Director of the Board,
Executive Vice President and CFO

Toshiaki Okada

## We will identify and prioritize the necessary resources in the categories and markets in which SUBARU can leverage its strengths and link them to the improvement of medium- and long-term corporate value and sustained growth.

### Business Performance in FYE March 2019

Consolidated unit sales in FYE March 2019 decreased by some 67,000 units year on year to 1,000,000 units. Unit sales in overseas markets decreased by 39,000 units to 865,000 units as a result of factors including a decrease in unit shipments of the Forester in the first half of the year ahead of a full model change. This decrease was also despite strong retail sales boosted by the impact of the all-new Ascent, which was introduced in the summer of 2018 in the key U.S. market, and continued strong performance from the Crosstrek (known as the SUBARU XV outside North America). Unit sales in the domestic market decreased by 28,000 to 135,000 units as a result of factors including lower sales of the Impreza, SUBARU XV, and Levorg, despite strong sales of the Forester, which underwent a full model change in July 2019.

Since fall 2018, the Gunma Plant has placed the highest priority on maintaining stable quality in both production and inspections so that the plant's continuing operation at lower production line speeds, as well as halt in production in January 2019 following the occurrence of defects in purchased parts and other issues, lead to a unit production decrease by 61,000 units year on year to 989,000 units. Consolidated unit sales were consequently affected due to insufficient supply.

As a result, consolidated net sales decreased[1] by 2.2% to 3,160.5 billion yen. Operating income decreased by 48.5% to 195.5 billion yen because of the unit sales decrease, cost increases in areas relating to quality, caused chiefly by recalls, and a decline in profit per unit attributable to costs related to environmental response initiatives. Ordinary income decreased by 48.3% to 196.2 billion yen, and net income attributable to owners of parent decreased by 32.9% to 147.8 billion yen.

## Outlook for FYE March 2020

Since SUBARU is voluntarily applying the International Financial Reporting Standards (IFRS) from the beginning of FYE March 2020, forecasts are calculated based on IFRS.

We forecast strong sales of the Ascent, Forester, and Crosstrek in the key market of North America and a new-model effect for the Forester in other markets and, as a result, have planned for consolidated unit sales of 1,058,000 vehicles.

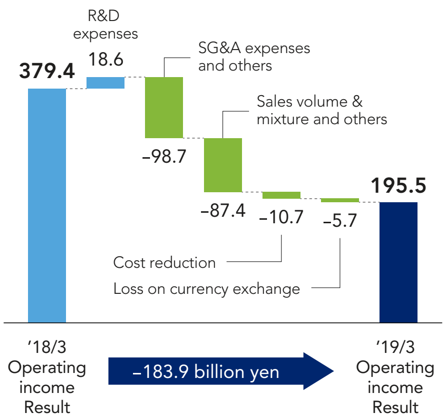
We have also planned for consolidated revenue[2] of 3,310.0 billion yen. Although we have factored into the forecast improvement in sales volume and mixture due to a projected increase in unit sales, as well as a projected decrease in quality-related costs, in light of increases in R&D expenses and SG&A expenses—as well as the impact of exchange rates and higher raw material prices—we are planning for operating profit[3] of 260.0 billion yen, profit before tax[4] of 270.0 billion yen, and profit for the period attributable to owners of parent[5] of 210.0 billion yen. In the second half of the year, we are projected to start the restoration of production line speed at the Gunma Plant. Consequently, we forecast higher consolidated unit sales, revenue, and operating profit in the second half than in the first half and will aim for operating profit at an annualized level of 300.0 billion yen from the second half of the year.

We plan for incentives per vehicle in the U.S. of 2,200 U.S. dollars, an increase of 100 U.S. dollars year on year. We plan to begin sales of all-new versions of the Legacy and Outback in the North American market in the fall, and the main reason for the 100-U.S. dollar increase is a planned effort to boost sales before the model change. Sales of the Ascent, Forester, and Crosstrek remain strong, and incentives for these three models are being controlled at low levels. However, while the interest rate environment is improving, we think it will be necessary to boost incentives due to factors such as changes in the competitive environment. We also intend to closely monitor the status of sales, supply, and inventory as well as carefully manage expenses.

