Consolidated Financial Results for the 1st Half of FYE 2019

SUBARU CORPORATION

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Corporate Executive Vice President & CFO
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NOTE)
This document is an English translation of an original Japanese document. If there are any discrepancies between this document and the original Japanese document, the original Japanese document prevails.

Summary

Consolidated Financial Results for the 1st Half of FYE 2019

- Net sales declined due to decreased unit sales and other factors.
- While Subaru's retail vehicle sales in its largest North American market kept strong momentum, all profit levels declined due to factors such as an increase in quality-related expenses associated with a large-scale recall and decreased deliveries of the Forester before the launch of its fully-redesigned version.

	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent	Consolidated automobile sales
Actual results (YoY)	¥1,486.8bil. (-121.2bil.)	¥55.0bil. (-157.1bil.)	¥60.0bil. (-152.7bil.)	¥44.3bil. (-40.7bil.)	482.1k units (-49.2k units)

Forecast for FYE 2019

- Forecasts for FYE2019 are revised from the previous announcement made on August 6th, 2018, to reflect factors including a decrease in consolidated units sales and an increase in quality-related expenses

	Net sales	Operating income	Ordinary income	Net income attributable to owners of parent	Consolidated automobile sales
Forecasts (YoY) (vs Previous Plan as of Aug. 6th)	¥3,210.0bil. (-22.7bil.) (-40.0bil.)	¥220.0bil. (-159.4bil.) (-80.0bil.)	¥229.0bil. (-150.9bil.) (-76.0bil.)	¥167.0bil. (-53.4bil.) (-53.0bil.)	1,041.1k units (-25.8k units) (-59.3k units)

* Changed accounting policies from FYE 2019 (deducting sales incentives from net sales).
The comparative year has been also recalculated under the same conditions.

Consolidated Financial Results for the 1st Half of FYE 2019

1st Half :
Consolidated Unit Sales

(Thousand Units)

	Actual Results 1st Half FYE 2018 (a)	Plan 1st Half FYE 2019 (as of Aug. 6th) (b)	Actual Results 1st Half FYE 2019 (c)	Variance (c)-(a)	Variance (c)-(b)
Passenger cars	67.3	56.0	52.4	-14.9	-3.6
Minicars	15.1	13.0	12.6	-2.5	-0.4
Domestic total	**82.3**	**68.9**	**65.0**	**-17.4**	**-4.0**
US	333.2	313.0	302.2	-31.0	-10.7
Canada	30.7	31.6	31.8	+1.1	+0.3
Russia	3.7	7.0	5.1	+1.4	-1.9
Europe	17.8	20.9	20.6	+2.9	-0.2
Australia	27.7	26.9	23.5	-4.2	-3.4
China	13.8	12.4	9.2	-4.6	-3.2
Others	22.0	25.7	24.6	+2.6	-1.1
Overseas total	**448.9**	**437.4**	**417.1**	**-31.8**	**-20.3**
Total	**531.3**	**506.3**	**482.1**	**-49.2**	**-24.2**

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First, we will report on our consolidated financial results for the first half of FYE 2019. Consolidated unit sales were 482.1 thousand units, a decline of 49.2 thousand units year on year.

In the domestic market, the July launch of the fully redesigned Forester resulted in strong sales, but the effects of new model launches for the Impreza and the SUBARU XV ran their course, resulting in a year-on-year decline of 17.4 thousand units, to 65 thousand units.

Overseas, due to declining sales of the Forester ahead of the launch of the fully redesigned version, and inventory adjustments, mainly in local retailer in the U.S., which resulted in lower deliveries, consolidated unit sales posted a year-on-year decline of 31.8 thousand units, to 417.1 thousand units.

On the other hand, retail sales were generally strong, and in our key market of North America there was a contribution from the Crosstrek, which underwent a full model change in the summer of 2017, and from the new Ascent, resulting in a continuation of robust unit sales and an all-time record for the 7th consecutive year. This October marks the 83rd consecutive month of year-on-year growth in sales, so the situation remains favorable. Retail unit sales in the first half grew 5.9% year on year.

1st Half :
Consolidated Income Statements

(100 Million Yen)

	Actual Results 1st Half FYE 2018 (a)	Plan 1st Half FYE 2019 (as of Aug. 6th) (b)	Actual Results 1st Half FYE 2019 (c)	Variance (c)-(a)	Variance (c)-(b)
Net sales	*(16,863)* **16,080**	**14,630**	**14,868**	**-1,212**	**+238**
Domestic	*(3,286)* 3,283	2,670	2,874	-408	+205
Overseas	*(13,577)* 12,797	11,961	11,994	-804	+33
Operating income	**2,121**	**1,100**	**550**	**-1,571**	**-550**
Ordinary income	**2,127**	**1,117**	**600**	**-1,527**	**-517**
Income before taxes and minority interests	**1,285**	**1,082**	**630**	**-655**	**-452**
Net income attributable to owners of parent	**850**	**791**	**443**	**-407**	**-348**
SUBARU exchange rate	¥111/US$	¥105/US$	¥109/US$	-¥2/US$	+¥4/US$

