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# **FY2016 First Quarter Financial Results**

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**Mitsubishi Motors Corporation**

**July 27, 2016**

We again express our deep apologies to all of our customers and all involved for the trouble caused by the improper conduct in fuel economy testing of vehicles manufactured by MMC. MMC also expresses its sincere apologies that this issue has damaged public's trust in the government's certification process for automobiles.

1

Mitsubishi Motors Corporation would like to express its deepest apologies again for the "improper conduct related to fuel economy data," which has caused major inconvenience to our customers and stakeholders and has fundamentally damaged public's trust in the government's automotive type approval system.

We at Mitsubishi Motors Corporation will sincerely make up for the inconvenience we caused many people and will strive for the prevention of recurrence with unwavering determination, so to never let such misconduct happen again.

## MMC Actions to Prevent Recurrence



- 1. Announcement on the investigation report by the Special Investigation Committee scheduled for August 2**
- 2. Establishment of to Structural Reform Office to promote prevention of recurrence (as of July 1)**
- 3. Based on the investigation results by the Special Investigation Committee, MMC will put all of its effort to build a corporate culture where all management and employees come together to never again to cause misconduct, through reforming the mindset of each and every one of us.**

2

After the revelation of the fuel economy data misconduct, we established a special investigation committee comprising independent external experts and have asked them to thoroughly investigate the issue to determine the cause and to put forward a proposal for recurrence prevention. As we notified you yesterday, the result of the investigation conducted by the special investigation committee will be announced by the representatives of the investigation committee and MMC's Chairman of the Board and President Masuko and Executive Vice President Yamashita in a press conference on August 2nd.

In the meantime, MMC has already started implementing its own recurrence prevention measures as we announced on June 17th.

On July 1st, we established the "Structural Reform Office" led by Executive Vice President Yamashita who joined MMC from Nissan. Details of the Office will be provided by Executive Vice President Yamashita in person in the press conference on August 2nd.

Taking account of the conclusion provided by the special investigation committee, the management and employees of MMC will work as one to change the mindset of everyone in the company and will spare no effort to create a corporate culture that will never let misconduct happen again.

## Compensation for Minicar Customers

✓ Customer compensation determined	June 17
✓ Opened a customer service hotline designated for customer compensation (70 staff)	July 12
✓ Sent out Direct Mail on payment details	July 12
✓ Start accepting applications via post mail	Early Aug
✓ Start accepting applications via special website	End Aug
✓ Start of payment	End Aug

3

As announced on June 17th, we are going to pay 100,000 yen to each of our mini car owners to compensate for the significant inconvenience they have been suffering, and we are in the process of preparation for the payment as you see here.

In order to expedite payment to the 157,161 customers who are eligible for compensation, we opened a dedicated call center on July 12th. Going forward, we are going to receive claim applications by mail or via dedicated website and will start payment in late August.

We are also in the process of preparation for payment of 30,000 yen to each of the owners of the five models of registered vehicles as announced on June 17th. We are going to notify them of the procedure by direct mailing in early August.

## Supplier Compensation



- ✓ **On July 1, Chairman and President Masuko held a briefing in Okayama with suppliers.**
- ✓ **Basic concepts for supplier compensation**
  1. **Loss from long-term inventory costs of parts and materials**
  2. **Labor expenses and downtime during long-term production halt**
  3. **Other losses incurred in individual circumstances**
    - ❖ **MMC has been in contact with suppliers regarding their particular situations and requests and MMC will handle each one earnestly and sincerely**
- ✓ **Placed 14 MMC manager-level employees responsible for procurement as contact personnel for suppliers**

4

With regard to the compensation for our suppliers, Chairman of the Board and President Masuko explained to the suppliers in person in Okayama on July 1st.

Our basic stance is to compensate the suppliers for their losses associated with parts that became long-term inventory and for extra labor cost they have incurred due to the long-term suspension of production. Having said that, we will handle each case sincerely by assessing the situation of each supplier.

In order to respond to the inconvenienced suppliers as quickly as possible, we have assigned fourteen purchasing managers as contact persons.

## Status at Dealers

- July 5: Resumption of sales (deliveries)
- Sales volume as of July 25:
  - eK Wagon: 743 units (84% year-on-year)
  - eK Space: 341 units (56% year-on-year)



5

With regard to the sales of mini cars, we resumed taking orders on July 1st and started sales (delivery) on July 5th.

