

Consolidated Financial Results

For the Second Quarter of the Fiscal Year Ending March 31, 2017 (Japan GAAP)



November 2, 2016

Company Name : **Fuji Heavy Industries Ltd.** (Tokyo Stock Exchange First Section, Code No.7270)
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 Scheduled date of submitting Quarterly Report : November 9, 2016
 Scheduled date for dividend payment : December 1, 2016
 Quarterly earnings supplementary explanatory documents : Yes
 Holding of quarterly financial results meeting : Yes(for investment analysts and institutional investors)

(All amounts have been rounded off to the nearest million yen, unless otherwise specified)

1. Consolidated Results for the Second Quarter of Fiscal Year 2017 (April 1, 2016 to September 30, 2016)

(1) Consolidated Results of Operations (for six-month period)

(In Japanese yen rounded to million, except for per share figures, percentage figures indicate a change from the previous fiscal year / period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
2nd Quarter of FY2017	1,577,652	(1.5)%	208,525	(26.9)%	227,772	(20.1)%	163,837	(15.2)%
2nd Quarter of FY2016	1,601,475	22.2%	285,097	53.6%	285,022	62.0%	193,204	70.9%

Note: Comprehensive income 2nd Quarter of FY2017: 121,133 million yen (Minus36.5%) 2nd Quarter of FY2016: 190,654 million yen (41.0%)

	Net income per share, basic (Yen)	Net income per share, diluted (Yen)
2nd Quarter of FY2017	211.00	—
2nd Quarter of FY2016	247.58	—

(2) Consolidated Financial Position (Unit: Millions of yen, except for per share figures)

	Total assets	Net assets	Shareholders' equity to total assets (%)
2nd Quarter of FY2017	2,560,049	1,361,577	53.0%
FY2016	2,592,410	1,349,411	51.8%

Reference: Shareholders' equity As of September 30, 2016: 1,356,059 million yen As of March 31, 2016: 1,343,732 million yen

2. Dividends

	Cash dividends per share (yen)				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Annual
FY 2016	—	72.00	—	72.00	144.00
FY 2017	—	72.00			
FY 2017 (Forecast)			—	72.00	144.00

Note: Revision of the forecasts in the first quarter of the fiscal year ending March 31, 2017: No

3. Projection of Consolidated Results for Fiscal Year 2017 (April 1, 2016 to March 31, 2017)

(In Japanese yen rounded to million, except for per share figures, percentage figures indicate a change from the previous fiscal year / period)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share, basic (Yen)	
Full year	3,180,000	(1.6)	373,000	(34.1)	397,000	(31.2)	278,000	(36.3)	359.94	

Note: Revision of the forecasts at the timing of announcement of the results of Second quarter of the fiscal year ending March 31, 2017: Yes

4. Others

- (1) Changes of significant subsidiaries in the second quarter of fiscal year 2017 : No
- (2) Application of specific accounting for preparing the quarterly consolidated financial statements : Yes
- (3) Changes in accounting policies, procedures and methods of presentation for preparing the quarterly consolidated financial statements
- [1] Changes due to revisions of accounting standards : Yes
- [2] Changes due to other reasons : No
- [3] Changes of estimation due to accounting issues : No
- [4] Restatements : No

(4) Number of outstanding shares (Common Stock)

- [1] Number of outstanding shares (including treasury stock) As of September 30, 2016: 769,175,873 shares As of March 31, 2016: 782,865,873 shares
- [2] Number of treasury stock As of September 30, 2016: 2,488,907 shares As of March 31, 2016: 2,487,843 shares
- [3] Average number of shares (for six-month period) 2nd Quarter of FY2017: 776,466,176 shares 2nd Quarter of FY2016: 780,381,283 shares

*The status of the implementation of the second quarterly review

The second quarterly review is now conducted on the basis of the Financial Instruments and Exchange Act on the date for the release of this quarterly report.

*Proper use of projection of operating results, and other information

The above performance projections were made based on the information available as of the date when this document was released. Therefore, actual results may differ considerably due to various factors that might occur in the future.

For assumptions and other information on which the performance projections were based, please refer to "(3) Explanation about Future Forecasts such as Projections for the Current Fiscal Year" on page 5.