* Changed accounting policies from FYE 2019 (deducting sales incentives from net sales). The comparative year has been also recalculated under the same conditions.
* Figure in ( ) : Net sales before deducting sales incentives

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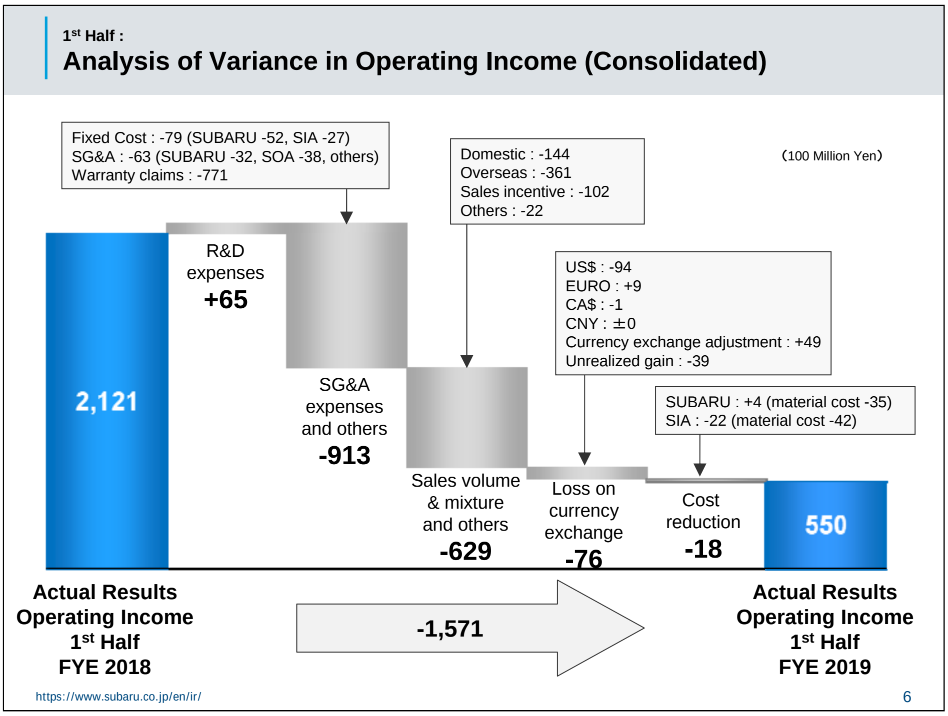
Next we have the consolidated income statements.
Consolidated net sales declined by 121.2 billion yen year on year to 1,486.8 billion yen, with sales being pushed down by a currency loss of 6.1 billion yen, a negative impact from lower sales volume & mixture of 100.1 billion yen, and a negative impact of 15.0 billion yen from SUBARU companies, etc.

In addition, with regard to the year-on-year comparison of net sales, due to the adoption of new accounting policies, the result for the previous fiscal year has been recalculated in accordance with those policies.

With regard to operating income, an increase in quality-related expenses caused mainly by a major recall, falling deliveries for the Forester ahead of a full model change, and other factors, resulted in a year-on-year decline of 157.1 billion yen, to 55.0 billion yen.
Ordinary income fell by 152.7 billion yen to 60.0 billion yen.

Net income attributable to owners of parent contracted by 40.7 billion yen year on year, to 44.3 billion yen.



Now let us look at the analysis of variance at the operating income level.

Compared to the result for the same period of the previous fiscal year, there has been a decline of 157.1 billion yen, the respective components of which will now be explained.

First, the factors pushing up operating income.

R&D expenses had a positive impact of 6.5 billion yen.

Now we will look at factors pushing down operating income.

<1> The negative impact of SG&A and other expenses was 91.3 billion yen, which can be broken down into the following three factors.

(1) Increases in fixed manufacturing costs had a negative impact of 7.9 billion yen. Of this, SUBARU accounted for -5.2 billion yen. At SUBARU, the impact of increased costs for supplier dies was -3.6 billion yen, and increases in fixed processing costs came to -1.6 billion yen. SIA accounted for -2.7 billion yen. The impact of increased costs for supplier dies came to -2.0 billion yen, and the impact of increased fixed processing costs was -0.7 billion yen.

(2) Higher SG&A expenses had a negative impact of 6.3 billion yen. Of this, SUBARU accounted for -3.2 billion yen, domestic dealers were -0.1 billion yen, SOA was -3.8 billion yen, the Canadian subsidiary was positive 0.2 billion yen, and others had a positive impact of 0.6 billion yen.

(3) An increase in warranty claims had a negative impact of 77.1 billion yen. These include around 55.0 billion yen in expenses related to the valve spring recall for which we submitted a notification on November 1, and approximately 6.0 billion yen in additional recall expenses related to final vehicle inspections.