1 An accounting policy change (deduction of sales incentives from net sales) was implemented beginning in FYE March 2019. Figures for comparison years have been calculated by applying the revised policy
2 "Net sales" under Japanese Generally Accepted Accounting Principles (JGAAP)
3 "Operating income" under JGAAP
4 "Income before income taxes" under JGAAP
5 "Net income attributable to owners of parent" under JGAAP

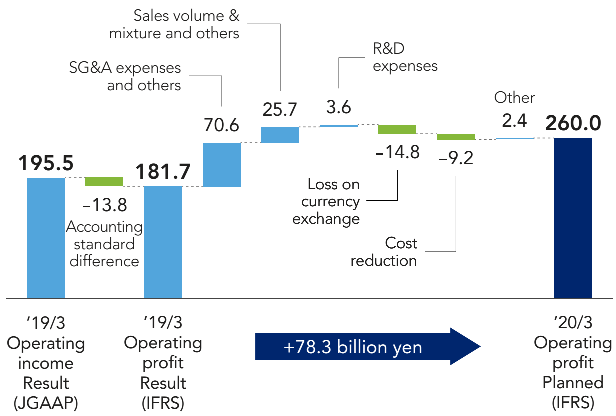
### FYE March 2019: Analysis of Increase and Decrease in Operating Income Changes (Consolidated)

(Billions of yen)




### FYE March 2020: Analysis of Increase and Decrease in Operating Profit Changes (Consolidated)

(Billions of yen)



## Progress with STEP

We have made quality reforms the highest priority in STEP, SUBARU's mid-term management vision, and are undertaking fundamental improvement of quality, which is the basis of customer trust. We have set a five-year investment framework of 150.0 billion yen for enhancement of total quality, from product planning and production to points of contact with customers. Quality enhancement initiatives at each department have begun, such as augmentation of facilities and personnel in R&D and production as well as improvement of the workplace environment and employee work styles.

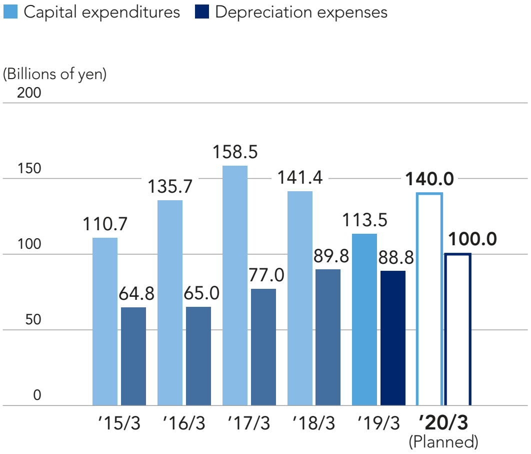
With regard to the profit plan, we think it will be difficult to achieve the planned three-year (FYE March 2019 to FYE March 2021) operating profit of 950.0 billion yen (exchange rate assumption of ¥105 to US$1.00) because of an increase in temporary quality-related costs due to the occurrence of a major recall and in costs related to complying with environmental regulations, changes in plant operation schedules, and other factors. Nevertheless, by steadily implementing the initiatives set out in STEP, we intend to first of all solidify the profit foundation to enable us to achieve single-year operating profit of approximately 300.0 billion yen, and in the future aim for an operating margin of 10%. Going forward, further cost increases will be unavoidable due to the tightening of environmental regulations, and we recognize that we must now consider how to carry out vehicle mono-zukuri (car-making) in order to secure profits, in addition to how to evolve our current business model and enhance our brand power while communicating with the market.

## 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 shareholders' equity ratio over the medium and long term. We have set a minimum shareholders' equity ratio of 50% and want to secure cash reserves equivalent to two months' sales. We have set a target of maintaining ROE of 10% and will aim for ROE of 15% or higher. Although we recognize that we currently have ample cash reserves, we expect the level of reserves to decline somewhat due to factors including expenditures accompanying performance of recall work that occurred up to FYE March 2019.

