FY2016 First Half Financial Results
Summary of Q&A Session in Part 2: Briefing for Analysts and Institutional Investors

■Time & Date: Friday, October 28, 2016, 16:45-17:45

Q: Please provide a definition and details of the synergy benefits. Is it correct to say that the synergy benefits of 25 billion and 40 billion yen are increases from the level of FY2016? You say that 40% of the 25 billion yen will come from purchasing; what other items will be there?

(Answer)

- About 40% of the 25 billion yen in the first year will come from purchasing, and other major items are reduction in logistics and development costs. These are improvements to be newly created in FY2017 and to recur after FY2018. You can consider them as benefits of improvements from FY2016 as a baseline.

Q: The slide says the impact of the fuel economy testing issue on your operating income is 40 billion yen for the full year and 17 billion yen for the 1st Half. Please provide a breakdown of these numbers by items.

(Answer)

- Of the impact of 17 billion yen for the 1st Half, about 11 billion yen comes from volume decrease, about 2 billion yen from sales expenses and about 4 billion yen from cost reduction.
- Of the impact of 40 billion yen for the full year, about 20 billion yen comes from volume decrease, about 6 billion yen from sales expenses, about 10 billion yen from cost reduction and the remaining 4 billion yen comes from other items.

Q: Please tell me your policy on cash. You have maintained a dividend of 10 yen; how should I assess your net cash going forward?

(Answer)

- In 2003, we had interest-bearing debt of nearly 1 trillion yen. It improved to net cash of 400 billion yen before the fuel economy testing issue, reflecting an improvement in our financial situation.
- Our primary point is how we allocate this cash to our growth strategy.
- It is important that, as we proceed with our alliance with Nissan, we properly identify the development areas where MMC takes the lead and allocate cash in those areas. We would like to properly clarify them in our next mid-term business plan to be formulated by May next year.

Q: What will be the status of increase/decrease in the costs on quality measures in market in the next fiscal year?

(Answer)

- All failure cases that are currently examined have been recognized in the 1st Half financial results, and we consider that we set aside reserves for all the costs where possible.

- It is hard to give you a specific amount of cost on quality measures in market in the next fiscal year, but we believe it will decrease in absolute value.

Q: Please provide your target BS as of the end of March 2017.

(Answer)

- Net asset at the end of March 2016 was 670 billion yen, but it decreased to 410 billion yen at the end of September, affected by the fuel economy data issue. With the equity investment from Nissan in the 2nd Half, we foresee that our equity ratio will return to its original level. That is, our understanding is that our equity ratio at the end of March 2017 will return to the level at the end of March 2016.
- We think that we will be able to maintain our cash and deposits at a level over 400 billion yen.
- As for the fuel economy data issue, we will allocate our cash and borrowings to properly repay by the end of March. We are considering borrowing about 80 billion yen, but we foresee that this will also be repaid by March and we will return to the borrowing level at the end of the previous fiscal year.

Q: Please provide the 1st Half results and full-year forecasts concerning the *Outlander PHEV*. Also, please provide the sales status by region and sales measures going forward.

(Answer)

- Global sales volume of the *Outlander PHEV* in FY2015 was about 42, 000 units. Of that number, 12,000 units were from Japan and a little under 30,000 units were from Europe.
- Our forecast for FY2016 is 27,000 units, which is a decrease of 15,000 units from the previous year. By region, sales volume in Japan is forecast at about 3,000 units, down by 9,000 units from the previous year, due to such reasons as the fuel economy data issue. Outside Japan, we forecast that the volume will decrease by 6,000 units in total.
- The Netherlands had a good result last year, but we forecast that the volume will decrease by 5,000 units from the previous fiscal year partly due to reduction in subsidies as a result of tax system change. Volume in the UK is also expected to slightly decrease due to the same issue.
- On the other hand, we expect that the volume in Norway will be nearly 6,000 units this fiscal year, up from 3,000 units last year.
- In Japan, we introduced the EV Drive Station and have a plan to open similar showrooms in 200 locations. We would like to recover the sales of the *Outlander PHEV* through such steady PR activities.

Q: Do you think that the company is in a situation requiring major restructuring like the Nissan Revival Plan including closure of plants?

(Answer)

- After the financial crisis in 2004, MMC carried out measures, such as closure of our plants in Bloomington, US, Australia and the Netherlands, to rectify our excessive-supply structure.
- As we already took considerable measures to rectify the excessive supply mainly outside Japan,

we do not believe that we need the same type of improvement measures as Nissan's at this moment.

Q: Is there a need to reorganize your factories and dealers in Japan?

(Answer)

- At this point of time, we do not see any need to reorganize our domestic business operations. Having said that, we think we will need to take certain measures in the future as the domestic market — not only this company but also the industry as a whole — is on a declining trend in the mid to long run.

Q: What will your depreciation cost and personnel cost look like after the next fiscal year?

(Answer)

- We think our depreciation cost will decrease by 3 billion yen per year as we posted an impairment loss of Mizushima Plant.
- It is hard to comment on our personnel cost at this moment as we are formulating our mid-term business plan. We think it will be flat or an increase.

End