



Enhancing the Subaru brand through our value-adding and thorough differentiation strategies as we aim for sustainable growth.

Yasuyuki Yoshinaga

Representative Director of the Board,
President and CEO

To Our Shareholders

FYE March 2016 Results and FYE March 2017 Outlook

Bolstering our corporate strength, regardless of currency impacts, while maintaining an industry-leading operating margin.

Fuji Heavy Industries Ltd. Group's consolidated net sales in FYE March 2016 came to 3,232.3 billion yen, a 12.3% year-on-year increase. As for consolidated performance, due to favorable foreign exchange rates, the increase in the number of units sold, and cost reductions, we were able to offset the increase in various overhead costs and R&D expenses. Operating profit was 565.6 billion yen (up 33.7% year on year), ordinary income came to 577.0 billion yen (up 46.6% year on year), and the fiscal year net income attributable to owners of parent was 436.7 billion yen

(up 66.7% year on year). FHI recorded its highest historical levels of net sales as well as all income categories for the fourth consecutive fiscal year. Additionally, the operating margin was 17.5%. Although the number of passenger vehicles sold in Japan neared the cyclical end of the new-model effect and trailed the previous year, overseas sales (mainly in the North American market) progressed smoothly. Our worldwide sales numbers totaled 957,900 units (up 5.2% year on year), a historical high for the fourth consecutive year. The result of this growth in units sold, thanks to robust global support for the Subaru brand, allowed us to achieve steady increases in income and profit in actual figures excluding gains on foreign exchange, which is what pleases me most.

As for projections for FYE March 2017, we expect the Subaru brand to show continued strength and an increase in units sold in North America. We forecast global sales of 1,049.7 thousand units,

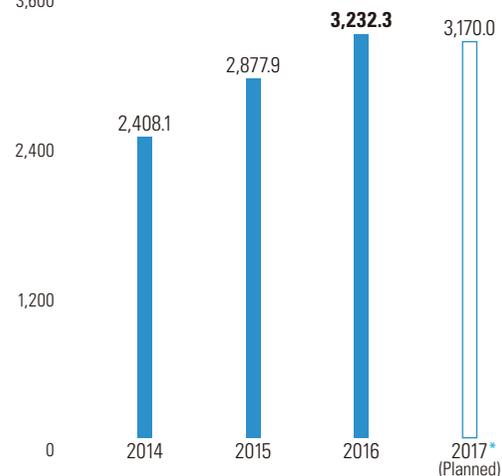
9.6% year-on-year growth and our first time exceeding one million units. As for consolidated results, we foresee being able to offset the increase in overhead costs and R&D expenses by increasing the number of units sold and further cost reductions. Since the yen is projected to strengthen from 121 yen/US\$ in the fiscal year under review to 105 yen/US\$, we expect consolidated net sales to dip 1.9% to 3,170.0 billion yen, operating profit to fall 25.7% to 420.0 billion yen, ordinary income to fall 27.2% to 420.0 billion yen, the fiscal year net income attributable to owners of parent to fall 32.9% to 293.0 billion yen, and an operating margin of 13.2%*. We will steadily bolster the strength of our business regardless of currency impacts, while maintaining an industry-leading profit margin.

*Figures in projections for FYE March 2017 were announced May 12, 2016, then revised August 3, 2016.
For details, please see the Company website (<http://www.fhi.co.jp/english/ir/index.html>).

Net Sales

Years ended March 31

(Billions of yen)

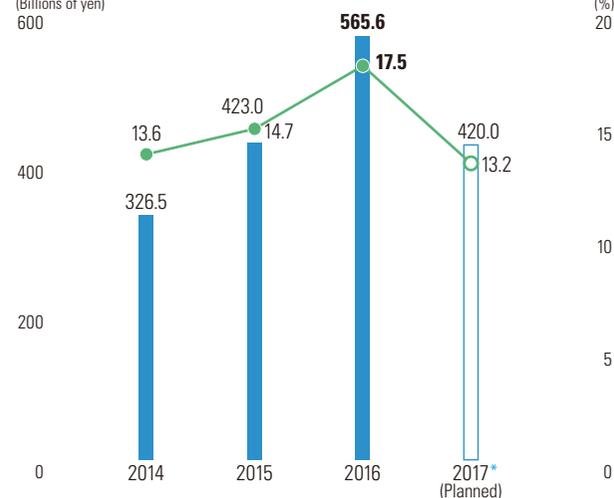


Operating Income / Operating Margin

Years ended March 31

Operating Income (Billions of yen)