<2> The impact of Sales volume & mixture and others was negative 62.9 billion yen. This breaks down into the following four areas.

(1)New car sales domestic: -14.4 billion yen.

(2)New car sales overseas: -36.1 billion yen

(3)Incentives: -10.2 billion yen. Of which, SOA was -7.1 billion yen.

Incentives per vehicle were 2,200 dollars, an increase of 400 dollars over the previous year's 1,800 dollars.

(4)Inventory adjustments and other factors: -2.2 billion yen.

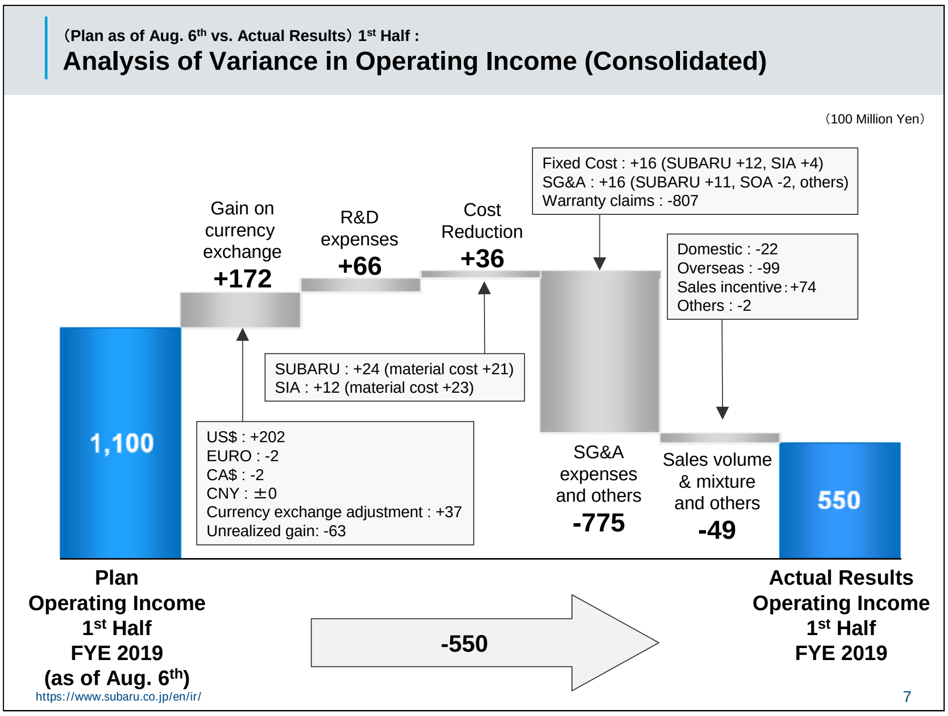
<3> Foreign exchange losses were 7.6 billion yen.

The roughly 2-yen appreciation of the yen against the U.S. dollar had a negative impact of 9.4 billion yen. The roughly 5-yen depreciation of the yen against the euro had a positive impact of 0.9 billion yen. The Canadian dollar was little changed, resulting in a negative impact of 0.1 billion yen. Foreign exchange adjustments related to transactions between SUBARU and its overseas subsidiaries had a positive impact of 4.9 billion yen, while unrealized gains on inventory had a negative effect of 3.9 billion yen.

<4>Cost reductions had a negative impact of 1.8 billion yen. Of this SUBARU accounted for +0.4 billion yen and SIA for -2.2 billion yen.

The breakdown of the SUBARU portion was +3.9 billion yen in cost reductions, and -3.5 billion yen from material prices and market conditions, etc. For SIA the breakdown was +2.0 billion yen in cost reductions, and -4.2 billion yen from material prices and market conditions, etc.

As a result of the above, consolidated operating income for the first half of FYE 2019 fell 157.1 billion yen from the 212.1 billion yen recorded in the same period of the previous year, to 55.0 billion yen.



Here we have the analysis of variance at the operating income level compared to the plans for the first half disclosed at the time the 1Q results were announced on August 6.
Profits undershot plans by 55.0 billion yen, and what follows is a discussion of the factors behind this.

There were three factors at work here.

<1> The first is the foreign exchange rate gains of 17.2 billion yen.
The roughly 4-yen depreciation of the yen against the U.S. dollar led to an increase of 20.2 billion yen. The roughly 1-yen depreciation against the euro resulted in a negative impact of 0.2 billion yen, and the approximately 1-yen appreciation against the Canadian dollar also had a negative effect of 0.2 billion yen.
Foreign exchange adjustments related to transactions between SUBARU and its overseas subsidiaries had a positive impact of 3.7 billion yen, while unrealized gains on inventory had a negative effect of 6.3 billion yen.

<2> R&D expenses had a positive impact of 6.6 billion yen.