Sales (registration) volume as of July 25th was: *eK Wagon*: 743 units (84% year-on-year) and *eK Space*: 341 units (56 % year-on-year).

On the other hand, we have received orders at a higher pace than in July last year. There are many customers who give us harsh comments but still support us, which makes us feel extremely grateful. I would like to express my deepest gratitude to them.

Having said that, it is not easy to regain our customers' confidence that was once lost. We are aware of and prepared for the difficult environment that will continue for some time. We at MMC will keep the attitude of "customer first" in our hearts once again and continue our most sincere efforts.

### Mizushima Plant

- July 4: Start of trial production
- July 14: Full-scale production
- July 22: Start of shipments
- Cumulative production volume as of July 26: 3,900 units
- Production Schedule
  - July: Approx. 5,000 units
  - Aug: Approx. 5,000 units
  - Sep: Approx. 10,000 units



6

In conjunction with the resumption of sales, we resumed our production. I would like to express my deepest apologies to our suppliers in Mizushima area, local citizens and the local governments in Okayama prefecture for the long period of inconvenience caused by the suspension of our mini car production lines.

With the enormous help of our suppliers and other parties concerned in Mizushima area, we had a trial production of mini cars on July 4th.

Since then, we have gradually increased the production volume while checking the facilities and equipment as well as the quality of the cars, and we resumed shipment on July 22nd.

As of yesterday, July 26th, we produced about 3,900 units cumulatively, and our plan is to produce 5,000 units each in July and August. Although it is subject to the sales situation, our plan is to produce approximately 10,000 units in September.

All the employees at Mizushima Plant will keep dedicating all their efforts to produce and deliver cars with robust quality.

## Capital Alliance with Nissan Motor



- Preparation for capital and business alliance with Nissan progressing as planned
  - <Upcoming schedule (as announced on May 25, 2016)>
  - 1) By August: Due diligence
  - 2) Around October: Payment through third party allotment
  
- Following synergies are under discussion:
  - 1) Engine, transmission, platform, and EV R&D
  - 2) Joint development of vehicles and parts
  - 3) Joint purchasing
  - 4) Effective utilization of production capacities
  - 5) Sales financing or after services

**NISSAN MOTOR CORPORATION**



7

With regard to the capital and business alliance with Nissan Motor Corporation which was announced on May 12th, preparation for the alliance is proceeding well. Due diligence will be completed by August, and after completing the procedures for licenses and permits required in different countries, payment through third-party allotment will be made around October as planned.

Through the capital and business alliance with Nissan, we will strive to drastically improve our product competitiveness and technological development capability and to demonstrate synergetic effects in a variety of areas, including purchasing, production, development and sales.

## FY2016 1Q Results Summary (vs. FY2015 1Q)



### No Change from Previous Forecasts (Announced on June 22)

(billion yen, thousand units)

	FY2015 1Q (Apr 2015- Jun 2015) Actual	FY2016 1Q (Apr 2016- Jun 2016) Actual	Increase/ Decrease		FY2016 (Apr 2016- Mar 2017) Forecasts
			Amount	%	
<b>Net Sales</b>	<b>500.5</b>	<b>428.7</b>	- 71.8	- 14%	<b>1,910.0</b>
<b>Operating Income</b> (Margin)	<b>18.6</b> (3.7%)	<b>4.6</b> (1.1%)	- 14.0	- 75%	<b>25.0</b> (1.3%)
<b>Ordinary Income</b> (Margin)	<b>24.1</b> (4.8%)	<b>4.4</b> (1.0%)	- 19.7	- 82%	<b>32.0</b> (1.7%)
<b>Net income attributable to owners of the Parent</b> (Margin)	<b>24.0</b> (4.8%)	<b>-129.7</b> (- 30.3%)	-153.7	-	<b>-145.0</b> (- 7.6%)
<b>Sales Volume</b> (Retail)	<b>262</b>	<b>221</b>	- 41	-16%	<b>962</b>

8

Our 1st quarter net sales were 428.7 billion yen, which is a decrease of 14% from the same period of the previous year.

Operating income was 4.6 billion yen or a decrease of 75% year-on-year.

Ordinary income was 4.4 billion yen, and quarterly net loss attributable to owners of the Parent was 129.7 billion yen.

We also posted 125.9 billion yen in the 1st quarter as an extraordinary loss associated with the improper conduct related to fuel economy data. Details of this number will be provided in the next page.

