Message from the CFO

Director of the Board,
Executive Vice President and CFO

Toshiaki Okada

We will increase strategic investments and R&D expenses to boost competitiveness for the future, maintain an industry-leading profit margin, and aim for sustained growth.

A Look Back at My First Year as CFO

During the past year since I became Chief Financial Officer (CFO), at a time when the entire automotive industry has entered a period of transformation, I have always made sure to appropriately disseminate corporate information on matters such as SUBARU's current position and thinking, as well as our growth opportunities and potential. I also consider it my role to serve as a point of contact between external and internal stakeholders by appropriately feeding back to SUBARU information and opinions from outside the Company and communicating the needs of external stakeholders.

For SUBARU, which is by no means a large automaker, to achieve sustained growth, it is essential to build the business by focusing on a differentiation strategy and value-added strategy based on making original, distinctive cars. To prepare for sustained growth, I will consider matters such as how SUBARU uses funds and capital and how we allocate management resources.

Business Performance in FYE March 2018

Consolidated unit sales in FYE March 2018 increased by some 2,000 units year on year and reached a record high of 1,067,000 units, with North America, a key market, continuing to drive global sales. Consolidated net sales increased by 2.4% to a record high of 3,405.2 billion yen as a result of factors including currency fluctuations and the increase in unit sales. Unit sales in North America reached a record high for the ninth consecutive year, and global unit sales and consolidated net sales reached record highs for the sixth consecutive year.

Consolidated operating income decreased by 7.6% to 379.4 billion yen as a result of the impact of an increase in SG&A expenses accompanying rising interest rates in the U.S. and market conditions for raw materials coupled with an increase in R&D expenses, despite a positive impact on profits from currency fluctuations. Ordinary income decreased by 3.7% to 379.9 billion yen, and net income attributable to owners of parent decreased by 22.0% to 220.4 billion yen as a result of factors including the recording of airbag-related losses of 81.3 billion yen as an extraordinary loss.

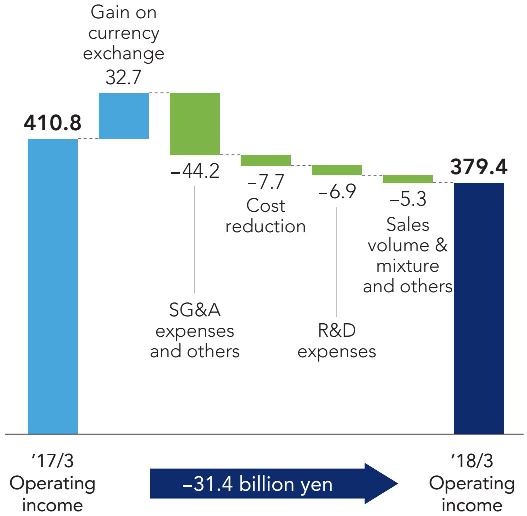
Outlook for FYE March 2019

We forecast continued strong sales in North America and other markets and a 3.1% year-on-year increase in consolidated unit sales to 1.104 million units in FYE March 2019. Although we forecast an increase in unit sales, we have incorporated into our forecast a negative impact on sales from currency fluctuations and the impact of a change in accounting policy (deduction of sales incentives from net sales totaling approximately 180.0 billion yen) and have planned for a 0.5% year-on-year increase* in consolidated net sales to 3,250.0 billion yen. We forecast a 20.9% decrease in operating income to 300.0 billion yen, a 19.7% decrease in ordinary income to 305.0 billion yen, and a 0.2% decrease in net income attributable to owners of parent to 220.0 billion yen, to result from the impact of an increase in SG&A expenses accompanying rising interest rates in the U.S. and raw materials prices, despite the projected increase in unit sales.

