Financial results 1Q FY2022
Questions and answers in the briefing session for analysts

August 5, 2022
Suzuki Motor Corporation

(Impact of shortage of components including semiconductors)

Q1: Could you update the impact of Japan's production from semiconductor shortage? As India moves toward normalization, Japan shows sign of improvement albeit in a severe situation, so what are the prospects for future production and sales?

A. Uncertainty still lingers over the effects of the semiconductor shortage. It is true that communication with suppliers including direct contact with semiconductor manufacturers further down the line has improved than before. After understanding the other party's concerns and what we need to improve, we are developing a medium- to long-term strategy at our Procurement Strategy division, such as placing long-term orders to encourage suppliers to make investment.

We have learned this from the recent semiconductor shortage. However, the situation is still unpredictable. Even in India, the number of cars produced appears to be improving, but on the job sites they are managing to make ends meet while flexibly switching production and changing designs. Although improvements are gradually being made, the situation is not clear until the semiconductor shortage itself is resolved, which is one of the reasons for maintaining the full year earnings forecast.

(Domestic business)

Q2: Why did operating profit in the Japan segment recover above 9%? Does that also reflect royalty income from India? What is the breakdown of +18 billion yen that appears in the change in mix/price, etc. in Japan?

A. The Japan segment saw an operating profit increase of about +22.9 billion yen compared to the previous year. This includes changes in unit volume, mix/price, etc., of +22 billion yen, and foreign exchange impact of +14.7 billion yen, which apparently covered the increasing profit decline factors such as the rising raw material costs and R&D expenses. Among the change in volume, mix/price etc., the volume in particular showed a good overall figure, because the decrease in the sales of automobiles in Japan was covered by the increase in exports of automobiles, motorcycles and marine products as well as the effect of price increases in the export destinations, and the increase in royalty income.

The bulk of the change in mix/price, etc. in Japan of about 18 billion yen, is the increase in the price of export vehicles, including trilateral transactions. In the domestic market, while price increases are difficult to apply, there is still a slight improvement by price increases through model changes, the addition of safety equipment, and changes in specifications in line with regulations, but the price increases for overseas markets remains the majority.

Q3: **Other companies have started to raise prices. Let us know the company's views on price hikes.**

A From a global perspective, price increases are being flexibly handled in India and Europe. India, in particular, has responded to rising costs in a timely manner by raising prices almost every quarter for the past year or so.

On the other hand, domestic demand for a high economic performance, especially for mini-cars, and the fact that customers are also sensitive to prices, makes it difficult to raise prices easily. The Company believes that this should be covered first by corporate efforts, and is promoting thorough waste-cutting and budgetary control within the company. However, as the guidelines of the Ministry of Economy, Trade and Industry (METI) and Japan Automobile Manufacturer's Association (JAMA) state, we must not turn the blame on suppliers, so we are sharing our ideas on cost reduction while considering co-existence and co-prosperity with suppliers. As such, it's moving ahead with what needs to be done first before raising prices.

(India business)

Q4: **How are order status for the new Grand Vitara SUV recently announced in India? And what impact will it have on your company's bottom line as Toyota handles production?**

A India's two new SUVs, Brezza and Grand Vitara, are both very responsive in the market, with orders for the Brezza reaching 70,000 units and bookings for the Grand Vitara surpassed 20,000 units mark. In addition, more than half of the Grand Vitara bookings are for the strong hybrid variant, and we realized the positive effects of alliance with Toyota.

The SUV itself will have advantage on model mix as well, as the fact that higher grade have more bookings, and we are hoping that it will have a positive impact on the sales mix/price. In any case, we are off to a good start, and we believe that we have a lot of room for growth, and we are looking forward to the hard work of our sales force.

In terms of revenue, we are starting to see calls for carbon neutrality in India from a variety of sources, and in fact, environmental considerations are starting to show up in customer preferences. While it is partly due to the economic aspect of fuel prices, we will continue to make every effort to respond to various customer needs, including the demand for CNG, while generating solid profits.

Q5: **Strong hybrids account for about half of Grand Vitara's bookings, but what is the Company's future powertrain strategy in India, including HEVs and CNGs?**

A India will eventually introduce EVs, but we understand that adequate solution for now is still hybrid and CNG. The Company is going to devise a plan for how to combine the two and achieve carbon neutrality in India. In fact, the Government of India has yet to come up with a clear vision for this area, and we believe that consideration must take into account the vision. On the other hand, having consideration to the increasing popularity of CNG vehicles, the government is also pushing to increase the number of CNG stations, and we will go along with that.

The Company is also appealing to the Indian government to take advantage of its partnership with Toyota for hybrid vehicles and to contribute to improving the environment while promoting affordable hybrids in India. At one point, the Indian government also had a policy that EVs had to be used, but now they are more aware of the immediate solution. It is unfortunate that hybrid excise tax incentives are still few, but we are still at the stage where we will coordinate with Maruti and link it to a solid plan for the practical solution of hybrid and CNG in the future.

Q6: With the exception of recent orders for new models, is there any change in demand in India? We believe there are concerns about inflation and rising interest rates.

A In India, the policy rate has risen sharply from 4.0% to 4.4% and then to 4.9% since the beginning of the year, but the rate of interest on auto loans has been relatively muted, rising from the 7.85% level to 8.35% for those within five years and from 7.95% to 8.45% for those over five years. However, we are keeping a close eye on the situation, as there is a concern that if the rate rises further, it will affect sales. However, as the such situation has not materialized, there are more than 350,000 backlogs at present, and as soon as we can produce them, they will be directly linked to sales, so we have no choice but to work hard to secure the supply side. But in the future, we'll pay attention to those macro aspects. Local management has yet to recognize the emergence of such concerns, but it will also keep a close eye on future developments by the government and the central bank.

