

Fiscal 2015 First Quarter Announcement Q&A Summary

■ Date: Thursday, July 30th, 2015

Q1. The 1Q operating income result gives an impression that its progress toward the 1H target of 50 billion yen is not good. Please explain how it is against the plan by factor and region and without forex effect.

A1. We did not announce our plan for the 1Q, but we judge that the progress was above the plan overall, thanks partly to the favorable move in forex rates.

Although the wholesale volume was in line with the plan, the operating income slightly decreased in the volume and model mix. The sales expenses had a positive effect.

If we exclude the effect of favorable forex rates, we slightly missed the target set in the plan.

Q2. In Europe, the operating income decreased by 6.4 billion yen in the volume and model mix. Please provide details of the operating income by factor in Western Europe & others and in Russia & others.

A2. Regional breakdown: a decrease of 7.8 billion yen in Western Europe & others, and an increase of 1.7 billion yen in Russia.

In Western Europe & others, the volume and model mix accounted for 7 billion yen of the region's total decrease and the rest came from the selling price. In Russia & others, a decrease of 1.4 billion yen came from the volume and model mix and an increase of 3.1 billion yen came from the selling price.

A major factor is a decrease of 5,000 units in the wholesale volume of the Outlander PHEV from 8,000 to 3,000 units.

Q3. Is it fair to say that the lower wholesale volume of the *Outlander PHEV* in comparison to the retail volume is the factor of the major negative impact on the volume and model mix?

A3. That is correct. The impact on the volume and model mix came predominantly from the decrease in the wholesale volume of the *Outlander PHEV*, and the impact of the selling price was at a level of a few hundreds of millions of yen.

Q4. The retail volume of the *Outlander PHEV* in the 1Q was 7,600 units. What about the wholesale volume?

A4. The wholesale volume in the 1Q was 4,000 units, a decrease of 7,000 units year-on-year.

Q5. Regarding the closing of the US plant, I expect that there will be costs incurred, such as a lump-sum payment to the employees. What will the size of the costs be? Please provide, to the extent possible, their boosting effect expected in the next fiscal year and beyond.

A5. The production facility in the US was written down in the accounts of the fiscal year 2014, and there is little remaining book value.

Costs related to the plant are not included in the financial results of the 1Q.

As we announced the other day, we are going to look for a buyer and, if it does not work out, we will need to close the plant. We are not in a situation to comment on the one-time costs as estimates can vary by scenario, but if we close the plant, we will incur costs, such as one-time costs for the employees.

We think that there will be a boosting effect of about 10-15 billion yen in the next fiscal year and beyond.

Q6. Please provide the current situation of the Thai market and the MMC's sales. Have you not seen any signs of recovery?

A6. At the beginning of this fiscal year, we estimated that the total demand of the Thai market was about 830,000 units.

The situation of the economic slump and the rigorous screening for sales finance remains unchanged, and we are afraid that this fiscal year's total demand may end up as low as 700,000-800,000 units.

We are also concerned about our July sales, which are forecast to be about 30% below the same month of the previous year.

We are going to have a model change of the *Pajero Sport* to be announced on August 1st and to be launched in October, but we need to carefully watch the order situation from the 2Q onward.

Q7. What is the forecast of the global retail/wholesale volume of the *Outlander PHEV* in the 2Q? Especially, how much can the wholesale volume grow from 4,000 units in the 1Q?

A7. The retail and wholesale volume in the 2Q is 10,000 and 14,000 units, respectively. Our full-year plan is 41,000 units for retail and 45,000 units for wholesale.

Q8. What kind of feedback did you get on the *Outlander PHEV* in Europe?

A8. We have significantly changed the exterior to give the car an eye-catching design. It has better ride comfort.

It has been popular particularly in countries where the governments provide generous subsidies for environmental performance.

This model is priced reasonably high, and many customers purchased the cars to replace luxury cars. Considering the fact, we have drastically revised the interior design and improved the quietness.

The new model has received positive feedback in response to the preliminary presentation provided at the stores, and we are receiving orders from the dealers on a good pace. We hope to continue the momentum toward retail sales.

Q9. Net increase in the operating income through cost reduction such as in material cost was 400 million yen, which does not seem much. Were there any special factors? Can this be recovered from the 2Q onward?

A9. The 400 million yen includes the plant expenses. Gross material cost reduction alone is 1.1 billion yen, and if the 1.4 billion yen increase in the expenses for product improvement is excluded, the combined reduction is 2.5 billion yen, which is the impact we would recognize with our previous method. We think this number is a little low as a starting point.

It is hard to achieve major cost reduction on a running basis through material cost reduction. Benefit of material cost reduction is achieved after a launch of a new model or a model year change.

In the same quarter of the previous year, we had an introduction of the EK Space. This fiscal year, we did not have any new models and we only had normal reduction achieved on a running basis.

From the 2Q onward, we will introduce the MY16 *Outlander* and the *Outlander PHEV* and in the 2H we will introduce the *Pajero Sport*, where we will be able to see the impact of the cost reduction measures.

Q10. The retail volume increased in the US, Western Europe, the Middle East and Africa. Which models increased the volume?

A10. The retail volume in North America increased by 7,000 units, which included 4,000 units of the *Mirage* and 2,000 units of the *ASX*. These two models were the main drivers.

The retail volume in Western Europe increased by 12,000 units, which included a little over 4,000 units of the *Mirage*, a little less than 4,000 units of the *ASX* and 1,000 units each of the *Outlander* and the *Triton*.

The increase in the Middle East and Africa included 7,000 units of the *Lancer* and 2,500 units of the *Pajero*.

Q11. What is the status of the global roll-out of the *all-new Triton*?

A11. We began with Thailand and proceeded to Australia, Western Europe and the Middle East. In Western Europe, fully-fledged sales have not been started.

Especially in Thailand, the market has taken longer to recover than we expected, and the actual sales volume was below the plan. The retail sales volume was about 10-15% below (the plan).

The sales expansion period in Australia is May and June, but we ended up about 60% as there were older-model cars we needed to sell out.

Sales in the Middle East are progressing mostly as planned.

We believe that the key is to shore up the sales in Thailand first.

Q12. The operating income by destination shows that the Japan domestic market was in a tough situation. How will you improve the situation from the 2Q onward? You have a plan to achieve break-even at the end of the fiscal year, but what is the feasibility of the plan?

A12. We recognize that Japan is the toughest region.

We recognize that we did not make a good start in the 1Q, because the sales of mini cars struggled more than we had expected and we were in transition to the all-new *Outlander PHEV*.

We would like to recover the sales volume from the 2Q onward with the all-new *Outlander* and the *Outlander PHEV*.

Even though the mini cars were in a tough situation, their year-on-year sales volume came back to 82% in June. We hope to maintain this upward trend in July and beyond.

We have come to the point where it is difficult to be profitable at the end of the fiscal year. We would like to make judgments while watching carefully the sales situation going forward.

Q13. What is the reason for the posting of an extraordinary income in the 1Q? Please provide if there is any change in tax expenses due to the closing of the plant at MMNA.

A13. A gain on sale of our old plant in the Philippines was included in the 1Q result. The amount of the gain was 9.4 billion yen.

The part of the statements related to tax included the tax burden associated with the sale of our old plant in the Philippines but noting related to MMNA.

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