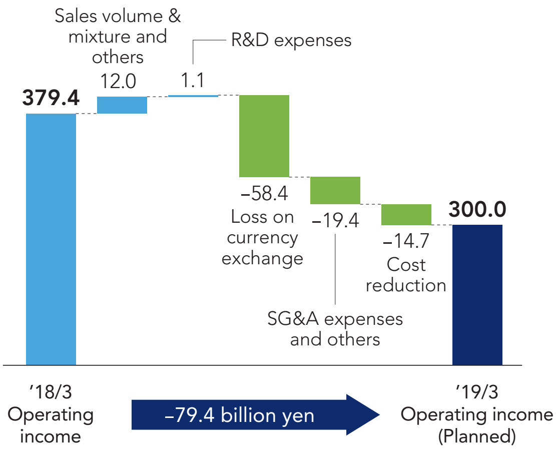
Although we can expect improved business performance in FYE March 2019 as a result of the introduction of the Ascent, a 3-row SUV, and an all-new Forester following a full model change, we expect the full-scale contribution from these models to occur in the second half and beyond. The first half of the year will also be a lean season from a product perspective, with the new-model effect of the Impreza and Crosstrek (known as the SUBARU XV outside North America) running its course and other highly profitable models entering the second half of their model lives. Accordingly, we forecast a difficult first half in terms of business performance and have planned for operating income of 110.0 billion yen in the first half and 190.0 billion yen in the second half, for full-year operating income of 300.0 billion yen.

*Consolidated net sales for FYE March 2018 have been recalculated using the new accounting policy for comparison purposes.

FYE March 2018: Analysis of Increase and Decrease in Operating Income Changes
(Consolidated) (Billions of yen)



FYE March 2019: Analysis of Increase and Decrease in Operating Income Changes
(Consolidated) (Billions of yen)



Although business conditions continue to recover gradually in North America, a key market for SUBARU, overall demand for automobiles has peaked, leading to intensification of sales competition. We consider incentive program management extremely important for maintaining competitiveness in such an environment. Although there has been no major change in the financing program we provide to customers, we are maintaining a lower level of incentives per vehicle than the industry average by carefully and meticulously managing interest rates, payment periods, and other financing terms and conditions for each model while carefully monitoring market conditions and the competitive environment. However, the impact of increases in the interest rate on borrowings is significant, and interest rates are currently trending up. We plan to take advantage of new model introductions to curb expenses.

STEP: the New Mid-term Management Vision

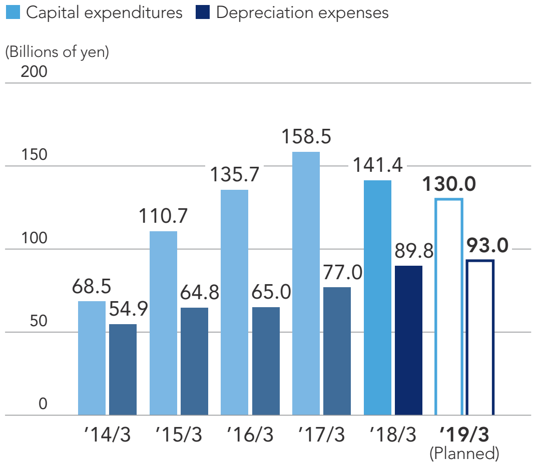
In July 2018, SUBARU announced STEP, our new mid-term management vision. Although we have achieved rapid quantitative growth during the past few years, we recognize that there are many qualitative issues.

Fundamentally improving quality, which is the foundation of customer trust, is an urgent priority, and we have made quality enhancement initiatives the centerpiece of STEP. We will review all quality-related processes from product planning to production, set a five-year investment framework of 150.0 billion yen for improvement of total quality, and to undertake improvements including upgrading the quality level of manufacturing plants, reinforcing quality management systems, and developing customer service infrastructure.