There is no change in the full-year forecast numbers announced on June 22<sup>nd</sup> and we will aim to achieve an operating income of 25 billion yen.

## Impact from improper conduct in fuel economy testing



### Loss from the improper conduct in fuel economy testing in FY2016

(billion yen)

Items	1Q Results	Full-year Forecasts	Remarks
Impact on Operating Income	- 6.4	- 55.0	Decrease in sales volume and sales of parts in Japan, free vehicle inspection, sales expenses in Japan, etc.
<b>Extraordinary Loss</b>	<b>- 125.9</b>	<b>- 150.0</b>	<b>Recorded 84% of the full-year forecast in 1Q</b>
Payments to Customers	(- 52.1)	(- 50.0)	
Customer service expenses other than those above	(- 12.7)	(- 15.0)	Customer service office establishment expenses , direct mail, and others
Sales-related expenses	(- 38.6)	(- 40.0)	Payments to Nissan and Nissan/MMC dealers, expenses for sales of inventories and others
Production and purchasing	(- 17.0)	(- 35.0)	Payments to suppliers, furlough expense and loss on fixed assets at the Mizushima Plant, and others
Other	(- 5.5)	(- 10.0)	Service campaigns and others
<b>Total</b>	<b>- 132.3</b>	<b>- 205.0</b>	

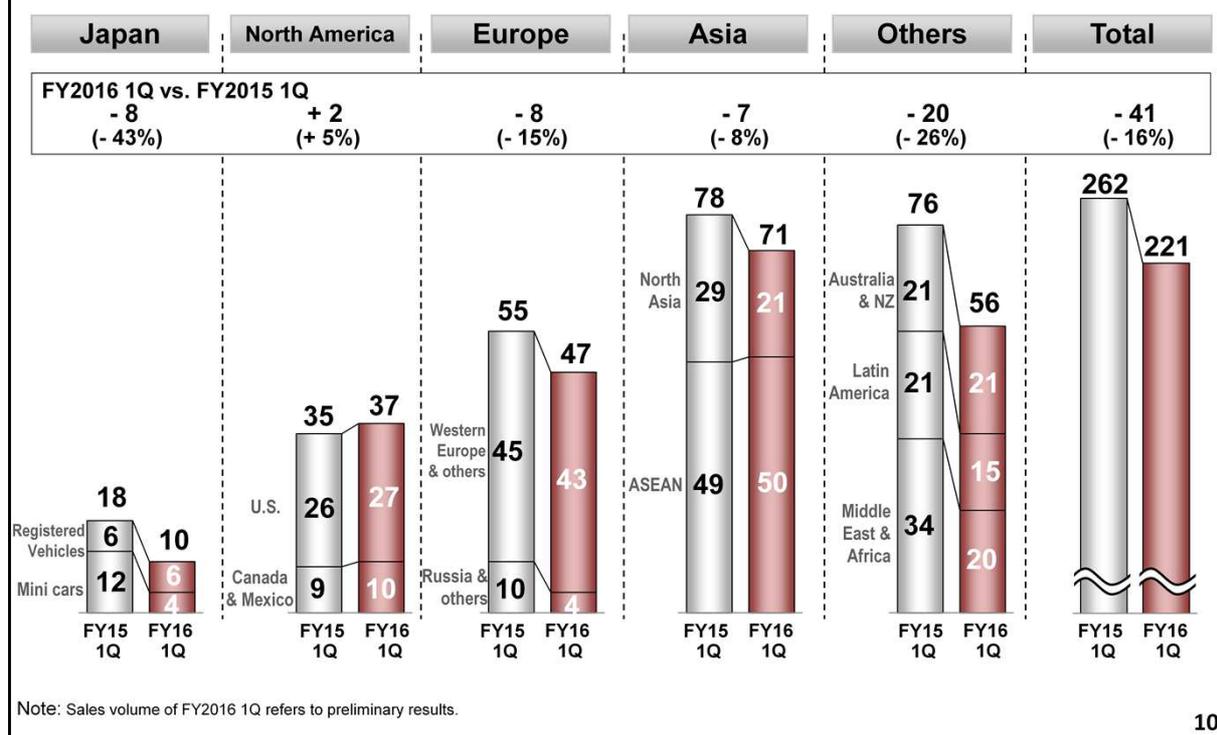
9

As an impact of the fuel economy data misconduct, we have estimated a full-year loss of 205 billion yen, which is a combination of operating and extraordinary losses. We posted as much extraordinary loss as possible in the 1st quarter, as far as we can reasonably estimate. The total negative impact on our profit, including operating income, in the 1st quarter, was 132.3 billion yen.

