

FY2015 Third Quarter Financial Results

Summary of Q&A Session in Part 2: Briefing for Analysts and Institutional Investors

- Time & Date: Wednesday, February 3, 2016, 16:45-17:45

Please tell us about the sales progress of the *Outlander PHEV* and the *Pajero Sport* against their annual sales forecasts. Has there been any change to the forecasts announced in October? Also, please tell us if there have been any changes in the status of orders and sales trend of the *Pajero Sport* since the introduction of the new tax scheme.

- As for the *Outlander PHEV*, there has been no change to the forecast of 42,000 units.
- Also for the *Pajero Sport*, there has been no change to the forecast of 81,000 units for the old and new models combined.
- The all-new *Pajero Sport* has received 25,000 orders since we started taking orders in August last year.
- We think there was some rush demand in December as excise tax was to be increased to 5% after the change of tax scheme in January.

You say that you will have consolidated the number of platforms to four in FY2020, but given the size of MMC with annual sales volume of about 1 million units, four platforms seem many. Other manufacturers of similar size do not have body-on-frame cars and mini cars, and therefore they have fewer platforms than MMC. What is your view on this?

- We think that, in 2024-2025, we will be able to have about four models which we can sell 200,000 units each.
- We produce quite a large volume of mini cars in cooperation with Nissan, and given that volume, our mini car platform is not excessive. In that sense, we do not think four platforms are too many.

You posted an extraordinary loss of 15 billion yen in this quarter as costs related to the closure of the U.S. plant. Is this all the costs? Are you going to post more loss in the next quarter? You previously told us that the termination of the U.S. production would have an upward effect of more than 10 billion yen. Has there been any change to this statement?

- We posted 15.3 billion yen in the 3rd quarter. Main items include compensation for the layoff we had in November.
- We are going to post some loss also in the 4th quarter of this fiscal year, the amount of which is expected to be about 3 billion yen.
- This means that we expect to post an extraordinary loss of about 18 billion yen in FY2015 as costs related to the closure of our U.S. plant.

- Production of finished vehicles ended in November last year, but production of parts will continue until around May this year. This means there will be some more costs related to layoff of these people, and a part of such costs will be posted in the next fiscal year.
- We have not changed our view on the upward effect on our operating income. We expect that in FY2016 we will see the effect of fixed cost reduction from the U.S. plant over the entire year, and this should result in an upward effect of about 10 billion yen.

When will you introduce PHEVs and EVs?

- We are proceeding with the development aiming at introducing EVs and PHEVs one year after the introduction of the base vehicles.

This time, you have reduced your capital expenditure forecast by 30 billion yen from 105 billion yen to 75 billion yen. What are the factors behind this revision?

- There are two major factors: a revision of the timing of additional investment in local production in the Philippines, and a deferral of land acquisition related to restructuring of our logistics base.

Will you have enough production capacity after introducing new models?

- Our intention is to allocate production volume so that it can be covered by our existing plants in Japan and overseas. Basically, the assumption is to produce the total volume within the capacity of our existing plants.
- Our plant in Indonesia is planned to have a production capacity of 160,000 units and can be scaled up further. Our plant in the Philippines can also be scaled up from 50,000 to 100,000 units. We will consider future allocation by taking account of these conditions.

What are the differentiating factors of your PHEVs and EVs? What are their competitive advantages?

- The three SUV models we presented this time have one thing in common, which is that they will all be developed with twin-motor 4WD system.
- Basically, both front and rear wheels are driven by motors, and therefore the car has no shift shock, has high start-up torque and is quiet and smooth. The advantage is that this is a 4WD system incorporating our EV technology as it is.

Your operating income for the first nine months of this fiscal year is over 80% of the full-year forecast. Please tell us the factors behind your forecast of lower operating income in the 4th quarter.

- One element of concern is an impact of economic slowdown in China. We have lowered our full-year wholesale volume forecast by 11,000 units, and half of this number comes from China. Economic conditions in emerging countries affected by the decline in crude oil prices may also have an impact on our earnings.

- Also, R&D expenses and indirect labor cost will be in a worse situation than in the same period of the previous year.
- Combined impact of raw material price and cost reduction is the only area where we expect to see some improvement, but taking all these factors into account, we concluded that the 4th quarter would be a very tough period and therefore decided to maintain the forecast which we had previously announced.

Please give us an update on your view on the Thai market in FY2015 and 2016.

- Total demand in FY2015 is estimated to be 720,000 units excluding trucks and busses. We expect that in FY2016 it will slightly decrease to about 700,000 units.
- Orders of the *Pajero Sport* decreased in January on the back of the surge in the preceding month, but this is a competitive product and we hope to increase its share.

End