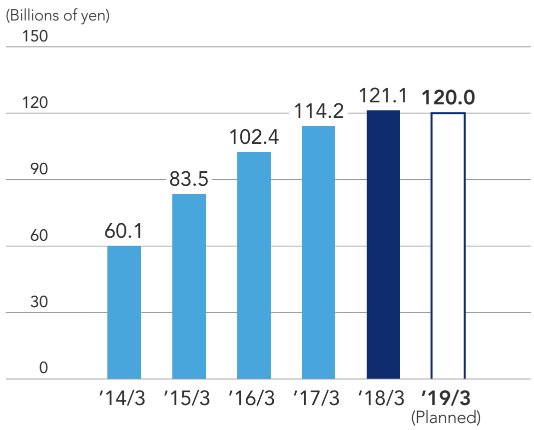
Financial and Capital Strategies

The Company engages in business management with return on capital, financial soundness, and shareholder returns as the three key indicators of capital policy. Specifically, the Company has declared a policy of providing appropriate shareholder returns while maintaining a high degree of balance between return on equity (ROE) and the equity ratio over the medium and long term, and there is no change in this basic policy. On that basis, in our capital control, I intend to emphasize cash. SUBARU's management approach is characterized by the practice of selection and concentration, and we concentrate on developed countries, mainly the U.S., offering a limited model lineup. We recognize that this approach entails aggressively taking on more risk than competitors in terms of being subject to the impact of exchange rates and business fluctuations in the market. For this reason, to prepare against sudden changes in the business environment, we have set a minimum level of cash reserves equivalent to two months' sales and a minimum equity ratio of 50% and will practice appropriate financial management, including shareholder returns, taking into consideration the business environment. We have set a target of maintaining ROE of 10% and will aim for ROE of 15% or higher.

Capital Expenditures／Depreciation Expenses



R&D Expenses



With a view to future growth, we will increase strategic investment and R&D investment for the purpose of boosting future competitiveness. We will invest in areas including improvement of our management foundation centered on quality and responding to transformation of the automotive industry, which is an urgent priority. For the three-year period from FYE 2019 to FYE 2021, we plan total capital expenditures of 450.0 billion yen and R&D expenses of 400.0 billion yen. On that basis, we plan to achieve an industry-leading profit margin of 9.5% and will aim for an operating income ratio of 10% or higher.

Our basic policy is to ensure balanced distribution of profits to all stakeholders and to provide continuous, stable shareholder returns, with dividend payments as the primary component of returns. The annual dividend payment for FYE March 2018 was 144 yen per share (half-year dividend of 72 yen and year-end dividend of 72 yen), the same as for FYE March 2017. We plan to maintain a dividend of 144 yen per share (half-year dividend of 72 yen and year-end dividend of 72 yen) again in FYE March 2019. For this three-year period, our policy is to make a dividend payment of 144 yen the basis of shareholder returns and flexibly purchase treasury stock in accordance with cash flow.

STEP, the new mid-term management vision, embodies our desire to improve our ability to respond to changes in the external environment, correct distortions that have accompanied rapid growth, and cultivate fundamental corporate strengths. We realize that a change of employee awareness is a matter of urgent importance for SUBARU to become a company that is trusted by, and resonates with, customers. In speedily implementing various initiatives, in my role as CFO I will observe laws and regulations and dedicate myself to creating systems that enable SUBARU to ensure quality. This is a crucial time for SUBARU to solidify its footing in preparation for the next leap forward. We will achieve sustained growth and meet the expectations of our shareholders and other stakeholders by accelerating initiatives to create "a company that does the right thing in the right way" and cultivating fundamental corporate strengths as quickly as possible. I request your further understanding and support in the coming years.

Profit Plan for FYE 2019–2021 (3 years)

(105 yen/USD)

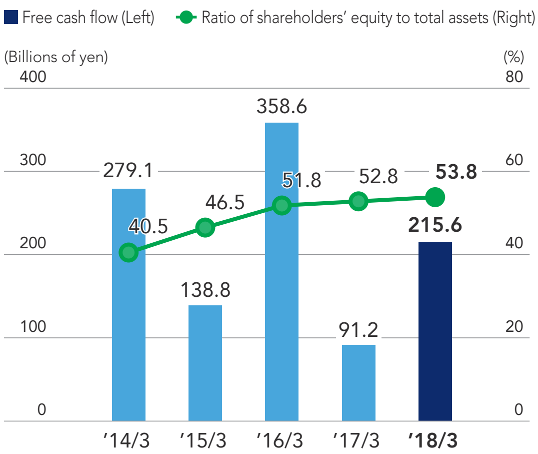
Net sales	10 trillion yen
Operating income	950 billion yen
Operating margin	9.5%
R&D expenses	400 billion yen (+18%)
Capital expenditures	450 billion yen (+3%)
Depreciation and amortization	300 billion yen (+29%)

( ): Percent change from previous 3-year period (FYE 2016–2018)

Capital Policy

Net cash		Two months' worth of net sales at minimum
Equity ratio		50% at minimum
ROE	Minimum	10%
	Target	15%
Shareholder returns	Yearly dividend per share	144 yen
	Share repurchases	To conduct flexibly

Free Cash Flow／Ratio of Shareholders' Equity to Total Assets



Dividend per Share／Dividend Payout Ratio