Third Quarter 2016 Financial Results Announcement

2nd Session: Presentation to Analysts and Institutional Investors – A Summary of Q&A

■Date and time: January 31, 2017 (Tue) 19:30 - 20:20

Q: I'd like you to explain the movements in the cost of the full-year plan. You said that the cost reduction was a factor contributing to the 19.1 billion yen increase in profit. This is a significant improvement from the original plan. Would you explain about improvements and its breakdown? Have the synergy gains with Nissan begun to materialize?

(Answer)

- Let me explain the "Analysis of Movements in 2nd Half Operating Profit" on page 11. The improvements, except for the foreign exchange impact, amounted to 16.9 billion yen, of which 7.1 billion yen was from the cost reduction.
- This is not that we simply tried to reduce cost. MMC has three factories in Japan and one in Thailand. We were keeping the balance between production and sales in mind to establish a mechanism in which we would be able to share P&L data internally on a monthly basis in a timely manner and this has largely contributed to the cost improvement.
- We have been implementing a mechanism since November in which COO and 4Cs" meet and discuss at the monthly PDCA meeting to understand and verify P&L and costs speedily while monitoring exchange rate movements.
- For example, in the US, we have been discussing effective ways to balance sales and incentives and reducing costs based on an accurate understanding of the current status.
- In purchasing, we have benchmarked Nissan and reflected the benchmarking results in the negotiation with suppliers. We also learned Nissan's way in promoting the VE activity.
- We ask for your understanding that what we have been doing is not highly urgent development cost reduction as we have done before, but cost reduction in a forward-looking manner.

Q: How should we see sales volumes in the next year and the year after next? Do you think we will be able to launch a new compact MPV model in Indonesia and a global compact SUV model as planned? No change in the timing of launch?

(Answer)

- Regarding the models already announced, we are working on the development of models to be launched in FY2017 as scheduled.
- Key new vehicle models released in FY2016 include a new model year *eK Wagon* which has been on the market since December in Japan and a new model year *Outlander PHEV* due to be released on February 9.
- In FY2017, we are planning to start selling a new compact SUV model in Europe in October.
- We will also release a compact MPV model in Indonesia in September and plan to start the operation of the local plant in April for the release of this model.
- The new mini-car model will be released sometime in FY2018 and we are pushing ahead with the plan, as

scheduled.

Q: In the fourth quarter, sales expenses are planned to increase. Would you explain the background to this increase? Also, is it correct to understand that your baseline profit power as far as the current fiscal year is concerned is 75.0 billion yen after 32.1 billion yen for the recall cost and 40.0 billion yen for the improper fuel economy issue are added back?

(Answer)

- If you compare 3Q to 4Q, sales expenses are planned to increase by 2.4 billion yen.
- The most of the increase is in Japan. As I have just explained, we leverage the launch of new model year cars starting in 4Q to increase sales while spending sales expenses effectively.
- In terms of profitability, except from synergy gains, we expect to make slightly over 30.0 billion yen in the second half of this fiscal year. If the exchange rates remain at a certain level, you can assume that 60.0 billion yen plus α is our baseline profit.
- At this point, our operating margin is 3% in the second half and 4% in the fourth quarter alone. With synergy gains, we hope to further increase this rate in the next fiscal year.

Q: Would you tell us about the status of shipment of "Outlander PHEV"?

(Answer)

- Whereas the wholesales volume for the 9-month period to the third quarter of FY2015 was 33,000 units, the wholesales volume for this period was 17,700 units.

Q: Regarding the balance sheet, you said the cash and deposits at the end of the fiscal year would be 500.0 billion yen. However, the payment arising from the improper fuel economy testing issue will peak in the fourth quarter. With this payment, do you think you will put an end to the series of payments, or do you expect any further payment to occur in the next fiscal year? Please also explain why interest-bearing debt increased, as well as your outlook for it.

(Answer)

- We have made cash flow arrangements with a view to completing the payment for the fuel economy issue by the end of March wherever possible and, therefore, you can consider that this decrease represents the payment for the improper fuel economy testing issue.
- Regarding interest-bearing debt, although it is possible to use cash to make payment for the improper fuel economy testing issue, we thought we should distinguish the funds used for these payments from the other funds and borrowed money from banks. We plan to repay the debt in full by the end of March.
- Starting in the next fiscal year, the borrowings by the plant in Indonesia will be included in MMC's consolidated accounts. With these borrowings, we still have substantial cash and deposits. We will therefore consider carefully how we should utilize these funds effectively.

End of minutes