Summary of Q&A in Teleconference on Financial Results for Nine Months of FYE2017

February 8, 2017

Fuji Heavy Industries Ltd.

Q ：Regarding quality-related expenses. What proportion of this fiscal year's expenses are temporary expenses? What are your forecasts for next fiscal year?

A ：While it is a fact that quality-related expenses in this revised Full Year Plan have increased relative to plan as at the 2Q Results Announcement, this does not mean that all the claim costs of the 9.4 billion yen increase on last year's plan represents an increase in actual quality expenses. Of that total, 7.4 billion yen is the impact of a revision due to a weaker yen exchange rate for overseas quality expenses which have already been expensed. The remainder includes additional expenses related to priority customer measures, such as for supply of rental cars. The recall expenses should all be temporary expenses, and will be carefully monitored. Of the forecasts, those with a high degree of certainty are airbag-related expenses which will be 10 billion yen next fiscal year compared with 60 billion yen this year.

Q ：About incentives. What is the background to this year's increase?

A ：At the time of the 2Q Financial Results announcement, we were assuming that interest rates on sales finance procurement would also be stable in the second half. However in the three months of 3Q, interest rates have risen, and under the assumption that they will rise further in the 4Q, we have reviewed these calculations. The main factor in the increase in incentives is not the cash incentives due to stiff sales competition, or the improvements in additional financial programs, but rather the increased costs required to continue existing loans and lease programs due to the rising interest rates.

For the future, while closely observing trends in other brand programs and market conditions as interest rates rise, we will make decisions about providing loans and lease programs that are appropriately competitive.

Q ：The status of domestic Impreza sales and order backlog in the three months since its release.

A ：The new model Impreza is selling well. In approximately five months from the start of pre-orders in September through January, we received 24,400 orders, slightly fewer than 5,000 cars per month on average. Compared to the old model, the rate of customers switching from other brands is high, and this trend has become even more pronounced since the introduction of the 1.6L model. The number of customers who had never driven a Subaru before has increased. Relative to the sales base of about 10,000 registered vehicles monthly, or slightly more than 120,000 units annually, we have an order backlog of about 3 months. We ask the customer to wait two and a half months, plus alpha, from time of order to delivery, and we are working to reduce the lead time further.

Q ：What is the number of inventory days in the U.S. at the end of January, and what is your assessment of that?

A ：As at the end of January the inventory for all models was at the 37-38 day level. However there is some variation according to model, and for the Legacy the inventory has increased to 70 days, or more than 2 months. This is evidence of extremely harsh competition in D segment passenger cars. Our intention is to adjust production for a short time to reduce the current 70 inventory days to under the 2 month level, rather than forcibly trying to increase sales in this segment. For models other than the Legacy, inventory days are around the 1 month level, while for the Forester, it is under the 1 month. If we can adjust the Legacy inventory to an appropriate level we believe we can continue appropriate sales in the future while keeping inventory at the 1 - 1.2 month level.

Q ：Impreza sales in the U.S.

A ：While deliveries of the new model Impreza started in the U.S. around December, full-scale introduction activity with commercials etc is scheduled to start from February. Therefore we recognize that real evaluation of its capabilities will start now. Impreza sales in January were 5,105 units, up 17% on last year and up 2% on plan. It is going extremely well. Also we have no concerns about sales in February and subsequent months; there has been an excellent response.

Q ：Status of sales in regions other than the U.S.

A ：In regions other than the U.S. and Japan, business is particularly good in Australia and Canada. These two countries are both markets where we have achieved a certain number of sales, and sales are growing. Local inquiries are also strong. On the other hand, China is somewhat difficult, and in Russia we have not yet seen the light at the end of the tunnel.

Q ：Can the Outback and Impreza compensate for reduced production due to the Legacy inventory adjustments? Will SIA's operating rate fall or will there be no change in overall numbers?

A ：The reduction in Legacy production will be transferred to the Outback and Impreza, and while overall this will go some way to compensating for the decline in production, we will closely monitor whether it can completely cancel it out. While we will not force an unreasonable level of production in order to maintain the plant's operating rate and increase the inventory circulating in the market, the SIA’s operating rate will probably exceed the 100% level even so.

Q ：How much are the incentives for the 3Q and 4Q, respectively? Other makers have seen a decline in second-hand car prices, mainly for sedans. Is this the same for Subaru?

A ：The incentives offered per vehicle were 1,700 dollars for the three months in 3Q, and are expected to be 1,650 dollars for the 3 months of 4Q, making 1,650 dollars for the

second-half. With a first-half incentive of 1,200 dollars, the full-year incentive will be 1,450 dollars.
There have been no reports of major changes in the residual value of second-hand cars, and so no alarms have been raised. We do recognize that there is strong price competition in the market and downward pressure on residual values.

Q ：Regarding prices of raw materials. At the end of 3Q the effect of market prices were lower in the U.S. and higher in Japan, so what will be the forecast for next FY assuming the current trend continues?

A ：Our analysis indicates that increases due to raw material prices do not appear to have affected SIA as much as Fuji Heavy Industries, while lower prices for steel and aluminum have impacted both companies in the same way.
There was no positive effect for SIA, due to the inclusion of additional costs that have occurred due to improved production capacity and addition of new models.
The cost reductions have worsened by 2 billion yen approximately compared to the previous plan, with the primary factor being the soaring prices of coking coal between 2Q through 3Q. The coal price however peaked around the end of November into December, so we do not expect further bad impact. Since we cannot predict future market pricing, figures for next year and beyond are totally unknown.

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