

FYE 2017 Q1 Analyst Conference Call Q&A

August 3, 2016
Fuji Heavy Industries Ltd.

Q : Please give us your appraisal of the results for the first quarter.

A : In the first quarter income decreased by ¥32.7 billion year-on-year, and out of this, a factor in the decrease in income was the recall-related reserve for airbags of ¥25.6 billion (recall-related reserves for airbags: ¥4.9 billion for the previous year, ¥30.5 billion for this year), and another factor in the decrease in income was foreign exchange, of ¥29.2 billion yen. Considering performance excluding temporary recall-related expenses and currency, our appraisal was that our main business was operating favorably for the first quarter.

Q : In the announcement at the beginning of the fiscal year, the plan was that ¥30 billion in recall expenses for airbags would be reserved each year from this fiscal year and then after three years the cumulative total would be ¥90 billion, so please explain to us about the changes this time, including the background situation.

A : As of the point of the announcement of financial results on May 12, in North America there was a directive from the authorities and the recall notification was highly accurate, however, for Japan and other markets the forecast was not clear, so the calculation were done on a trial basis. Then, in late May, the Ministry of Land, Infrastructure and Transport announced the schedule related to the Japanese market, and the number in the reexamination in this instance were obtained as a result of the recall notification and re-trial calculation of expenses based on that.

Q : In variance analysis of operating income for the first quarter, the sales structural difference for overseas was stated at ¥26.4 billion yen plus. Will you give us a breakdown of that?

A : The main factor is that the sales units increased centering on highly-profitable models such as the Legacy, Levorg, and WRX.

Q : Please give us current update and appraisal of the launch of increased production of the Outback at SIA in the U.S.

A : As scheduled, the consignment production for the Camry was completed at late May, and full-scale production of Outback started in July, after the holidays. As a whole, the project is proceeding fairly steadily as per schedule.

Q : While the recent currency market is heading in the direction of yen-appreciation and has become risky, where is the opportunity to offset this sort of things?

A : Currency in the second quarter and afterward is a risk factor, however, and it's hard to project as of the current point, so currency for the second half of the FY remained at 105 yen, as announced at the term-beginning. At present, sales for the Company are

determined by unit production, however, since there is limited room for increasing production, there is limited projection of eliminating the negative impact of currency by increasing production. There is no magic wand for recovery from the downward trend due to the impact of currency, and we will strive for a positive impact in all activities, including a solid production increase in units of 100 vehicles, and cost cutting.

Q : Please give us the recall expenses related to steering for the Legacy and Outback that occurred in the United States in May, and the impact on shipping.

A : Although production was delayed, since this was covered by other models, there has not been a huge impact on unit wholesale and there was almost no impact on financial results. Delay of production cannot be recouped in the first half, however, it is planned to be accomplished during the year.

Q : It seems that the pace slowed for units registered in Japan in July, so can you tell us about the factors in this?

A : Unit registration is now affected by unit supply, which is determined by production restriction, and if you just look at the number of actual registration, you may not see strength, however, orders have come in steadily.

Q : In the long-term perspective, at the time when the present supply restriction is finished, where are some areas in which sales can be expanded other than in the United States?

A : At present in many markets in addition to the United States, supply is insufficient. We consider there to be potential for sales expansion in many markets, such as Japan, Canada, Australia, Northern Europe, Asia, Israel, Central and South America.

Q : In this revised plan, the payout ratio is already almost at the limit of the range, approx. 40%. Should the yen appreciation progress further and an even further decrease in income occur, is there any risk of a dividend decrease? While net cash has accumulated, is there any chance of reconsidering the 20 to 40% payout ratio? Please explain the approach to the capital policy.

A : We do recognize that the payout ratio is almost at the upper limit of the range, 39.4%, as a result of the downward revision of final profits, but we would prefer not to answer hypothetical questions. If such a thing were to occur at the point of a future announcement, we would like to make the necessary comment at that time.

Q : For Subaru, the unit cost of recall expenses for airbags is higher than other companies. Are there any specific factors in this?

A : The Subaru airbags subject to recall are not driver side but passenger side, and for passenger side, the volume of powder is greater, and unit cost of the inflator itself is more expensive. In addition, for passenger side, more operational man-hours are also required to replace the parts, so the labor cost is also higher. These are the fundamental factors in the expenses for passenger side being higher than driver side. Although we are

considering methods of decreasing labor costs to the extent possible, it's necessary to consider the safety aspect as well because powder is handled, so considerable man-hours are required and this is one of the reasons for the higher expenses.

Q : Will you give us updated information about the period and method of the stock buyback that was announced in May?

A : We are afraid we can't comment in detail on the method today but we will carry out that by September 30.

Q : The forecasts for operating income for the second quarter and the first quarter are almost flat compared over three months. Will you tell us what the background to it is?

A : As for operating income for the first quarter, ¥101.5 billion, the forecast is ¥102.5 billion for the second quarter, so it's almost even. There will be impact from an increase in income due to a rise of sales units and elimination of airbag recall expenses, however, there will be also the impact of currency fluctuations (yen appreciation), increase of selling and administrative expenses, depreciation expenses and R&D expenses, so as a whole the forecast is almost flat.

Q : The aerospace business for the first quarter recorded a decrease in revenue at ¥600 million yen year-on-year, and ¥2.7 billion decrease in operating income. There is an impression that the range of decrease in operating income is quite large considering sales. What are the factors in this?

A : The largest factor is the impact of currency. Beyond this, there are such factors as the change in prices, and it is true that the decrease in income is greater than the decrease in sales. However, this was projected at the beginning of the fiscal year, and it's not a matter of any new negative factors arising with regard to the forecast for the full fiscal year.