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1. Qualitative Information on Quarterly Financial Results

(1) Explanation about Operating Performance

Consolidated net sales for the second quarter of the current fiscal year decreased ¥23.8 billion (1.5%) from the same period of the previous fiscal year to ¥1,577.7 billion mainly due to a decrease in sales revenues owing to foreign exchange rate fluctuations despite higher automobile unit sales.

Regarding the profit, operating income decreased ¥76.6 billion (26.9%) from the same period of the previous fiscal year to ¥208.5 billion, as the effect of foreign exchange rate fluctuations, despite higher automobile unit sales and progress with reduction in costs absorbing increases in miscellaneous expenditure, mainly for quality-related expenses attributable to airbag inflators, and R&D expenses. Ordinary income decreased ¥57.3 billion (20.1%) from the same period of the previous fiscal year to ¥227.8 billion. Net income attributable to owners of the parent decreased ¥29.4 billion (15.2%) from the same period of the previous fiscal year to ¥163.8 billion.

(In Japanese yen in million except for profit ratio and percentage change from the previous period)

	Net Sales	Operating Income	Ordinary Income	Quarterly Net Income Attributable to Owners of the Parent	Foreign Exchange Rate
2 nd Quarter of FYE 2017 Profit Margin	1,577,652	208,525 13.2%	227,772 14.4%	163,837 10.4%	¥107/US\$ ¥120/EUR
2 nd Quarter of FYE 2016 Profit Margin	1,601,475	285,097 17.8%	285,022 17.8%	193,204 12.1%	¥122/US\$ ¥135/EUR
Change	(23,823)	(76,572)	(57,250)	(29,367)	
Percentage change	(1.5)%	(26.9)%	(20.1)%	(15.2)%	

[Results by Business Segment]

Results for the current consolidated second quarter period by business segment are as described below.

(In Japanese yen in million and percentage change from the previous period)

	Net Sales				Segment Income (loss)			
	2 nd Quarter of FYE 2016	2 nd Quarter of FYE 2017	Change	Percentage change	2 nd Quarter of FYE 2016	2 nd Quarter of FYE 2017	Change	Percentage change
Automobile Div.	1,505,721	1,492,380	(13,341)	(0.9)%	273,170	203,296	(69,874)	(25.6)%
Aerospace Div.	73,485	66,766	(6,719)	(9.1)%	9,647	3,599	(6,048)	(62.7)%
Ind. Prod. Div.	18,490	14,635	(3,855)	(20.8)%	607	(293)	(900)	—
Other	3,779	3,871	92	2.4%	1,348	1,470	122	9.1%
Adjustment	—	—	—	—	325	453	128	39.4%
Total	1,601,475	1,577,652	23,823	(1.5)%	285,097	208,525	(76,572)	(26.9)%

Notes: 1. Net sales are sales to outside customers.

2. Adjustment to segment income (loss) refers to elimination of intersegment transactions.

[1] Automobile Division

Regarding registered cars in Japan, unit sales increased 3 thousand units (5.3%) compared with the same period of the previous fiscal year to 52 thousand units as a result of strong sales of the Forester and other models, despite a decrease in sales of Levorg. On the other hand, unit sales of minicars decreased 1 thousand units (6.8%) compared with the same period of the previous fiscal year to 16 thousand units due to the effect of higher taxes on minicars since the previous year and other factors. As a result of these factors, total unit sales in Japan increased 2 thousand units (2.3%) compared with the same period of the previous fiscal year to 68 thousand units.

Overseas total unit sales increased 38 thousand units (9.4%) compared with the same period of the previous fiscal year to 444 thousand units mainly due to favorable conditions surrounding sales of the Outback and other models in North America, the key market of FHI.

By region, sales in North America increased 39 thousand units (12.2%) from the same period of the previous fiscal year to 355 thousand units, sales in Europe including Russia decreased 1 thousand units (3.9%) from the same period of the previous fiscal year to 22 thousand units, sales in Australia decreased 1 thousand units (2.5%) from the same period of the previous fiscal year to 22 thousand units, sales in China increased 1 thousand units (6.2%) from the same period of the previous fiscal year to 22 thousand units, and sales in other regions remained the same compared with the same period of the previous fiscal year at 22 thousand units.