<3> The effect of cost reductions was positive at +3.6 billion yen. Of this SUBARU accounted for +2.4 billion yen and SIA for +1.2 billion yen.
The breakdown of the SUBARU portion was +0.3 billion yen in cost reductions, and +2.1 billion yen from material prices and market conditions, etc.
For SIA the breakdown was -1.1 billion yen in cost reductions, and +2.3 billion yen from material prices and market conditions, etc.

Now we will look at factors pushing down operating income.

<4> An increase in SG&A and other expenses had a negative impact of 77.5 billion yen. This breaks down into the following three areas.

(1) Reductions in fixed manufacturing costs had a positive impact of 1.6 billion yen. Of this, SUBARU accounted for +1.2 billion yen and SIA for +0.4 billion yen.
At SUBARU, the impact of lower costs for supplier dies was +0.2 billion yen, and reductions in fixed processing costs came to +1.0 billion yen.
At SIA, the effects of lower costs for supplier dies came to +0.7 billion yen, while the impact of increases in fixed processing costs was -0.3 billion yen.

(2) Higher SG&A expenses had a positive impact of 1.6 billion yen.
Of this, SUBARU accounted for +1.1 billion yen, domestic dealers were -0.1 billion yen, SOA was -0.2 billion yen, the Canadian subsidiary was neutral, and others had a positive impact of 0.8 billion yen.

(3) The increase in warranty claims had a negative impact of 80.7 billion yen. This consists primarily of the recall expenses discussed in the previous sheet.

<5> Sales volume & mixture and others came to negative 4.9 billion yen. This factor breaks down into the following four areas.
(1) New car sales domestic: -2.2 billion yen
(2) New car sales overseas: -9.9 billion yen
(3) Incentives: +7.4 billion yen. Of this, SOA was +6.5 billion yen.
Incentives per vehicle were 2,200 dollars, undershooting the planned figure of 2,300 dollars by 100 dollars.

(4) Inventory adjustments and other factors were -0.2 billion yen.

As a result of the above, consolidated operating income for the first half of FYE 2019 fell short of plans by 55.0 billion yen, to 55.0 billion yen.

(Plan as of Oct. 23rd vs. Actual Results) 1st Half :

Consolidated Income Statements

(100 Million Yen)

	Revised Plan 1st Half FYE 2019 as of Oct. 23rd (a)	Actual Results 1st Half FYE 2019 (b)	Variance (b)-(a)
Net sales	14,860	14,868	+8
Operating income	610	550	-60
Ordinary income	660	600	-60
Net income attributable to owners of parent	490	443	-47
SUBARU exchange rate	¥109/US$	¥109/US$	±¥0/US$

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Here we have a comparison with the revised consolidated forecasts disclosed on October 23.

With regard to the inappropriate final inspection of vehicles at our Gunma plant, we took the opportunity of on-the-spot inspections conducted by the Ministry of Land, Infrastructure, Transport and Tourism from October 16, 2018, to carry out additional internal investigations. As a result, we implemented further recalls.

The consequence was a provision for an additional 6.0 billion yen in expenses, which caused the variance from the revised consolidated forecasts announced on October 23.

Consolidated Balance Sheets

(100 Million Yen)

	As of March 2018	As of September 2018	Variance
Total assets	**28,665**	**29,351**	**+686**
Current assets	17,704	17,810	+106
Noncurrent assets	10,960	11,541	+580
Total liabilities	**13,055**	**13,581**	**+526**
Interest bearing debts	862	498	-364
Net assets	**15,610**	**15,770**	**+160**
Retained earnings	12,835	12,726	-109
Shareholders' equity	15,528	15,695	+167
Ratio of shareholders' equity to total assets	54.2%	53.5%	-
D/E ratio	0.06	0.03	-

＊Due to partial amendments to Accounting Standard for Tax Effect Accounting, calculation method has been changed from FYE 2019. The comparative year has been also recalculated under the same conditions.

Next, we will move on to the balance sheet.

Total assets were 2,935.1 billion yen, an increase of 68.6 billion yen from the end of the previous fiscal year. The main causes of this included an increase of 58.0 billion yen in noncurrent assets; an increase in merchandise and finished goods of 52.6 billion yen; an increase in work in process of 19.0 billion yen; a rise in raw materials and supplies of 15.3 billion yen; and a decline of 76.5 billion yen in combined funds in hand (consisting of cash and deposits in addition to short-term investment securities).

Liabilities were 1,358.1 billion yen, increasing by 52.6 billion yen over the end of the previous fiscal year. The major component of this was a 44.5 billion yen increase in accrued expenses.

Net assets were 1,577.0 billion yen, an increase of 16.0 billion yen from the end of the previous fiscal year. The main factors behind this were a rise in the foreign currency translation adjustment of 27.4 billion yen, and a decline in retained earnings of 10.9 billion yen.

The ratio of shareholders' equity to total assets was 53.5%.