Operating Margin (%)



To Our Shareholders

Update on the Mid-Term Management Vision

2020 global sales units revised upward in line with favorable sales in the North American market.

In working to be “a high-quality company that is not big in size but has distinctive strength”—a stance we outlined in May 2014 in our mid-term management vision, “Prominence 2020”—FHI has been striving to increase corporate value, while focusing on the two initiatives of “enhancing the Subaru brand” and “building a strong business structure.”

This fundamental policy has not changed; however, we announced updates of our 3-year consolidated profit plan, consolidated sales units, production plans, etc. in May 2016 in response to subsequent changes in the business environment and sales performance in each market.

With regard to consolidated global sales units in FY 2020, we revised forecasts upward, to top 1,200.0 thousand units from the original target north of 1,100.0 thousand units, given that on-going sales strength is expected in the favorably performing North American market. We also reassessed our plans for increasing production capacity along the same lines. Existing plans had envisioned global production capacity (excluding CKD in Malaysia) of 1,050.0 thousand units (under standard operations) in FY 2020. We raised this figure to 1,132.0 thousand units in FY 2018 (under standard operations; 1,276.0 thousand units at maximum operation).

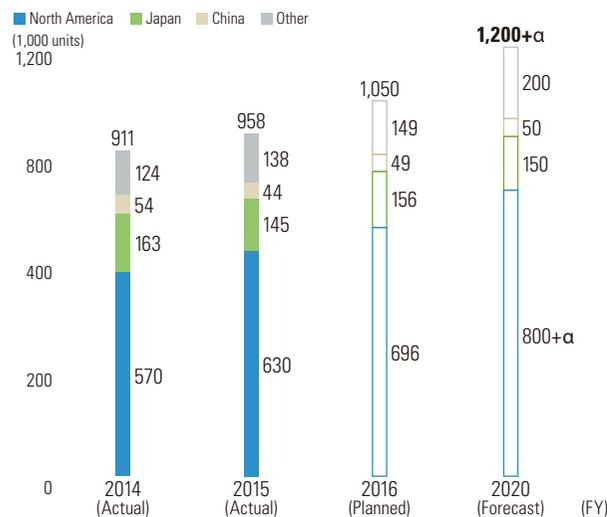
Furthermore, we announced a new Three-Year Business Operation/Profit Plan for FYE March 2017-2019. Planned three-year totals are 9,800 billion yen in net sales, 1,100 billion yen in operating profit, 360.0 billion yen in R&D expenses, and 470.0 billion yen in capital expenditures. While continuing to expand investment in future growth, we will maintain our current

business model of high profitability and an industry-leading operating margin.

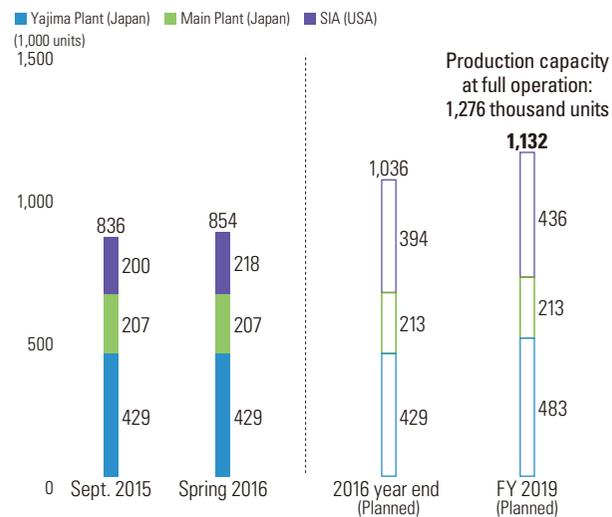
Because we are not comparatively large, our value-adding and thorough differentiation strategies are indispensable for competing with the world’s major automobile manufacturers. Consequently, it is vital that we avoid entering the volume-sales zone in order to grow our sales units. That zone is the specialty of major automakers and we would eventually be forced to compete on price. We believe that it is beneficial to limit our categories and markets to those in which we can leverage our strengths, and to steadily grow our sales units by concentrating our management resources in those areas.