As a result, combined unit sales in Japan and overseas markets amounted to 512 thousand units, an increase of 40 thousand units (8.4%) from the same period of the previous fiscal year and a record high for the consolidated cumulative second quarter. Despite this increase, overall net sales decreased ¥13.3 billion (0.9%) from the same period of the previous fiscal year to ¥1,492.4 billion owing to foreign exchange rate fluctuations. Segment income, affected also by currency fluctuations and increases in miscellaneous expenditure, mainly for quality-related expenses attributable to airbag inflators, and R&D expenses, decreased ¥69.9 billion (25.6%) from the same period of the previous fiscal year to ¥203.3 billion.

Consolidated unit sales in the second quarter of the current fiscal year are shown in the table below.

(Units in thousands and percentage change from the previous period)

	2 nd Quarter of FYE 2016	2 nd Quarter of FYE 2017	Change	Percentage change
Total in Japan	67	68	2	2.3%
Registered cars	50	52	3	5.3%
Minicars	17	16	(1)	(6.8)%
Total overseas	406	444	38	9.4%
North America	317	355	39	12.2%
Russia/Europe	23	22	(1)	(3.9)%
Australia	23	22	(1)	(2.5)%
China	20	22	1	6.2%
Other regions	22	22	(0)	(0.8)%
Grand total	472	512	40	8.4%

[2] Aerospace Division

Deliveries to the Japan Ministry of Defense saw sales decline compared with the level of the same period of the previous fiscal year mainly with a decrease in helicopter production.

Sales to the commercial sector fell compared with the same period of the previous fiscal year owing to effects from foreign exchange rate fluctuations despite an increase in production of Boeing 787 aircraft.

As a result, overall net sales decreased ¥6.7 billion (9.1%) compared with the same period of the previous fiscal year to ¥66.8 billion. Segment income decreased ¥6.0 billion (62.7%) compared with the same period of the previous fiscal year to ¥3.6 billion.

[3] Industrial Products Division

Net sales decreased ¥3.9 billion (20.8%) compared with the same period of the previous fiscal year to ¥14.6 billion with a decrease in sales of engines for leisure vehicles to North America. Segment loss increased ¥0.9 billion compared with the same period of the previous fiscal year, generating a loss of ¥0.3 billion.

[4] Other Businesses

Net sales increased ¥0.1 billion (2.4%) compared with the same period of the previous fiscal year to ¥3.9 billion. Segment income also increased ¥0.1 billion (9.1%) compared with the same period of the previous fiscal year to ¥1.5 billion.

(2) Explanation about Financial Position

[1] Assets, Liabilities, and Net Assets

Total assets at the end of the second quarter of the current fiscal year were ¥2,560.0 billion, a decrease of ¥32.4 billion from the end of the previous fiscal year. Main factors included a ¥21.3 billion decrease in combined funds on hand comprised of cash, deposits, and investment securities, a ¥20.9 billion decrease in investment securities, and a ¥31.8 billion increase in property, plant and equipment.

Total liabilities decreased ¥44.5 billion compared with the end of the previous fiscal year to ¥1,198.5 billion. Main factors included a ¥15.7 billion decrease in accounts payable with accounts payable-trade and electronically recorded monetary obligations, a ¥57.5 billion decrease in income taxes payable, and a ¥34.2 billion increase in accrued expenses, and other liabilities.

Net assets increased ¥12.2 billion compared with the end of the previous fiscal year to ¥1,361.6 billion. Main factors included a ¥60.6 billion increase in retained earnings and a ¥38.8 billion decrease in foreign currency translation adjustments.

[2] Cash Flows

Cash and cash equivalents (hereinafter “Cash”) at the end of the second quarter of the current fiscal year totaled ¥776.7 billion.

(Net cash provided by operating activities)

Net cash provided by operating activities was ¥198.4 billion (net cash provided in the same consolidated cumulative period of the previous fiscal year was ¥282.9 billion). Main factors included ¥235.6 billion in income before income taxes, ¥41.7 billion increase in accrued expenses, and ¥119.0 billion in income taxes paid.