1st Half :

Consolidated Statement of Cash Flows

(100 Million Yen)

	Actual Results 1st Half FYE 2018	Actual Results 1st Half FYE 2019	Variance
Net cash provided by (used in) operating activities	2,078	647	-1,431
Net cash provided by (used in) investing activities	-1,014	-800	+214
Free cash flows	1,064	-153	-1,217
Net cash provided by (used in) financing activities	-1,033	-923	+110
Effect of exchange rate change on cash and cash equivalents	27	283	+255
Net increase (decrease) in cash and cash equivalents	58	-794	-852
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	-5	-	+5
Increase (decrease) in cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries	37	-	-37
Cash and cash equivalents at end of period	7,375	6,862	-513

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Now we come to the consolidated statement of cash flows.

Net cash provided by operating activities was 64.7 billion yen.

The main components of this included income before income taxes of 63.0 billion yen, depreciation and amortization of 51.4 billion yen, an increase in accrued expenses of 37.9 billion yen, a rise in inventories of 74.2 billion yen, and income taxes paid of 50.3 billion yen.

Net cash used in investing activities was 80.0 billion yen.

The main component of this was purchases of non-current assets amounting to 75.8 billion yen.

As a result, free cash flow totaled a negative 15.3 billion yen.

Net cash used in financing activities was 92.3 billion yen.

The bulk of this was accounted for by 55.2 billion yen in expenditures for cash dividends paid, a 19.4 billion yen repayment of long-term loans payable, and a decrease in short-term loans payable of 16.9 billion yen.

Cash and cash equivalents totaled 686.2 billion yen.

1st Half :

Operating Results of Subsidiaries in U.S.

(Million US$)

SOA	Actual Results 1st Half FYE 2018	Actual Results 1st Half FYE 2019	Variance
Net sales	9,115	8,643	-472
Operating income	278	104	-174
Net income	177	94	-83
Retail sales (Thousand units)	334.7	350.1	15.4

SIA	Actual Results 1st Half FYE 2018	Actual Results 1st Half FYE 2019	Variance
Net sales	3,901	4,044	+143
Operating income	84	33	-51
Net income	54	28	-26
Production (Thousand units)	178.9	172.6	-6.4

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Now we will look at the results of the U.S. subsidiary.

SOA retail sales rose 15.4 thousand units year on year to 350.1 thousand units, with a decline in sales of the Forester, ahead of a full model change, being offset by the continued strength of the Crosstrek and the volume contribution from the recently launched new Ascent.

Net sales fell by 472 million dollars year on year to 8,643 million dollars, and operating income decreased by 174 million dollars year on year to 104 million dollars.

The factors behind the change in operating income were a negative impact from sales volume & mixture of 76 million dollars, and a further negative effect from increased SG&A expenses of 98 million dollars, leading to a year-on-year decline of 174 million dollars and operating income of 104 million dollars.

SIA net sales rose by 143 million dollars year on year to 4,044 million dollars.
At the operating level, the combination of a negative impact from sales mix variances of 7 million dollars, a negative impact from higher costs of 20 million dollars, and a negative impact from higher fixed costs of 24 million dollars, resulted in a total of 51 million dollars, and operating income of 33 million dollars.

Forecasts for FYE 2019

Revised plan FYE 2019 :

Production plan / Consolidated Unit Sales Plan

(Thousand Units)

	Actual Results FYE 2018 (a)	Previous Plan as of Aug. 6th (b)	Revised Plan (c)	Variance (c)-(a)	Variance (c)-(b)
Production in U.S.	348.6	384	379.7	+31.1	-4.3
Production in Japan	701.2	672	656.1	-45.0	-15.9
Total	**1,049.7**	**1,056**	**1,035.8**	**-13.9**	**-20.2**

* Domestic production figures include Toyota 86/FR-S.

(Thousand Units)

	Actual Results FYE 2018 (a)	Previous Plan as of Aug. 6th (b)	Revised Plan (c)	Variance (c)-(a)	Variance (c)-(b)
Consolidated Unit Sales Total	**1,066.9**	**1,100.4**	**1,041.1**	**-25.8**	**-59.3**

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Next, we will discuss production and consolidated unit sales plans for the full fiscal year ending March 31, 2019.

With regard to production, we have revised our plans downward by 20.2 thousand units from the previous plan to 1,035.8 thousand units, a year-on-year decline of 13.9 thousand units.

We have reviewed these plans due to a series of cases of inappropriate final inspections, which has led to changes being implemented in the inspection process and in the operating conditions.

Accordingly, we have revised our consolidated unit sales plans downward by 25.8 thousand units from the previous plan to 1,041.1 thousand units, a year-on-year decline of 59.3 thousand units.

In terms of units by market, we are still carrying out a detailed investigation of the facts based on these revised plans, and so on this occasion we are announcing only the total figures.