There are many areas in India that are still at the stage of creating jobs and demand for automobiles, so we are in the process of devising strategies to contribute to such rural measures and regional development.

(Asia Segment and Other Regions)

Q7: In the final quarter of the previous fiscal year, divergence of operating income between the overall Asian segment and Maruti Suzuki was seen. Are there any impact recognized in this quarter?

A In the Asian segment this time, despite some indications that the profit performance of Maruti Suzuki is somewhat inconsistent, the profit increased by 13.4 billion yen year-on-year. The increase was largely attributable to the increase in operating profit of Maruti Suzuki. While the impact of raw materials, miscellaneous expenses, R&D expenses, and depreciation contributed to the decrease in profit, Maruti Suzuki's operating profit contributed to an increase of approximately 20 billion yen. However, there are other factors such as the cost burden at TDSG, a battery plant that is still in start up phase, and the fact that the sites in Indonesia and the Philippines are on the profit-decrease side, due to the impact of foreign exchange rates. In addition, we would like you to understand that the adjustment of difference due to the difference in accounting standards in the consolidation adjustment also affects the profit decrease side.

Q8: What is your view on earnings in the Africa business you plan to develop in the future? Currently, production profit is expected to be in India, but is there any possibility of utilizing the low-operating ASEAN plant?

A The Company's African strategy is basically to develop from India, and that will not change. In particular, the location of Gujarat plant is close to the port and the geographical and physical accessibility to the eastern part of Africa on the other side of the ocean have advantages as well as the utilization of network of overseas Indian

communities.
Furthermore, as a part of alliance with Toyota, the company utilized strong sales network of Toyota Tsusho, and we are able to take advantage of the benefits of our alliance in this regard as well. In the future, the business scheme for Africa will be basically in the direction to increase sales profit in Africa while generating production profit in India.

(Miscellaneous)

Q9: What's your take on the high first quarter? Is there a transient factor or something in the background?

A While the benefits of a weaker yen were significant in the first quarter of the year, there was also an unstoppable rise in raw materials prices. In addition, there has been no significant change in the status of the semiconductor shortage, and the production forecast was based on the largest production reduction that we had been aware of at the beginning of the period, and the progress is almost exactly as expected. As can be seen in the recent decline in sales in Europe, there were some regions where sales would be directly linked if production could be carried out as planned, but in some regions it did not happen as planned.
While we do not see much in the way of transitory factors, we also do not get the sense that this prolonged stagnation will be resolved. In addition to the impact of semiconductor shortages and raw material prices, uncertainty about the future is also a concern about global inflation, policy interest rate hikes in developed countries, and their impact on emerging countries. Fortunately, we are not yet aware of the impact on consumer sentiment in India, but we need to be aware of it as a risk. Furthermore, as is obvious, we need to look at the amount of R&D spending that has been slumped since last fiscal year and the amount that will be accelerated in the future, so in addition to the increase in fixed costs in the future, more importantly, we think that we should be producing results.

Q 10: The full-year earnings forecast was left unchanged, but are there any aspects that you recognize that assumptions, such as raw materials, have changed since the beginning of the period in the last 3 months? Is there a reason why we shouldn't simply quadruple this 1Q profit?

A With the IMF cutting its global economic outlook, there are now whispers of a future recession risk. In addition, although we are working closely with suppliers on the impact of semiconductors, the future is still uncertain and unpredictable.
In terms of the impact of rising raw material costs, the initial plan had projected a decline in earnings of 85 billion yen for the full fiscal year, but with a decline of about 30 billion yen in the first quarter, the situation is expected to remain severe. We expect steels to work in the direction of lower profits in Japan, but the feeling in India is calm. Precious metals are also likely to decline much more than they once did, but the outlook is uncertain, including the impact of foreign exchange rates.
As for the foreign exchange rate, the rate of the yen, which was expected to rise by 30 billion yen in the full-year plan, has already reached 20 billion yen in the first quarter, but the yen has recently swung higher again, and with the risk of a recession in the future, we

see little chance of the yen falling further. With all that in mind, we'll have to wait and see. There are some factors that depend on the external environment, which is too heteronomous to be covered by own efforts. The Company would like to steadily build up R&D and ensure quality while proceeding with initiatives that can be done in-house, and would like to make decision at the timing of 2Q financial results whether to revise forecast or not. Therefore, although we do not recognize the specific risks of the current situation, there are some uncertain factors, so we left our forecast unchanged this time.

Q 11: From this 1Q result, the Company provided breakdown of "Changes in sales mix, etc." into volume and change in composition. We recognize change in composition a large figure of +31.9 billion yen. Please let us know if you have this further quantitative breakdown.

A The 31.9 billion yen that caused an increase in operating profit includes the motorcycle and marine businesses but you may consider it simply figure for automobile business. The breakdown is approximately 18 billion yen on the non-consolidated side and about 28 billion yen on the subsidiary side. The Maruti Suzuki portion of the subsidiary is about 30 billion yen.

On the other hand, in the consolidated elimination of the negative earnings factors, the realized gains of unrealized profits in the previous fiscal year due to the inventory shortage worked in the direction of profits, but in the current fiscal year they worked in the direction of losses, which resulted in a total negative impact of more than 14 billion yen.

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