(Net cash used in investment activities)

Net cash used in investing activities was ¥109.0 billion (net cash used in the same consolidated cumulative period of the previous fiscal year was ¥96.9 billion). Main factors included ¥20.2 billion in expenditures for the purchase of marketable securities (net basis against proceeds from sales of marketable securities), ¥66.9 billion in expenditures for the purchase of property, plant and equipment (net basis against proceeds from sales of property, plant and equipment), ¥11.4 billion in proceeds from sales of investment securities (net basis against expenditures for the purchase of investment securities), and ¥15.2 billion in payments of loans receivable (net basis against proceeds from collection of loans receivable).

(Net cash used in financing activities)

Net cash used in financing activities was ¥116.7 billion (net cash used in the same consolidated cumulative period of the previous fiscal year was ¥39.5 billion). Main factors included a ¥52.7 billion in expenditures for the purchase of treasury stock and ¥56.1 billion in expenditures for cash dividends paid.

(3) Explanation about Future Forecasts such as Projections for the Current Fiscal Year

FHI has revised full year consolidated performance projections for the fiscal year ending March 31, 2017, which were released at the timing of consolidated financial results announcement on August 3, 2016, as stated below, in consideration of factors such as the effects expected from foreign exchange rate fluctuations and higher miscellaneous expenditure.

Projections of full-year consolidated business results of the current fiscal year are based on assumed foreign exchange rates of ¥104/US\$ (previously ¥106/US\$) and ¥115/EUR (previously ¥121/EUR). Exchange rate assumptions for the second half of the current fiscal year are ¥100/US\$ and ¥110/EUR.

Consolidated Results Forecast for the FYE 2017 (April 1, 2016 to March 31, 2017)

	Net Sales	Operating Income	Ordinary Income	Net Income Attributable to Owners of the Parent	Net Income per Share
Previous projection (A)	¥ million 3,190,000	¥ million 400,000	¥ million 410,000	¥ million 285,000	Yen 365.21
Revised projection (B)	3,180,000	373,000	397,000	278,000	359.94
Change in amount (B-A)	(10,000)	(27,000)	(13,000)	(7,000)	(5.27)
Percentage change (%)	(0.3)%	(6.8)%	(3.2)%	(2.5)%	(1.4)%
(Supplemental information) Actual results of FYE 2016 (April 1, 2015 to March 31, 2016)	3,232,258	565,589	576,972	436,654	559.54

2. Notes on Summary Information

(1) Application of specific accounting for preparing the quarterly consolidated financial statements

Income tax expense was calculated as multiplying income before income taxes by reasonably estimated annual effective tax rate. This annual tax rate was reasonably estimated after applying the deferred tax accounting to the annual income before income taxes. "Income taxes-deferred" was included in "Total income taxes".

(2) Changes in Accounting Policy

Based on amendments in the Corporation Tax Act, "Practical Solution on a change in depreciation method due to Tax Reform 2016"(PITF No.32 issued on June 17, 2016) issued by Accounting Standards Board of Japan (ASBJ) was applied from the first quarter of the fiscal year ending March 2017.

FHI group changed depreciation method for facilities attached to buildings and for structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. Since the impact of the change is immaterial, notes for the change was omitted.

(3) Additional Information

FHI group applied "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" issued by ASBJ from the first quarter of the fiscal year ending March 2017.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Unit: Millions of yen)

	FY2016 (as of March 31, 2016)	2nd Quarter of FY2017 (as of September 30, 2016)
ASSETS		
I Current assets		
Cash and deposits	507,553	531,298
Notes and accounts receivable-trade	140,319	129,790
Lease investment assets	21,532	19,775
Short-term investment securities	500,572	455,528
Merchandise and finished goods	192,705	172,620
Work in process	50,666	50,518
Raw materials and supplies	34,996	41,101
Deferred tax assets	90,893	79,294
Short-term loans receivable	151,973	164,853
Other	93,509	89,565
Allowance for doubtful accounts	(625)	(586)
Total current assets	1,784,093	1,733,756
II Noncurrent assets		
1. Property, plant and equipment		
Buildings and structures, net	158,386	166,782
Machinery, equipment and vehicles, net	138,519	161,069
Land	182,531	183,861
Vehicles and equipment on operating leases, net	7,460	15,783
Construction in progress	46,951	33,768
Other, net	38,786	43,159
Total property, plant and equipment	572,633	604,422
2. Intangible assets		
Other	20,989	22,348
Total intangible assets	20,989	22,348
3. Investments and other assets		
Investment securities	109,804	88,953
Net defined benefit asset	1,774	483
Deferred tax assets	16,339	19,075
Other	90,205	94,418
Allowance for doubtful accounts	(3,427)	(3,406)
Total investments and other assets	214,695	199,523
Total noncurrent assets	808,317	826,293
Total assets	2,592,410	2,560,049