Revised plan FYE 2019 :

Consolidated Income Plan

(100 Million Yen)

	Actual Results FYE 2018 (a)	Previous Plan as of Aug. 6th (b)	Revised Plan (c)	Variance (c)-(a)	Variance (c)-(b)
Net Sales	*(34,052)* **32,327**	**32,500**	**32,100**	**-227**	**-400**
Domestic	*(6,686)* 6,680	6,086	6,173	-507	+87
Overseas	*(27,367)* 25,647	26,415	25,927	+280	-487
Operating Income	**3,794**	**3,000**	**2,200**	**-1,594**	**-800**
Ordinary Income	**3,799**	**3,050**	**2,290**	**-1,509**	**-760**
Income before Taxes and Minority Interests	**2,973**	**2,987**	**2,290**	**-683**	**-697**
Net Income Attributable to Owners of Parent	**2,204**	**2,200**	**1,670**	**-534**	**-530**
SUBARU Exchange Rate	¥111/US$	¥105/US$	¥110/US$	-¥2/US$	+¥5/US$

* Changed accounting policies from FYE 2019 (deducting sales incentives from net sales). The comparative year has been also recalculated under the same conditions.

* Figure in ( ) : Net sales before deducting sales incentives

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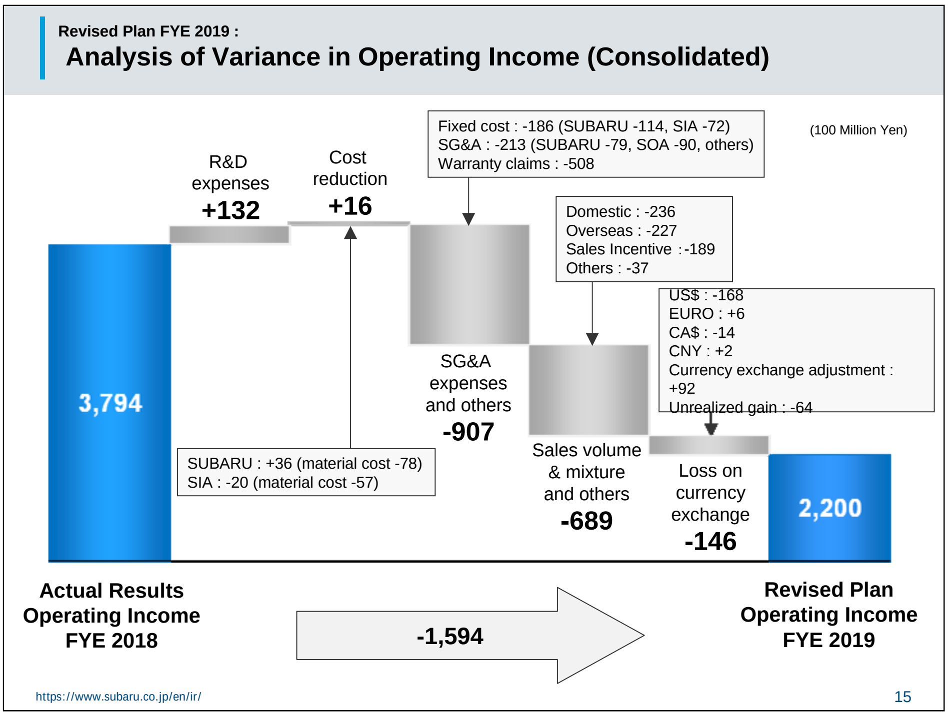
Next we will look at the consolidated income statements plan.

As a result of incorporating the decline in unit sales and the increase in quality-related expenses and other factors, consolidated net sales are forecast to fall by 22.7 billion yen year on year to 3,210.0 billion yen. Operating income is set to decline by 159.4 billion yen to 220.0 billion yen, while ordinary income and net income attributable to owners of parent have been revised to 229.0 billion yen and 167.0 billion yen respectively.

