

## Financial Results for FYE 2019 Analyst Briefing Q&A

May 10, 2019  
SUBARU CORPORATION

**Q : What are your thoughts on the production plan for FYE 2020?**

A : The Company currently has three production lines at the Gunma manufacturing plant (one in the main plant and two in the Yajima Plant), and two of these production lines have been operating at lower speed since the fall of 2018. The production plan for this fiscal year assumes that in the second half we will begin to raise the line speed to the level before the fall of 2018, but this has not yet been finalized. Going forward we will be enhancing our final inspection line facilities, and we need to conduct some trials to establish whether we can reliably implement these inspections with the current allocation of man-hours. We are also increasing the number of inspection staff, and also reassigning some of them. We will make a decision after confirming the implementation of measures to prevent recurrence, and the status of these operations. We are determined not to allow this final inspection problem to occur again, so we have no plans to do anything like increasing overtime, or having people work on days off for operations. As for in the United States, with our quality-first policy, we adopt a prudent stance in planning the start-up of production for the new Legacy and Outback.

**Q : How do you see quality-related expenses developing this fiscal year?**

A : When we consider quality-related expenses, we separate them into recall expenses and warranty expenses, and the latter occurs more or less constantly. As regards warranty expenses, we have factored in a gradual increase in line with the rise in the number of vehicles owned and the increasing sales units. As for recall expenses, these do not occur constantly, but we believe we should assume that a certain level of such costs will occur. We have incorporated into our plans a figure based on the results for the past several years, but we are not using the very large figures that occurred last year as a base.

**Q : With regard to research and development and capital expenditures, has there been any change from the plans announced in the new mid-term management vision?**

A : The new “STEP” mid-term management vision—our plans for the three years from FYE 2019 to FYE 2021— includes R&D expenditures of ¥400 billion, and capital expenditures of ¥450 billion. When calculated using the results for the previous fiscal year and the forecasts for this fiscal year, research and development next fiscal year will be around ¥180 billion, and capital expenditures will be around ¥200 billion, but development details, schedule, and other factors are changing, and this has led to changes in the content of capital expenditures. It is not that the plans of the mid-term management vision are being scaled down. We also do not see that there will be a significant increase in these expenditures next fiscal year.

**Q : What is your view on the level of profits going forward?**

A : The breakdown of the plan for operating income in FYE 2020 is about 40% in the first half, and 60% in the second half. In other words, the plan is for around ¥150 billion in the second half, and we would like to make this a sustainable level of profits going forward. If we can generate ¥300 billion in operating income annually, we think we can maintain returns to shareholders. In order to achieve that going forward, the issue that the Company must face is how to add value in a situation where costs related to environmental and other initiatives are rising, which is negatively affecting earnings per unit.

**Q : What is the plan for incentives in the US?**

A : Currently, sales of the Ascent, Forester, and Crosstrek are strong, so incentives per unit are at extremely low levels. On the other hand, because of the upcoming switch to new models, incentives for the Legacy and Outback are high. Once the Legacy and Outback have switched to the new models, we can probably control incentives. However, considering the future aging of the Ascent, Forester, and Crosstrek, which are selling well at the moment, as well as the competitive environment changes, we foresee that we may have to bolster incentives.

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