(Unit: Millions of yen)

	FY2016 (as of March 31, 2016)	2nd Quarter of FY2017 (as of September 30, 2016)
LIABILITIES		
I Current liabilities		
Notes and accounts payable-trade	326,625	314,760
Electronically recorded obligations-operating	91,476	87,623
Short-term loans payable	33,252	42,360
Current portion of long-term loans payable	33,692	64,212
Current portion of bonds	10,000	—
Income taxes payable	100,272	42,758
Accrued expenses	132,759	166,951
Provision for bonuses	23,554	24,017
Provision for product warranties	51,251	50,624
Provision for loss on construction contracts	645	201
Other	155,969	165,315
Total current liabilities	959,495	958,821
II Noncurrent liabilities		
Long-term loans payable	93,030	54,872
Deferred tax liabilities	18,769	17,087
Provision for directors' retirement benefits	478	490
Net defined benefit liability	18,586	18,900
Other	152,641	148,302
Total noncurrent liabilities	283,504	239,651
Total liabilities	1,242,999	1,198,472
NET ASSETS		
I Shareholders' equity		
Capital stock	153,795	153,795
Capital surplus	160,071	160,165
Retained earnings	1,049,016	1,109,664
Treasury stock	(1,402)	(7,168)
Total shareholders' equity	1,361,480	1,416,456
II Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	11,344	5,887
Foreign currency translation adjustment	(13,415)	(52,180)
Remeasurements of defined benefit plans	(12,808)	(11,530)
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	(2,869)	(2,574)
Total accumulated other comprehensive income	(17,748)	(60,397)
Non-controlling interests	5,679	5,518
Total net assets	1,349,411	1,361,577
Total liabilities and net assets	2,592,410	2,560,049

(2) Quarterly Consolidated Statements of (Comprehensive) Income
Quarterly Consolidated Statements of Income(for six-month period)

(Unit: Millions of yen)

	FY2016 (April 1, 2015 to September 30, 2015)	FY2017 (April 1, 2016 to September 30, 2016)
I Net sales	1,601,475	1,577,652
II Cost of sales	1,087,212	1,126,735
Gross profit	514,263	450,917
III Selling, general and administrative expenses	229,166	242,392
Operating income	285,097	208,525
IV Non-operating income		
Interest income	1,489	1,490
Dividends income	762	445
Equity in earnings of affiliates	374	—
Foreign exchange gains	—	22,316
Real estate rent	257	260
Gain on valuation of derivatives	9,920	—
Other	458	335
Total non-operating income	13,260	24,846
V Non-operating expenses		
Interest expenses	1,368	974
Share of loss of entities accounted for using equity method	—	155
Foreign exchange losses	9,606	—
Loss on valuation of derivatives	—	1,857
Other	2,361	2,613
Total non-operating expenses	13,335	5,599
Ordinary income	285,022	227,772
VI Extraordinary income		
Gain on sales of noncurrent assets	99	290
Gain on sales of investment securities	218	9,918
Other	204	11
Total extraordinary income	521	10,219
VII Extraordinary loss		
Loss on sales and retirement of noncurrent assets	2,252	2,066
Other	192	347
Total extraordinary losses	2,444	2,413
Income before income taxes	283,099	235,578
Total Income taxes	91,164	70,921
Net income	191,935	164,657
Net income attributable to non-controlling interests	(1,269)	820
Net income attributable to owners of parent	193,204	163,837

Quarterly Consolidated Statements of Comprehensive Income(for six-month period)

(Unit: Millions of yen)