This number consists of 6.4 billion yen of operating loss and 125.9 billion yen of extraordinary loss. With regard to extraordinary loss, we posted 84% of the full-year forecast of extraordinary loss of 150 billion yen in the 1st quarter.

Breakdown of extraordinary loss is shown here. It includes 52.1 billion yen as payments to our customers, 12.7 billion yen as cost of customer call center, 38.6 billion yen as payments to Nissan Motor Corporation and dealers of both companies, 17 billion yen as production and purchasing cost including payments to suppliers, and 5.5 billion yen as cost of other service campaigns.

## FY2016 1Q Sales Volume Results by Region (Retail, vs. FY2015 1Q)



10

In Japan, sales volume of registered vehicles was at the same level year-on-year but that of mini-cars significantly decreased due to the impact of suspension of production and sales, resulting in an overall decrease of 8,000 units year-on-year.

In North America, sales volume increased by 2,000 units year-on-year, thanks to strong sales of the *Outlander* and other models.

In Europe, sales volume dropped in Russian market where the economic slump continues but the sales of the *Outlander* increased in Western Europe. As a result, decrease in overall regional sales volume in Europe was kept to 8,000 units year-on-year.

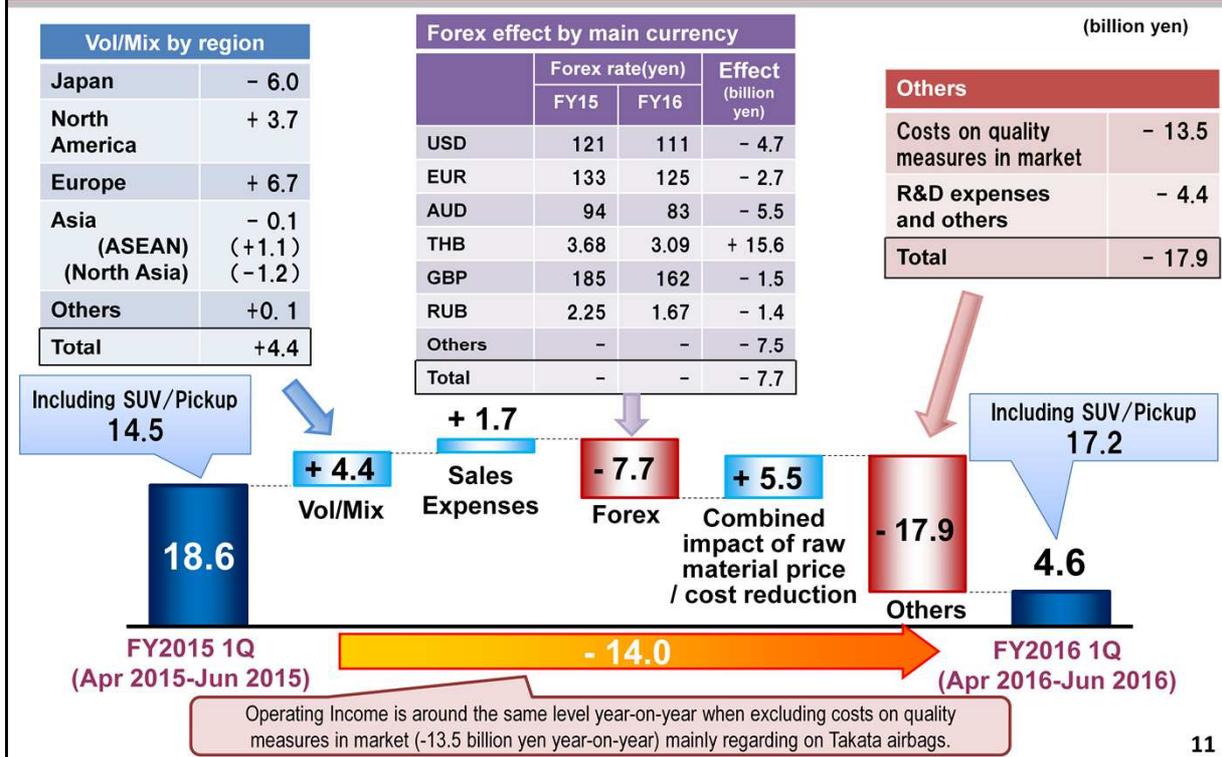
In Asia overall sales volume decreased by 7,000 units year-on-year. In ASEAN, sales volume increased by 1,000 units year-on-year, thanks to strong sales of the *Pajero Sport* in Indonesia and increased sales of the *Mirage/Attrage* in Thailand and the Philippines.