FHI is ardently pursuing value-adding and differentiation strategies that set us apart from other automakers, while further accelerating our initiatives to “enhance the Subaru brand” and “build a strong business structure.”

Consolidated unit sales



Production capacity expansion plans



To Our Shareholders

Changing Our Company Name in April 2017

Rallying all of our employees to enhance the brand under a new company name: Subaru Corporation.

As one of our measures to accelerate our “enhancing the Subaru brand” initiative, we will change our name from Fuji Heavy Industries Ltd. to Subaru Corporation in April 2017, which is the 100th anniversary of the founding of our predecessor, the Nakajima Aircraft Company.

Of course, simply changing the company name and logo does not immediately impart greater brand value. Brand value is something that increases as a result of having customers actually use our cars and approve of their features and quality. In that sense, Subaru cars have garnered high evaluations in recent years from customers and third-party agencies for their safety features and drivability.

By using Subaru as a name for both the company and the brand, the Group’s employees will rally together to make Subaru the choice of even more customers and to dedicate effort to further boosting the value of the Subaru brand.



Adopting a Subaru Global Platform

Adopting a new platform that looks ten years into the future and enhances “enjoyment and peace of mind,” which is one of Subaru’s strengths.

As initiatives to “enhance the Subaru brand,” FHI is dedicating effort to further boost comprehensive performance and safety features, pursue characteristic Subaru design, adopt environmentally conscious features, improve quality and service, and strengthen communication with customers.

The Subaru Global Platform, to be adopted starting with the next Impreza model slated for launch this fall, is one of these activities to “enhance the Subaru brand.” In recent years in the automobile industry, companies are eagerly pursuing shared platforms that serve as the foundation for multiple vehicle models, though most are primarily doing so in order to lower costs through more efficient new model development, common parts, etc. In contrast, FHI is adopting a new platform with the central intention of enhancing the Subaru brand strengths of

safety features and drivability.

The Subaru Global Platform developed with the year 2025 in mind brings broad improvements to the rigidity of bodies and chassis compared to current models, while also pursuing a lower center of gravity and evolution in the suspension system. This will allow even further gains in the basic “run, turn and stop” features that have earned Subaru an established reputation.

In addition, the new platform increases impact energy absorption in the event of a collision by 40% compared to current models. Currently, Subaru models have received top marks in safety tests by rating agencies inside and outside Japan, including the Japan New Car Assessment Program (JNCAP), the Insurance Institute for Highway Safety (IIHS) in the U.S., and the European New Car Assessment Programme (EuroNCAP), which has resulted in our greatest competitive strength in the marketplace. These safety tests continue to apply ever more stringent standards, including new types of collision tests. At FHI, introduction of the new Subaru Global Platform is further increasing our collision safety performance and will help us maintain the world’s highest levels of safety going forward.

Product Strategy

Calendar year	2016	2017	2018	2019	2020~
Model plans		 FMC	 FMC	 FMC	 FMC
	Continuously introduce new models in our mainstay vehicle lineups				
	Next-generation platform: the Subaru Global Platform				
	*Starting with the new Impreza model, incorporate the platform in all full model change (FMC) vehicles from FY 2017				
					
Environmental initiatives		Expanded rollout of direct injection units			2019 Newly designed downsized-turbo
	Plug-in hybrids				
	*Comply with regulations in each region by combining electrification with significant efficiency gains for internal combustion engines				2021 Electric vehicles

To Our Shareholders

Sales Strategy in the U.S.