	FY2016 (April 1, 2015 to September 30, 2015)	FY2017 (April 1,2016 to September 30, 2016)
Net income	191,935	164,657
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,114)	(5,457)
Foreign currency translation adjustment	(1,000)	(39,926)
Remeasurements of defined benefit plans	1,201	1,278
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	10	295
Share of other comprehensive income of associates accounted for using equity method	622	286
Total other comprehensive income	(1,281)	(43,524)
Comprehensive income	190,654	121,133
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	191,768	121,188
Comprehensive income attributable to non-controlling interests	(1,114)	(55)

(3) Quarterly Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	FY2016 (April 1, 2015 to September 30,2015)	FY2017 (April 1, 2016 to September 30,2016)
I Net cash provided by (used in) operating activities		
Income (loss) before income taxes	283,099	235,578
Depreciation and amortization	35,748	37,920
Increase (decrease) in allowance for doubtful accounts	(142)	(58)
Interest and dividends income	(2,251)	(1,935)
Interest expenses	1,368	974
Loss (gain) on sales and retirement of noncurrent assets	2,153	1,776
Loss (gain) on sales and valuation of investment securities	(160)	(9,581)
Decrease (increase) in operating loans receivable	140	1,226
Decrease (increase) in notes and accounts receivable-trade	19,965	5,264
Decrease (increase) in inventories	35,119	(14,917)
Increase (decrease) in notes and accounts payable-trade	(795)	(8,582)
Increase (decrease) in accrued expenses	(11,775)	41,738
Other, net	(10,612)	26,500
Subtotal	351,857	315,903
Interest and dividends income received	2,734	2,492
Interest expenses paid	(1,410)	(1,031)
Income taxes paid	(70,322)	(118,989)
Net cash provided by (used in) operating activities	282,859	198,375
II Net cash provided by (used in) investing activities		
Net decrease (increase) in time deposits	(28,085)	(11,774)
Purchase of short-term investment securities	(3,174)	(45,081)
Proceeds from sales of short-term investment securities	6,422	24,894
Purchase of non-current assets	(56,310)	(67,629)
Proceeds from sales of non-current assets	523	715
Purchase of investment securities	(24,174)	(20,382)
Proceeds from sales of investment securities	13,021	31,734
Payments of loans receivable	(53,389)	(69,077)
Collection of loans receivable	56,041	53,903
Other, net	(7,773)	(6,269)
Net cash provided by (used in) investing activities	(96,898)	(108,966)
III Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	5,933	12,329
Proceeds from long-term loans payable	3,860	5,150
Repayments of long-term loans payable	(19,944)	(12,792)
Redemption of bonds	—	(10,000)
Purchase of treasury stock	(10)	(52,739)
Cash dividends paid	(28,827)	(56,105)
Dividends paid to non-controlling interests	—	(1,944)
Other, net	(554)	(560)
Net cash provided by (used in) financing activities	(39,542)	(116,661)
IV Effect of exchange rate change on cash and cash Equivalents	(1,383)	(25,521)
V Net increase (decrease) in cash and cash equivalents	145,036	(52,773)
VI Cash and cash equivalents at beginning of period	612,085	829,461
VII Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	(127)	—
VIII Cash and cash equivalents at end of period	756,994	776,688

(4) Note to Quarterly Consolidated Financial Statements
(Notes on Premise of Going Concern)

FY2017 (April 1, 2016 to September 30, 2016)
 Not Applicable

(Notes on Significant Changes in the Amount of Shareholders'Equity)

FY2017 (April 1, 2016 to September 30, 2016)
 Not Applicable

(Segment Information)

Information on sales and income(loss) by business segment reported

2nd Quarter of FY 2016 (April 1, 2015 to September 30, 2015)

(Unit: Millions of yen)

	Business segment reported				Other *1	Total	Adjustment *2	Consolidated Statement of income *3
	Automobiles	Aerospace	Industrial products	Sub- Total				
Net sales								
(1) Outside customers	1,505,721	73,485	18,490	1,597,696	3,779	1,601,475	—	1,601,475
(2) Inter-segment	2,267	—	108	2,375	7,776	10,151	(10,151)	—
Total sales	1,507,988	73,485	18,598	1,600,071	11,555	1,611,626	(10,151)	1,601,475
Operating income	273,170	9,647	607	283,424	1,348	284,772	325	285,097

Note: *1. Other means the category which is not included into any business segment reported. It consists of real estate lease, etc.

