hand, as for future, we would like to ask for your understanding that our engineers are advancing efforts to accelerate research and development, such as introduction of 48 V mild hybrid cars, development of ultra-high efficiency engines, and so on, in order to minimize the penalty amount.

(Others)

Q8. It feels that profitability is strong amid such a sharp decline in sales. What are the factors behind this increase in profits, such as a decrease in various expenses and a decrease in depreciation expenses?

A. The biggest factor in the decrease in profits this time was the 131.9 billion yen decrease in sales and composition, but with the decrease in sales, expenses have decreased. The significant factors were 23 billion yen in incentives and 13 billion yen in shipping costs. In the same period of the previous year (April-June, 2019), quality-related expenses accounted for 2.4% of consolidated net sales, but fell sharply in the current April-June period to 0.8%, contributing to an increase in profits of approximately 18 billion yen.

Depreciation, on the other hand, accounted for profit increase of 18.1 billion yen from the previous year. In this quarter, the amount equivalent to the fixed cost of suspension of operations due to the COVID-19 pandemic totaling 15.4 billion yen was transferred to extraordinary loss. This includes depreciation of 9.3 billion yen from the above. Therefore, the net effect of an increase in profit due to a decrease in depreciation costs is 18.1 billion yen minus 9.3 billion yen, resulting in 8.8 billion yen. In any case it is lower, compared with the previous year. For your reference, annual capital investment peaked in the fiscal year ended March 2019 and has been decreasing in the following fiscal year, while there was no significant investment in the period from April to June. As a result, depreciation expenses have naturally decreased compared to the previous fiscal year.

Q9. Maruti Suzuki posted an operating loss of more than 24 billion yen. In addition, other locations, such as ASEAN and Europe, were far from good. In spite of that, why was it possible to secure an operating surplus of 1.3 billion yen on a consolidated basis?

A. Although 15.4 billion yen was transferred to extraordinary losses, consolidated operating profit for the period was a surplus of 1.3 billion yen. By geographic segment, Japan posted profit of 1 billion yen, Europe posted loss of 500 million yen, Asia posted loss of 6.7 billion yen and others profit of 1.1 billion yen. Therefore, the elimination between segments is plus 6.4 billion yen. The decline in inventories at the end of June amid a sharp drop in production due to the spread of COVID-19 boosted unrealized profits, which are intersegment eliminations.
If the loss of 15.4 billion yen related to the new coronavirus were not transferred to extraordinary loss, the loss would be 14.1 billion yen. Of the 15.4 billion yen transferred, 9.8 billion yen was for Maruti Suzuki, so the decline in profits at Maruti Suzuki had a considerable impact.

Q10. The transfer to extraordinary loss seems to be one of the factors behind the operating profit, but what other measures have been taken to increase profits while sales have declined?

A. There are several areas that need to be tackled to increase profits, but the biggest challenge is the recovery of automobile sales in India. At any rate, the only way to make a profit is to increase sales or reduce costs, and we have been doing this internally since spring. In that sense, our dealers are already 80% operational and production is gradually resuming, so our first priority is to see the recovery in India while keeping an eye on both sides and being aware of the "coexistence with COVID-19" situation.
Secondly, in the case of domestic production, our company's first priority is to produce and deliver to customers, but unfortunately, due to delays in the delivery of parts from overseas, operations were partly suspended in April and May. In this regard, we are working with suppliers to create a system that ensures uninterrupted delivery of components, such as building up parts inventories, decentralizing parts production, and alternative production in other regions. As financial support for this purpose, for example, in the case of small and

medium-sized suppliers, careful attention is given to ensuring that operations do not become unstable again by taking meticulous measures, including lump-sum payment of mold costs.

Third, the austerity budget will continue. We have already done so in the April-June quarter, but we are examining the cases that were postponed or canceled, and we are examining them through interviews with top management. On the other hand, however, those that lead to investment for growth, new models, or quality and facility maintenance are given top priority, and other aspects are being reviewed.

The company is working to strengthen its business structure while making concerted efforts in terms of both sales and costs.

Q11. In the statement of cash flows, what is the reason for decrease in retirement benefit liabilities by 7 billion yen?

A. For retirement benefits, our company manages cash balance defined benefit corporate pension funds by making contributions to external entities. Among these, the company has introduced a system called risk-adjusted premiums, which is a lump-sum prepayment of premiums under a certain calculation standard. It does not directly affect the income statement.

Q12. When will the full-year forecast, new medium-term management plan, and environmental vision be announced ?

A. We intend to prepare materials for both the current term forecast and the medium-term forecast, including a new environmental vision. As volume forecast have to be determined first, we need some more time, to determine the situation. We understand that stakeholders would feel uneasy unless we announce them during this fiscal, however, we would like to ask for your kind patience.

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