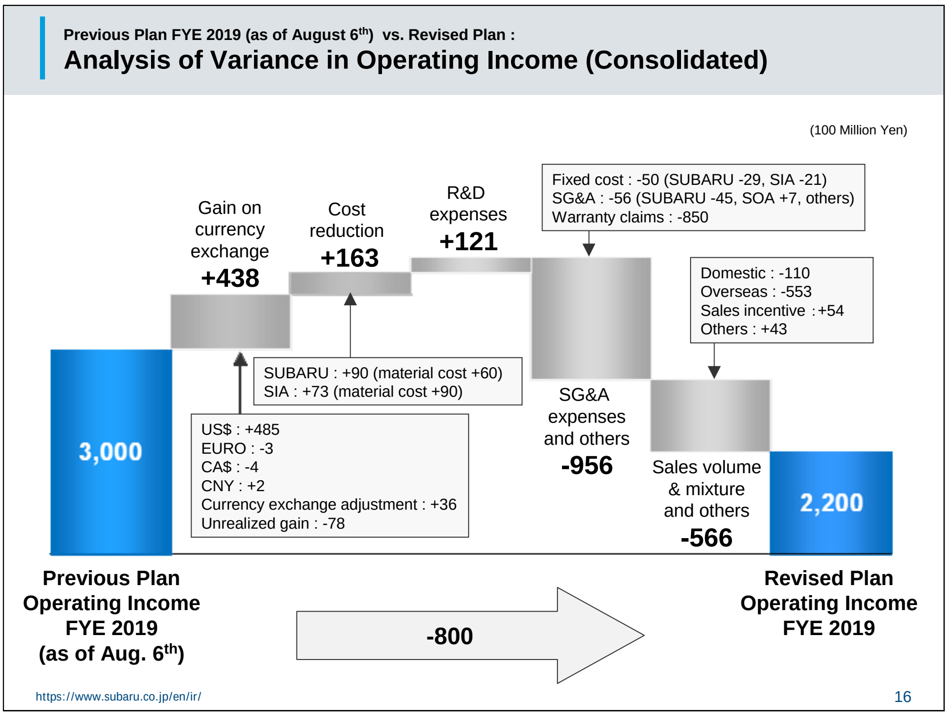


Now let us look at the analysis of variance at the operating income level.
Compared to the result for the same period of the previous fiscal year, there has been a decline of 159.4 billion yen, the respective components of which will now be explained.

First, we will explain the two factors that are forecast to push up operating income.
<1> Decline in R&D expenses with a positive impact of 13.2 billion yen.
<2> Positive cost-reduction effects of 1.6 billion yen. Of that, SUBARU accounts for +3.6 billion yen and SIA for -2.0 billion yen.
For SUBARU the breakdown is +11.4 billion yen in cost reductions, and -7.8 billion yen from material prices and market conditions, etc.
For SIA the breakdown is +3.7 billion yen in cost reductions, and -5.7 billion yen from material prices and market conditions, etc.

Next, we will look at factors pushing down profit.
<1> The increase in SG&A and other expenses is expected to push down operating income by 90.7 billion yen. There are three factors behind this, as follows.
(1) Increases in fixed manufacturing costs have a negative impact of 18.6 billion yen. Of this, SUBARU is slated to see increased costs for supplier dies of 9.3 billion yen, and higher fixed processing costs of 2.1 billion yen, for a total of 11.4 billion yen.
SIA will likely experience a rise in costs for supplier dies of 3.4 billion yen and increased fixed processing costs of 3.8 billion yen, for a total negative impact of 7.2 billion yen.
(2) Higher SG&A expenses are predicted to have a negative impact of 21.3 billion yen.
Of this, SUBARU is projected to account for -79.0 billion yen, domestic dealers for -1.1 billion yen, SOA for -9.0 billion yen, the Canadian subsidiary for -1.0 billion yen, and others for -2.3 billion yen.
(3) An increase in warranty claims is forecast to have a negative impact of 50.8 billion yen.
The previous fiscal year saw the recording of expenses such as those related to recall costs for final inspection issues, and increased provisions for product warranties. This fiscal year also, expenses are expected to rise due to major recall expenses such as those related to valve springs, and additional records in relation to final inspection problems.
<2> The negative impact of sales volume & mixture and others is seen at 68.9 billion yen. There are four factors behind this, as follows.
(1) New car sales domestic: -23.6 billion yen
(2) New car sales overseas: -22.7 billion yen
(3) Incentives: -18.9 billion yen Of which, SOA accounts for 15.0 billion yen.
Incentives per vehicle this fiscal year are forecast to rise 250 dollars year on year from 2,000 dollars to 2,250 dollars.
(4) Inventory adjustments and other factors: -3.7 billion yen.
<3> Finally, foreign exchange losses are estimated to come in at 14.6 billion yen.
We expect the yen to appreciate by around 2 yen against the U.S. dollar, resulting in a negative impact of 16.8 billion yen.
The roughly 1-yen depreciation against the euro is forecast to result in a positive impact of 0.6 billion yen, while the approximately 2-yen appreciation against the Canadian dollar will likely have a negative effect of 1.4 billion yen, with the impact of the Chinese yuan being positive by 0.2 billion yen.
Others and foreign exchange adjustments related to transactions between SUBARU and its overseas subsidiaries are predicted to have a positive impact of 9.2 billion yen, while unrealized gains on inventory are forecast to be negative by 6.4 billion yen.

As a result of the above factors, operating income for the full fiscal year ending March 31, 2019 is forecast to decline by 159.4 billion yen from 379.4 billion yen the previous year to 220.0 billion yen.



Next we will explain the 80.0 billion yen reduction in profit when compared to the previous plans.

