Financial Results 1Q FY2018
Questions and answers in the briefing session for analysts

2nd August, 2018
SUZUKI MOTOR CORPORATION

(Domestic operations)

Q1: The new "Jimny" is selling strong in Japan. Are there plans for the increase in production for domestic and also for export? Also, what is the impact on your company's earnings, including the premise of establishing a dedicated production line and a dedicated platform?

A. Since the announcement of the new "Jimny", we received orders beyond our expectations from new users including females, in addition to nominated purchase of persistent fixed fans. Although we cannot tell you about the number of orders, it exceeded our annual sales plan (15,000 Jimny and 1,200 Jimny Sierra per year). We are considering various incremental production countermeasures internally to respond quickly to this situation. As for the export, we plan to market the model from autumn this year as initially planned.

Although the exact impact on revenue is not estimated at the moment, we recognize customers nominate the model upon purchase, and we expect it to improve the mix. We are examining ways to increase volume without much investment, while not to keep customers waiting so long.

(India operations)

Q2: While interest rates are on the upward trend, what are the current situation of Indian sales and significant back orders?

A. Although the growth of Maruti Suzuki's domestic wholesales in the most recent month of July alone seems to have stopped due to the introduction of GST (new taxation) in the same month last year, if you compare average of June-July period, it is still +17% year-on-year, and we expect the strong demand to continue for the foreseeable future.

Strong demand is also reflected in the back order. Although "Baleno", "Dzire" and "Swift" back orders decreased to below one month level, "Vitara Brezza" still requires more than two months of waiting time.

Q3: What is the progress of internal discussions on "5 million units" in India?

A. Given the fact that the World Bank expects Indian economic growth at an annual rate of 7% or more, and that the current size of automobile market is still about a tenth of that of China, we can expect structural long-term growth. On this assumption, assuming that the automobile market will continue to grow at the current rate of 9%, it will be a market of 10 million units around 2030. We showed our vision that we intend to maintain the current 50% market share till then. It is our message to everyone, and it also implies the meaning of a message to our employees towards efforts that are necessary for us.

In addition to the production system necessary for that purpose, many issues must be considered such as that twice the number of models would be required, that besides certain number of EVs, the remainder would be hybrids and CNG, so we need to create a system. More important issue is sales and service networks that would require increase by orders of magnitude more than now, including the development of human resources who will be responsible for. We focus on this vision in 2030 and beyond, and by backcasting from there, we have just started company-wide efforts.

Q4: Are there measures to increase the production capacity in India towards autumn festival season demand? The production figure for 1Q is about 480 thousand, but can you increase the volume through overtime work?

A. Gujarat plant No. 2 is scheduled to start operation in January 2019, in addition, we recently started working on plant No. 3, although the specific period of operation is to be decided. In addition to the production capacity of 1.5 million units at Maruti Suzuki, Gujarat plant No. 1 is already working in two shifts. By summertime next year, we expect Gujarat plant No. 2 to start two shifts. We will bring the total to 2.25 million units as soon as possible. As all existing plants are close to full operation, we are also promoting recruitment of qualified personnel with some help from the Maruti Suzuki.

(Asia operations other than India)

Q5: What is the situation in other countries, such as Indonesia, Thailand and Pakistan? What is their outlook for the future? Also, India seems to raise prices from this August, what are the markets that can raise prices?

A. In Indonesia, due to weak Rupiah, the cost of imported components are increasing, and resulting in difficult situation compared with previous year in terms of profitability. We anticipate a decline in the sales of automobiles, including exports, for the full year, and we expect a decline in profit compared to the previous year. Similarly, Pakistan expects rise in the cost of imported parts due to depreciation of the currency, and although sales are growing, both the current and the full year forecast are on a declining trend. Regarding Thailand, domestic sales are increasing, but we expect a decline in both current and full year mainly due to increase in selling expenses.

In this exchange environment, we think that other companies will discuss the price hike against the increase in costs, but for example in the Indonesian market, since our company is not in a very strong position, it is difficult to pass on. At least during this first quarter, we are still holding up the cost increase due to currency exchange as a factor of decline, and we will keep an eye on future progress.

(Motorcycle Business)

Q6: Motorcycle business turned into profit, what is your response to maintain future profitability?

A. Motorcycle business has turned to profit from the previous term, but honestly there is no response that the business became stable. There is still room for improvement in number of engines, model lineup and development system, and it is necessary to accelerate rationalization.

The sales of scooter are growing in India, and we are considering increasing production capacity. In Indonesia, we incorporated a finance company and are trying to organically cooperate with sales. We continue to market products customers demand from Suzuki such as sport models above 150 cc and backbone models and try to return to stable business.

(Marine Business)

Q7: "DF350A" is doing well, but can you increase its production capacity?

A. "DF350A" is selling well, and we were able to expand our sales network and market share in the world's largest market, the United States.

We are considering incremental production system as well, but since we have just moved from the Toyokawa Plant to the Kosai Plant, we are concentrating to stabilize production at the new site, while considering ways not to keep customers waiting.

(Other)

Q8: 1Q results show considerably high level of profit mainly from automobiles. Which region contributed the most?

A. Increase in automobile business is mainly due to sales increase and mix improvement in India and Japan. Especially in Japan, strong performance of "Spacia" and "XBEE", resulted in improvement of both volume and model mix. Speaking of mix improvement, we recognized significant changes in model mix, as well as shift to higher sales grade among the same model.

In India, there was also a mix improvement, but profit contribution was mainly due to increase in sales volume. Europe also contributed to certain extent, but India and Japan contributed the most.

Q9: Is there any one-time factor that boosted profits in the 1Q results? You maintained the full-year forecast, is there any profit reducing factor that is included in the second quarter and beyond?

A. In the 1Q financial results, R&D expenses as well as depreciation were slightly less, but there are no other special transient factors. However, on a full-year basis, we plan, R&D expenditure to increase sharply in comparison with the previous year. We expect larger R&D expenditure in the second half. Therefore, we assume increase in fixed cost and profit level in the 1Q result will not continue.

Q10: Quality-related expenses were a factor for profit increase in 1Q of the previous year, but how about 1Q FY2018?

A. At the 1Q results briefing last year, we explained that the quality related expenses were a profit increasing factor, but in this quarter, it is a factor of profit decline as it is a comparison with the low level of the previous year. You may understand that among the increase in various expenses totaling to 14.7 billion yen, quality-related issue is about 4 billion yen.

Q11: In the decrease of free cash flow by 7.1 billion yen about 31 billion yen from purchase of investment securities stand out. What are they?

A. Increase in long-term securities investment in India.

Q 12: There are some relocation projects of domestic plants, what is the financial impact?

A. Marine plant was shifted from the Toyokawa Plant to the Kosai Plant in the 1Q FY2018, and although there will be some one-time impact such as depreciation, it has not been a big influence yet. However, in the course of stabilizing production, we expect it to be an impact as one-time increase in expenses.

With respect to motorcycle plant, production was still ongoing at Toyokawa Plant in the 1Q and production at the new Hamamatsu Plant is scheduled from September. Although we expect various cost increases at the startup stage as well, we are preparing to cover depreciation and amortization cost by improving productivity as explained before.

While we anticipate an increase in such start-up costs during the current fiscal year, we place our efforts to be able to maintain profitability properly in the long run.

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