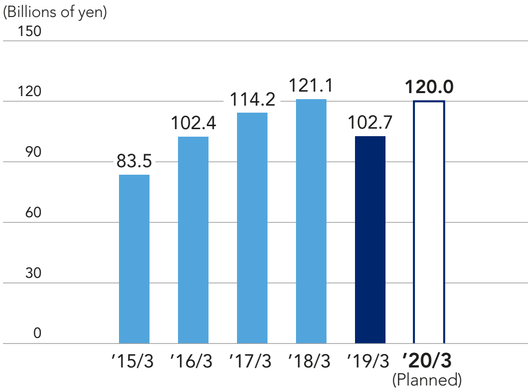
With regard to profit distribution, we ensure balanced distribution of profits to all stakeholders and provide continuous, stable shareholder returns, with dividend payments as the primary component of returns. Although the level of profits declined sharply in FYE March 2019, since we judged that the main reasons for the decline are temporary, we declared an annual dividend payment for FYE March 2019 of

### Capital Expenditures⁄Depreciation Expenses




* FYE March 2020: IFRS figures
Capital expenditures, amortization expenses, and lease obligations pertaining to lease transactions and intangible assets are not included

### R&D Expenditures




* The figures represent expenditures pertaining to R&D activities that occurred during the reporting periods
Since under IFRS, the portion of such expenditures for which asset value is recognized is recorded as intangible assets and amortized based on estimated useful life, the figure differs from "Research and development expenses" on the consolidated income statement (corresponding to "Research and development expenses" on the consolidated statements of income under JGAAP)

144 yen per share (half-year dividend of 72 yen and year-end dividend of 72 yen), the same as for FYE March 2018. 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 2020. Although concerns about a global slowdown due to trade friction are heightening, there is no change in our policy of making a dividend payment of 144 yen the basis of shareholder returns and conducting flexible share repurchases while taking into account cash flow.

The automotive industry is in a period of transition to a new era, and social demands for the new technologies called CASE* are increasing against a backdrop of tightening local environmental performance regulations, tax systems, and safety performance assessments. At the same time, since the commercial viability of these technologies is by no means high at this time, we recognize that the industry is entering a difficult business phase.

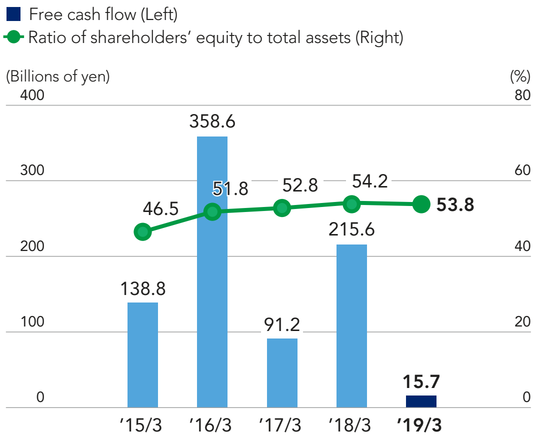
In this business environment, it is important for SUBARU, by no means a large automaker, to determine the business sectors in which it can leverage its strengths and intensively invest in necessary resources with a view to the improvement of medium- and long-term corporate value and sustained growth. In my role as CFO, I will work to meet the expectations of our shareholders and other stakeholders by supporting improvement of medium- and long-term corporate value and sustained growth through an appropriate response to financial risks and financial strategies, including utilization of the SUBARU Group's funds through centralized management and both optimal allocation and timely investment in growth sectors. I request your further understanding and support in the coming years.

* An acronym of the words: Connected, Autonomous, Shared & Services, and Electric

## Capital Policy

| | | |
|---|---|---|
| Net cash | | Two months' worth of net sales at minimum |
| Ratio of shareholders' equity to total assets | | 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




* Application of Partial Amendments to Accounting Standard for Tax Effect Accounting, effective from FYE March 2019
Retroactively applied to the figures for FYE March 2018

### Dividend per Share／Dividend Payout Ratio