

FY2015 First Half Financial Results

Summary of Q&A Session: Briefing for Analysts and Institutional Investors

■ Time & Date: Tuesday, October 27, 2015, 16:45-17:30

Please explain a little more how you look at the profits in Europe. I expected that the situation in Europe would improve as you raised forecasts of exchange rates for such currencies as the euro and the ruble, but your full-year operating income forecasts have been lowered by about 1 billion yen. Did you change the way you look at the impact of selling price?

- Our regional wholesale volume forecasts for Europe remain unchanged from our initial forecasts made in April at 225,000 units.
- We expect our sales volume in Western Europe to decrease from 202,000 to 196,000 units, causing the volume and model mix to worsen. On the other hand, we also expect that favorable moves in exchange rates will compensate for the decrease, and eventually our operating income will increase by 6 billion yen from 16 billion yen to 22 billion yen.
- In Russia, we lowered our selling price to remain competitive in the market when the ruble appreciated. This resulted in an increase in sales volume, but subsequently the ruble depreciated back, creating a negative impact of 4.1 billion yen in the selling price. In total, we forecast a decrease of 7 billion yen.

I recognize that your current capacity for battery production is a little under 50,000 units while you focus your efforts on EVs and PHEVs. When are you going to increase the capacity?

- Our battery production capacity for this fiscal year is 45,000 units, and during this fiscal year we will produce this volume at full capacity. We should be able to increase the capacity to 60,000 units next fiscal year.
- We would like to decide when to increase the capacity to over 60,000 units after studying when to introduce our next PHEV following the *Outlander PHEV*, when to introduce new energy vehicles in China and when to introduce a new-generation battery and other factors.

What do you think about the opportunities in the U.S., where your business is currently strong? Specifically, I would like to know about your mid-term outlook, including the introduction of PHEVs and the enhancement of small car lineup.

- In North America, SUVs account for a major portion of the market. We believe our opportunities lie in the continuous introduction of the SUVs, which are our strength.
- The *Outlander PHEV* is going to be introduced in the middle of next fiscal year. The reason for the slight delay from our original plan is that we want to equip the product with advanced safety functions at the beginning of the launch.
- In addition to the *Outlander* and the *RVR*, we are going to introduce a new small SUV in the North American market. We are preparing a PHEV version of this model as well.

- The *Mirage* is also doing well especially in acquiring customers who purchase a car for the first time, helping us grow the population of our cars. We would like to maintain the sales volume through further product improvement.

What are the reasons for the slight deterioration in profitability in Europe? Can I assume that your profitability will improve as you sell more *Outlander PHEV* in the 2nd half?

- The new MY16 *Outlander PHEV* had not been introduced in the 1st quarter and our profits and sales volume decreased. However, as we began shipment to the markets like the Netherlands and the U.K. in the 2nd and 3rd quarters, we expect that the situation will further improve in the 2nd half.
- Breakdown of our 1st-half operating income of 10 billion yen is: 1 billion yen in the 1st quarter and 9 billion yen in the 2nd quarter, showing a significant improvement. This momentum will continue into the 3rd quarter.
- Globally, we are on track against the initial shipment volume forecast of 45,000 units.

Costs on quality measures in market increased by 6.8 billion yen year-on-year for the 1st-half, and its full-year forecasts have increased by 12 billion yen over the previous fiscal year, resulting in a significant negative impact on profits. What is this? Is it a tentative factor?

- This is mainly reserves for recall-related expenses concerning the Takata airbags. We have incorporated this also in our 2nd-half earnings forecast.

I would like to know about the idea behind your new small SUV. Could this small SUV with a size between the *Outlander* and the *RVR* make the SUV lineup too crowded? Are you going to introduce them in different regions? Would there be any cannibalization between the three models?

- The new small SUV will be built on the *Outlander* platform and will be slightly smaller than the *Outlander* in length and width. Whereas the *Outlander* is a 7-seater, we are planning to make this new car as a 5-seater and one-size bigger than the current *RVR*.
- As for design, we are considering a stylish coupe style for this new small SUV, whereas the *Outlander* has a more SUV-like style.
- The next-generation *RVR* will be positioned as a low-price model in the B segment platform. We will differentiate the next-generation *RVR* from the others by equipping it with a smaller engine than those in the *Outlander* and the new small SUV.

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