Expanding production capacity and strengthening our dealer service framework to meet customer expectations.

Local dealers in the U.S., our most important market, have reported that they could increase sales and seize a 5% market share if our supply were sufficient. In light of our current 3.4% market share, 5% might be a bit over-optimistic, but I believe 4% is entirely reasonable. If total vehicle demand in the U.S. is 17 million cars, that puts us at 680,000 units. If overall demand grows slightly, that number could rise to 700,000, so I would first like to increase our units sold to equal about a 4% market share in the next few years. We are basically not planning to increase the number of dealers from the current 625 dealers, but rather to

increase the number of units sold at each dealer. Our sales plan for the U.S. in calendar year 2016 is 615,000 cars, approximately 1,000 cars per dealer, though somewhere around 750,000 cars should be possible by boosting the per-dealer number to approximately 1,200 units. In order to provide sales support for our local dealers, we plan to introduce a three-row crossover as a new model in North America in 2018.

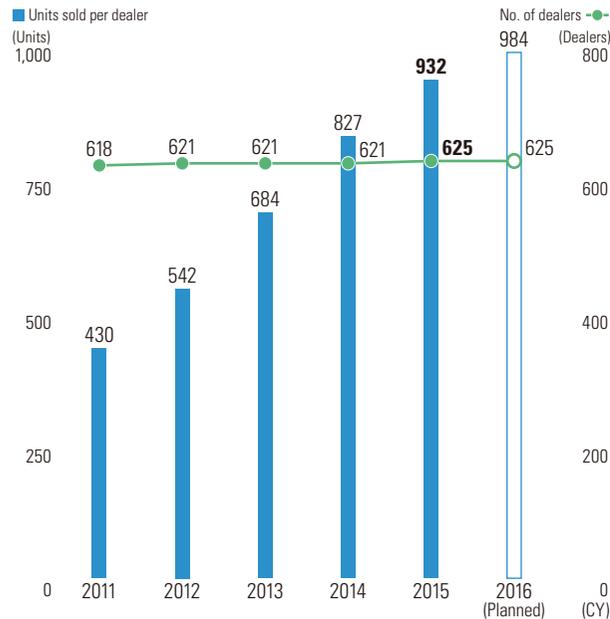
Meanwhile, our Subaru incentive program was the lowest in the industry, approximately \$900/vehicle for FYE March 2016, which is far less expensive than the industry average of around \$3,000/vehicle. Considering that incentives are on a growth trajectory for the industry as a whole, we forecast a year-on-year increase, rising to \$1,100 for the full year, for FYE March 2017. However, we still do not intend to grow sales by competing on price and will continue to sell vehicles with a low incentive program going forward.

Additionally, we are expanding production capacity at our U.S.

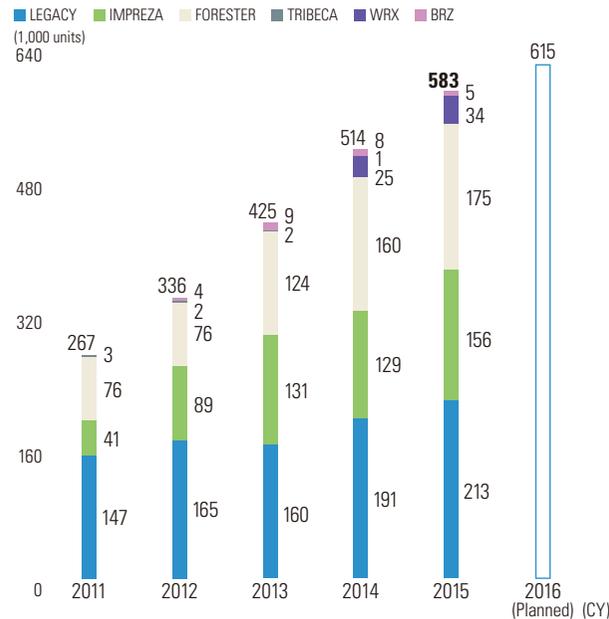
production subsidiary Subaru of Indiana Automotive, Inc. (SIA), in order to meet sales growth in North America. Production of the Outback model will commence from July 2016, after SIA ends consignment production of the Toyota Camry, and we will take early steps to relieve supply shortfalls. Also, production capacity at SIA will be expanded nearly twofold—from 200,000 units to approximately 400,000 units by the end of 2016.