*2. Adjustment of segment income refers to elimination of intersegment transaction.

*3. Operating income for segment is adjusted on operating income on the quarterly consolidated statements of income.

2nd Quarter of FY 2017 (April 1, 2016 to September 30, 2016)

(Unit: Millions of yen)

	Business segment reported				Other *1	Total	Adjustment *2	Consolidated Statement of income *3
	Automobiles	Aerospace	Industrial products	Sub- Total				
Net sales								
(1) Outside customers	1,492,380	66,766	14,635	1,573,781	3,871	1,577,652	—	1,577,652
(2) Inter-segment	2,427	—	95	2,522	11,960	14,482	(14,482)	—
Total sales	1,494,807	66,766	14,730	1,576,303	15,831	1,592,134	(14,482)	1,577,652
Operating income(loss)	203,296	3,599	(293)	206,602	1,470	208,072	453	208,525

Note: *1. Other means the category which is not included into any business segment reported. It consists of real estate lease, etc.

*2. Adjustment of segment income refers to elimination of intersegment transaction.

*3. Operating income for segment is adjusted on operating income on the quarterly consolidated statements of income.

(Significant Subsequent Event)

Not Applicable

< Reference for the 1st Half of FYE2017 Consolidated Financial Results >

(Yen in 100 Millions, Units in Thousands)

	RESULTS FYE2016 1H 2015. 4-9	RESULTS FYE2017 1st Half 2016. 4-9		RESULTS FYE2016 '15.4-'16.3	FORECASTS FYE2017 Full Year 2016.4 - 2017.3		PREVIOUS FORECASTS FYE2017 '16.4-'17.3		
		Change	%		Change	%			
Net sales	16,015	15,777	(238)	(1.5)	32,323	31,800	(523)	(1.6)	31,900
Japan	2,852	2,860	8	0.3	6,054	6,463	409	6.7	6,103
Overseas	13,163	12,916	(246)	(1.9)	26,269	25,337	(931)	(3.5)	25,797
Operating income	2,851	2,085	(766)	(26.9)	5,656	3,730	(1,926)	(34.1)	4,000
Profit margin (%)	17.8	13.2			17.5	11.7			12.5
Ordinary income	2,850	2,278	(573)	(20.1)	5,770	3,970	(1,800)	(31.2)	4,100
Profit margin (%)	17.8	14.4			17.9	12.5			12.9
Net income attributable to owners of parent	1,932	1,638	(294)	(15.2)	4,367	2,780	(1,587)	(36.3)	2,850
Profit margin (%)	12.1	10.4			13.5	8.7			8.9
Factors contributing to change in operating income									
		Improvements on model mix, etc	678			Improvements on model mix, etc	1,353		
		Cost reduction effort, etc	218			Cost reduction effort, etc	339		
		Loss on currency exchange	(817)			Loss on currency exchange	(1,965)		
		Increase in SG&A exp, etc	(774)			Increase in SG&A exp, etc	(1,507)		
		Increase in R&D exp	(71)			Increase in R&D exp	(146)		
Exchange rates	JPY/US\$ 122/US\$ JPY/EUR 135/EUR	107/US\$ 120/EUR			121/US\$ 133/EUR	104/US\$ 115/EUR			106/US\$ 121/EUR
Capital expenditures	506	637			1,357	1,600			1,600
Depreciation and amortization	313	335			650	800			800
R&D expenses	463	534			1,024	1,170			1,200
Interest bearing debts	2,014	1,614			1,700	1,600			1,650
Performance description		- Net sales and all profits decreased for first time in 5 years. - First-half record for consolidated unit sales.				- Net sales and all profits to decrease for first time in 5 years. - Full-year record for consolidated unit sales.			
Consolidated unit sales (Japan)	67	68	2	2.3	145	159	13	9.1	156
Passenger Cars	50	52	3	5.3	112	123	11	10.2	119
Minicars	17	16	(1)	(6.8)	34	36	2	5.8	37
Consolidated unit sales (Overseas)	406	444	38	9.4	813	904	91	11.2	893
North America	317	355	39	12.2	630	714	84	13.3	696
Europe	23	22	(1)	(3.9)	48	47	(0)	(0.4)	50
China	20	22	1	6.2	44	45	0	0.3	49
Other	45	45	(1)	(1.7)	90	98	7	8.2	99
Consolidated unit sales total	472	512	40	8.4	958	1,062	104	10.9	1,050
Production units total	460	502	43	9.3	951	1,054	103	10.8	1,051
Japan	348	355	7	2.0	715	718	3	0.4	710
U.S.	112	148	36	32.0	236	336	100	42.3	341
Net sales by business segment									
Automobile	15,057	14,924	(133)	(0.9)	30,394				
Aerospace	735	668	(67)	(9.1)	1,528				
Industrial Products	185	146	(39)	(20.8)	326				
Other	38	39	1	2.4	75				
Operating income by business segment									
Automobile	2,732	2,033	(699)	(25.6)	5,436				
Aerospace	96	36	(60)	(62.7)	182				
Industrial Products	6	(3)	(9)	(148.3)	1				
Other	13	15	1	9.1	29				
Elimination & Corporate	3	5	1	39.4	8				