However in China, MMC did not have many models eligible for the compact car tax cut which started in October last year. As a result, regional sales volume in North Asia decreased by 8,000 units year-on-year, contributing to the overall decrease in the region.

As you see, our sales volume increased in North America and ASEAN but decreased in the other regions, resulting in a decreased global sales volume year-on-year.

Having said that, we are well on track towards our full-year retail sales volume forecast of 962,000 units announced on June 22nd, and we will keep working hard to achieve the number.

# Analysis of Increase/Decrease of Operating Income (vs. FY2015 1Q)



Operating income was 4.6 billion yen, which is a decrease of 14 billion yen from the same period of the previous year.

First, in the volume and model mix, operating income in Japan decreased by 6 billion yen due to suspension of production and sales in the wake of the improper conduct related to fuel economy data.

On the contrary, operating income in North America increased by 3.7 billion yen, thanks to increased wholesale volume of the *Outlander*. In Europe, operating income increased by 6.7 billion yen thanks to the contribution of the *Outlander PHEV* to profit improvement. Operating income also increased by 1.1 billion yen in ASEAN thanks to the strong sales of the *Pajero Sport*. In total, operating income increased by 4.4 billion yen in volume and model mix.

As for the forex effect, there was a global tendency toward strong yen. However, the exchange rate between yen and Baht, which is the currency of Thailand where we have the biggest production site outside Japan, moved favorably and helped us minimize the overall negative forex effect to 7.7 billion yen.

Operating income decreased by 17.9 billion yen in others, due to increased costs for quality measures in market where Takata airbags account for a majority.

As you see, we had negative factors on one hand, such as suspension of sales of mini cars in the domestic market, worsening of exchange rates and increased costs related to Takata airbags, but on the other hand, our SUVs including the *Outlander*, the *Outlander PHEV* and the *Pajero Sport* contributed to profit improvement in North America, Europe and ASEAN. As a result, our virtual operating income excluding the costs for quality measures in market stayed mostly at the same level as the previous year.

## FY2016 1Q Balance Sheet (vs. end of FY2015)



(billion yen)

	FY15 4Q (end of Mar. 2016) Actual	FY16 1Q (end of Jun. 2016) Actual	Increase/ Decrease
<b>Total assets</b>	<b>1,433.7</b>	<b>1,285.3</b>	<b>-148.4</b>
Cash and deposits	453.4	416.6	-36.8
<b>Total liabilities</b>	<b>748.3</b>	<b>764.6</b>	<b>+16.3</b>
Interest-bearing debt	27.1	39.5	+12.4
<b>Total noncurrent assets</b>	<b>685.4</b>	<b>520.7</b>	<b>-164.7</b>
Shareholders' Equity (Equity ratio)	671.1 (46.8%)	508.8 (39.6%)	-162.3 (-7.2%)
Net Cash	426.3	377.1	-49.2

12

Cash and deposits as of the end of the 1st quarter was 416.6 billion yen. Cash and deposits decreased by 36.8 billion yen from the end of the previous fiscal year due to decreased domestic sales following the improper conduct related to fuel economy data, but we have maintained the level of 400 billion yen.

This cash on hand will be used for the compensation payments to our customers, which will be implemented on a full scale after August, and to our suppliers.

# Appendix

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## FY2016 1Q Financial Results by Region (vs. FY2015 1Q)



(billion yen)

	FY2015 1Q (Apr 2015- Jun 2015)	FY2016 1Q (Apr 2016- Jun 2016)	Increase/Decrease	
			Amount	%
<b>Net Sales</b>	<b>500.5</b>	<b>428.7</b>	<b>- 71.8</b>	<b>-14%</b>
- Japan	79.0	45.7	- 33.3	- 42%
- North America	83.1	74.4	- 8.7	- 10%
- Europe	107.0	106.7	- 0.3	- 0%
- Asia	98.1	93.9	- 4.2	- 4%
- Others	133.3	108.0	- 25.3	- 19%
<b>Operating Income</b>	<b>18.6</b>	<b>4.6</b>	<b>- 14.0</b>	<b>-75%</b>
- Japan	- 7.3	- 13.1	- 5.8	-
- North America	3.3	3.5	+ 0.2	+ 6%
- Europe	0.7	- 4.7	- 5.4	-
- Asia	14.1	12.2	- 1.9	- 13%
- Others	7.8	6.7	- 1.1	- 14%