In the U.S. market, all Subaru models equipped with EyeSight have received top marks in safety evaluations by the U.S. rating agency IIHS. This and other factors have solidified an image that “Subaru = safety and security,” which I think has led to our current deep-rooted demand. Going forward, we intend of course to provide high quality, safe vehicles, while also striving to strengthen our service framework enabling us to deliver after-sales service that will delight new Subaru customers.

Changes in the number of dealers



Changes in the number of retail sales units



To Our Shareholders

Responding to Environmental Regulations and Initiatives for Automated Driving

Expanding the R&D framework of the Automotive Business in order to accelerate our environmental response and our development of driving support technology.

In addition to the above, the Subaru Global Platform has been designed while keeping in mind developments in current gasoline engines and hybrid vehicles (HV), as well as plug-in hybrids (PHEV) and electric vehicles (EV). In the strong U.S. market, the scope of California's ZEV (Zero Emission Vehicle) regulations will be expanded to include mid-sized automakers (including FHI) in 2018. To coincide with this timeline, we are proceeding with research and development to launch PHEVs, followed by the subsequent launch of EVs in 2021. In essence, we are not developing dedicated PHEV and EV models. Our policy is to add PHEV and EV grades to our existing cars in the Subaru brand, leveraging their characteristic individuality and driving performance. This approach, I think, will ensure that Subaru's

quintessential "enjoyment and peace of mind" will be imbued in a new generation of eco-cars.

At the same time, we are also making steady inroads with our automated driving R&D. FHI's view of automated driving is not "cars that drive in place of people," but rather, "cars that provide driving support with the driver in the central role." From this fundamental perspective, we are pushing the evolution of the highly praised EyeSight, our current driving support product that includes pre-collision safety technology. We are following this approach to develop automated driving technology that is distinctly Subaru technology.

We plan to actively invest in R&D expenses going forward, in order to accelerate development of these types of environmental features and advanced safety technologies. Furthermore, in order to optimize management resource allocation throughout the Group, and to expand development resources in our Automotive Business, we decided to integrate our Industrial Products Company into our Automobiles Division in October 2016. Existing production, sales, and service in our Industrial Products Company will continue for the duration, though development projects will be idled and management resources such as development personnel will be shifted to the Automobiles Division.

A Word about CSR Management

Aiming to be a company that is continually trusted by society as we boost the quality of our management.

For FHI to achieve sustainable growth into the future, we must fulfill our corporate role of social responsibility and continue to be a company that constantly earns the trust and support of a broad group of stakeholders. To that end, it is vital to boost the overall quality of our corporate management to yet another level.

In the automotive business, we cannot deliver "enjoyment and peace of mind" to customers unless we provide sufficient quality, even if our cars are equipped with safety features at the world's highest standards. Amid continuing robust sales, primarily in North America, maximum capacity operations have become standard operations for each of our production sites in recent years. However, it is absolutely inexcusable for quality control to suffer as production accelerates. Our production units are thoroughly aware of their responsibility to stop the line if they are not absolutely confident in the quality of products.

Additionally, as society directs increased attention to corporate governance, FHI has been incorporating outside directors and auditors. Their participation has helped reflect stakeholder opinions to a greater extent in our business management. When putting together the Corporate Governance Guidelines we formulated last year, outside directors and auditors also took an active role in providing advice. Their participation greatly contributes to further establishing our corporate governance framework and increasing corporate value.

Under our new name of Subaru Corporation, management and Group employees alike will ensure thorough compliance with laws and regulations, conduct themselves responsibly every day, and continue to strive for even greater brand and corporate value. Thank you for your support and feedback going forward.

Company name change / business integration

