FY2016 First Quarter Financial Results
Summary of Q&A Session in Part 1: Briefing for Analysts and Institutional Investors

■Time & Date: Wednesday, July 27, 2016, 17:05-17:50

Please tell me about your sales strategy in Europe. I expect that you will see a considerably more negative impact of exchange rates in the 2Q than in the 1Q. How are you going to make profit in such an environment? I would like to know your forex strategy going forward.

- Unfavorable exchange rates are a headache for us. We have increased sales volume and profit in Europe mainly driven by the *Outlander PHEV*. Our basic stance is to build on this trend.
- On the sales side, we increase prices within a reasonable range if exchange rates worsen. In the 1Q, we believe that we could minimize the negative impact of exchange rates by price increase.
- As we have previously explained, the *Outlander PHEV* has a relatively good profit margin and we will use it as leverage.
- A new move in the market is that the German government is going to introduce a subsidy system, which is positive news for us.
- On the other hand, subsidies have been reduced in markets like the Netherlands and the UK.
- We would like to continue our efforts in this market with the *Outlander PHEV*, by taking advantage of being an early entrant while carefully watching the moves of new entrants into the market.

How do you rate your 1Q financial results? How did they progress against the image that you originally had? With regard to the Takata airbags, is it correct to say that you have set aside provisions for the full amount of the cost of airbags without desiccant?

- As for the Takata airbags, we have set aside provisions for the full amount of the cost of inflators without desiccant. There are about 4 million affected vehicles, and the provisions for these vehicles were completely made in the previous and the current fiscal years.
- Our 1Q financial results were almost at the same level as those in the same period of the previous year, if we exclude the 13.5 billion yen cost of quality measures in market. However, we had not launched the new models in the same period of the previous year, and therefore we acknowledge that the baseline for comparison was low in the first place.
- As for mini cars in the domestic market, we are in a difficult situation in terms of sales volume, etc., after keeping our customers waiting. After the 2Q, we hope to increase sales volume while watching the movement of exchange rates.

- We are almost in line with the full-year forecast announced in June, but we think we need to work even harder.

With regard to increase/decrease in the 1Q operating income, you achieved an increase of 5.5 billion yen in the raw material price / cost reduction. This seems to be fast progress toward your annual target; what is behind this result? I expected that the effect of cost reduction would diminish together with the decline of sales volume in the wake of the fuel economy issue. Are you not concerned about it?

- In the 1Q, we had made some progress in unit price negotiations with suppliers before the fuel economy issue occurred. The increase in operating income is partly the effect of this cost reduction effort.
- Cost reduction activities are carried out not only at MMC standalone but also at our subsidiary in Thailand. Our Thai subsidiary made more progress in cost reduction than MMC standalone.
- We expect that the effect of cost reduction will slow down after the 2Q due to the fuel economy issue.
- The number looks good if you look only at the 1Q, but it will be tough after the 2Q. We hope to get as close to the target as possible on a full-year basis.

According to your original plan, R&D expense is going to increase by 20.0 billion yen in this fiscal year. Actual R&D spending in the 1Q was 20.0 billion yen, which is not much of an increase year-on-year. How are you going to increase R&D spending? Please explain how you are going to increase R&D spending in the second half and what you are going to use it for.

- We think we need to increase the level of R&D expense, and it is on the agenda.
- There is no change in our intention to increase R&D expense in comparison with our competitors, while promoting selection and concentration.
- Specifically, we will proceed with the development of strategic vehicles, such as new compact SUV, the next generation *Outlander* and the next generation mini cars. The progress of spending is 21%, but we will spend exactly as planned in and after the 2Q.
- Other than the above, we would like to evolve our 4WD and EV/PHEV technologies.
- We will also need to strengthen our capabilities in environmental performance, safety performance, autonomous driving and other areas where we must excel in the future.
- We would also like to reinforce our workforce in R&D, since our R&D organization does not look as robust as those of competitors in the automotive industry.
- These initiatives will be thoroughly followed up from a corporate perspective as well.

Please tell me the 1Q retail sales volume of the *Outlander PHEV*. I would also like to know its progress against full-year forecast.

- Retail sales volume of the *Outlander PHEV* is slightly behind the plan. Actual 1Q sales volume was a little less than 6,000 units, whereas our plan was 6,500 units.

- Our full-year forecast is a little over 35,000 units. We have not changed the full-year forecast with the intention to recover sales after the 2Q as much as possible.

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