14

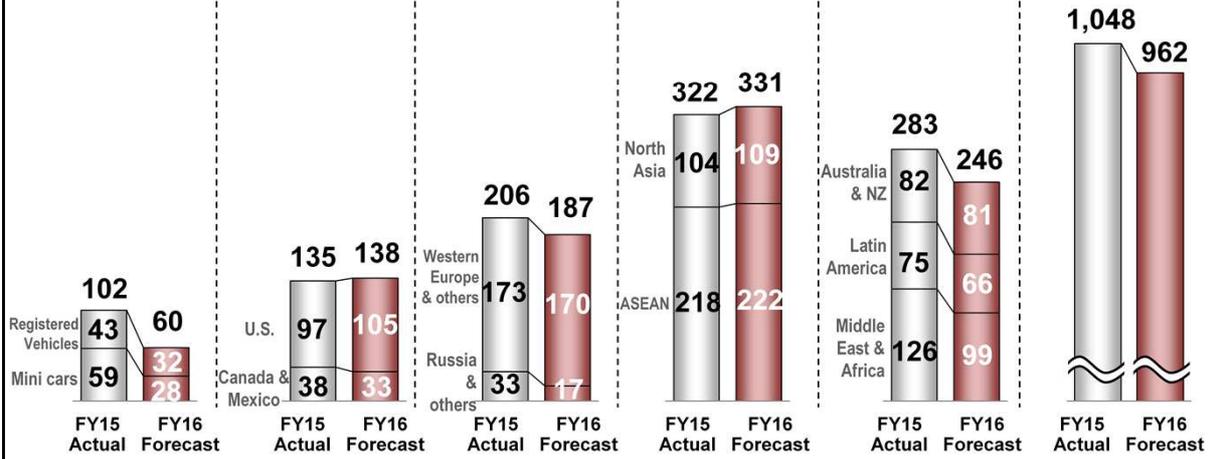
# FY2016 Sales Volume Forecasts by Region (Retail, vs. FY15 Actual)



## No Change from Previous Forecasts (Announced on June 22)

Japan	North America	Europe	Asia	Others	Total
FY16 vs. FY15 - 42 (- 41%)	+ 3 (+ 2%)	- 19 (- 9%)	+ 9 (+ 3%)	- 37 (- 13%)	- 86 (- 8%)

(thousand units)



## FY2016 Financial Forecasts by Region (vs. FY2015 Actual)



### No Change from Previous Forecasts (Announced on June 22) (billion yen)

	FY2015 Actual	FY2016 Forecasts	Increase/Decrease	
			Amount	%
<b>Net Sales</b>	<b>2,267.8</b>	<b>1,910.0</b>	<b>- 357.8</b>	<b>- 16%</b>
- Japan	412.9	250.0	- 162.9	- 39%
- North America	324.8	290.0	- 34.8	- 11%
- Europe	514.6	460.0	- 54.6	- 11%
- Asia	482.6	430.0	- 52.6	- 11%
- Others	532.9	480.0	- 52.9	- 10%
<b>Operating Income</b>	<b>138.4</b>	<b>25.0</b>	<b>- 113.4</b>	<b>-82%</b>
- Japan	-2.4	- 52.0	- 49.6	—
- North America	6.2	- 7.0	- 13.2	—
- Europe	22.1	3.0	- 19.1	- 86%
- Asia	74.9	48.0	- 26.9	- 36%
- Others	37.6	33.0	- 4.6	- 12%

## Capital expenditure / Depreciation / R&D expense



(billion yen)

	FY2015 1Q (Apr 2015-Jun 2015) Actual	FY2016 1Q (Apr 2016- Jun 2016) Actual	FY2016 (Apr 2016-Mar 2017) Forecasts
Capital expenditure (YoY)	9.9 (+13%)	8.8 (-11%)	80.0 (+16%)
Depreciation (YoY)	12.9 (+4%)	11.8 (-9%)	55.0 (+3%)
R&D expense (YoY)	18.2 (+11%)	20.0 (+10%)	97.0 (+23%)

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