* Exchange Rates are the rates used for FHI's non-consolidated sales recording.

* Consolidated Unit Sales include retail sales of Japanese consolidated dealers, wholesale sales of overseas consolidated distributors, and deliveries from FHI to non-consolidated distributors/dealers.

* Production in Japan includes production of the 86 models for Toyota.

< Forward-looking statements in this document are based on the information available at the time of the announcement and are subject to various risks and uncertainties that could cause actual results to vary materially. >

FHI Announces First Half Financial Results for FYE2017

Tokyo, November 2, 2016 - Fuji Heavy Industries Ltd. (FHI), the manufacturer of Subaru automobiles, today announced its consolidated financial results for the first half of fiscal year ending March 31, 2017.

< FYE2017 1st Half Results: Consolidated Net Sales >

Subaru's consolidated global unit sales rose 8.4% to 512,000 units. Unit sales in Japan increased 2.3% to 68,000 units, as passenger car sales growth led by the Forester offset a decline in mini vehicle sales. Overseas unit sales grew 9.4% to 444,000 units, driven by continued strong sales of the Legacy and Outback in North America.

Consolidated net sales decreased 1.5% to 1,577.7 billion yen, as foreign exchange losses and other factors offset unit sales growth.

Consolidated North American unit sales marked a first-half record for the 8th consecutive year.^{*1}

Consolidated global unit sales and overseas unit sales posted first-half records for the 5th consecutive year.^{*1}

< FYE2017 1st Half Results: Consolidated Profit and Loss >

While unit sales growth and cost reduction progress offset increases in R&D and SG&A expenses, operating income fell 26.9% to 208.5 billion yen due to foreign exchange losses. SG&A expenses were mainly quality-related costs associated with airbag inflators. Ordinary income decreased 20.1% to 227.8 billion yen and net income attributable to owners of parent declined 15.2% to 163.8 billion yen.

< FYE2017 Full-Year Forecasts >

Compared to the previous forecasts, unit sales are projected to increase further, offsetting a rise in SG&A expenses, while foreign exchange losses are forecasted to increase. Reflecting these changes, full-year forecasts are revised to net sales of 3,180 billion yen, operating income of 373 billion yen, ordinary income of 397 billion yen, and net income attributable to owners of parent of 278 billion yen.

Consolidated unit sales in North America are projected to reach a record high for the 8th consecutive year.^{*2}

Consolidated global unit sales and overseas unit sales are projected to post record highs for the 5th consecutive year.^{*2}

Currency rate assumptions: 104 yen/US\$, 115 yen/euro

Previous Forecasts for FYE2017 (Announced on August 3, 2016)

Net sales: 3,190 billion yen

Operating income: 400 billion yen

Ordinary income: 410 billion yen

Net income attributable to owners of parent: 285 billion yen

Currency rate assumptions: 106 yen/US\$, 121 yen/euro

*1: Since fiscal year ended March 2001 – the year FHI started half-year consolidated financial reporting

*2: Since fiscal year ended March 1986 – the year FHI started full-year consolidated financial reporting

Forward-looking statements in this document including financial and other forecasts are based on the information available at the time of the announcement and are subject to various risks and uncertainties that could cause actual results to vary materially.

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