First, we will explain the three factors that are forecast to push up operating income.
<1> The first is foreign exchange rate gains of 43.8 billion yen.
The yen is expected to weaken by roughly 5 yen against the U. S. dollar, leading to a positive impact of 48.5 billion yen.
Minor fluctuations in the euro are expected to have a negative effect of 0.3 billion yen, with the impact of the Canadian dollar forecast to be negative 0.4 billion yen, and the Chinese yuan contributing a positive 0.2 billion yen.
Others and foreign exchange adjustments related to transactions between SUBARU and its overseas subsidiaries are predicted to have a positive impact of 3.6 billion yen, while unrealized gains on inventory are forecast to be negative by 7.8 billion yen.
<2> Cost reductions are seen having a positive impact of 16.3 billion yen. Of that, SUBARU is expected to account for +9.0 billion yen and SIA for +7.3 billion yen.
The breakdown of the SUBARU portion is +3.0 billion yen in cost reductions, and +6.0 billion yen from material prices and market conditions, etc.
For SIA the breakdown is -1.7 billion yen in cost reductions, and +9.0 billion yen from material prices and market conditions, etc.
< 3> R&D expenses predicted to have a positive impact of 12.1 billion yen.

Next, we will look at the factors depressing profit.
<1> An increase in SG&A and other expenses pushing down profit by 95.6 billion yen. There are three factors behind this, as follows.
(1) Increases in fixed manufacturing costs with a negative impact of 5.0 billion yen. Of this, SUBARU is to see increased costs for supplier dies of 1.7 billion yen, and higher fixed processing costs of 1.2 billion yen, depressing operating income by 2.9 billion yen. SIA is expected to experience a fall in costs for supplier dies of 2.1 billion yen and increased fixed processing costs of 4.2 billion yen, for a total negative impact of 2.1 billion yen.
(2) Higher SG&A expenses with an estimated negative impact of 5.6 billion yen.
Of this, SUBARU is projected to account for -4.5 billion yen, domestic dealers for -0.9 billion yen, SOA for +0.7 billion yen, the Canadian subsidiary for -0.7 billion yen, and others for -0.3 billion yen.
(3) Increased warranty claims are forecast to have a negative impact of 85.0 billion yen.
<2> The negative impact of sales volume & mixture and others is seen at 56.6 billion yen. There are four factors behind this, as follows.
(1) New car sales domestic: -11.0 billion yen
(2) New car sales overseas: -55.3 billion yen
(3) Incentives: +5.4 billion yen. Of which, SOA to account for +3.5 billion yen.
Incentives per vehicle are forecast to rise by 50 dollars from the previous forecast, from 2,200 dollars to 2,250 dollars.
(4) Inventory adjustments and other factors: +4.3 billion yen.

As a result of the above factors, operating income for the full fiscal year ending March 31, 2019 is now expected to be 220.0 billion yen, 80.0 billion yen lower than the previous plan of 300.0 billion yen.

Capex / Depreciation / R&D / Interest bearing debt

(100 Million Yen)

	Actual Results 1st Half FYE 2018	Actual Results 1st Half FYE 2019	Actual Results FYE 2018 (a)	Previous Plan FYE 2019 (as of August 6th) (b)	Revised Plan FYE 2019 (c)	Variance (c)-(a)	Variance (c)-(b)
Capex	545	591	1,414	1,300	1,300	-114	±0
Depreciation	421	473	898	930	930	+32	±0
R&D	609	545	1,211	1,200	1,080	-131	-120
Interest Bearing Debt	976	498	862	800	500	-362	-300

* Changed accounting policies from FYE 2019.
The Company and its major domestic consolidated subsidiaries changed depreciation method of certain tangible fixed assets from the declining-balance method to the straight-line method.

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Next, we will look at capital expenditures, depreciation costs, R&D expenses, and interest-bearing debt. Capital expenditures for the first half were 59.1 billion yen, while depreciation was 47.3 billion yen and R&D expenses came to 54.5 billion.

With regard to full-year plans, there have been no changes from the previously announced figures for capital expenditures and the depreciation, but R&D expenses have been cut by 12.0 billion yen from the previous plan, to 108.0 billion yen, and interest-bearing debt is now expected to be 30.0 billion yen lower at 50.0 billion yen.

Shareholder Returns

【Dividend per share】

(Japanese Yen)

	FYE2018	FYE2019	
		Previous projection	Revised projection
2^{nd} Quarter	72	72	72
Year-end	72	72	72
Annual (Forecast)	144	144	144

Finally, we come to returns to shareholders.

The interim dividend will be 72 yen.

With regard to the year-end dividend, although the level of profits has deteriorated compared to the previous set of forecasts due to lower unit sales and increases in quality-related expenses etc., the dividend forecast has been left unchanged.

The remaining pages contain segment information, etc. for your reference.

This concludes the briefing on our financial results for the first half of the fiscal year ending March 31, 2019. Thank you very much.

Appendix

- Non-operating income
  & expenses and extraordinary income & loss (1H)
- Segment information by business & geographic (1H)
- Overseas net sales (1H)
- Non-consolidated unit sales (1H)
- Consolidated income statements (2Q)
- Complete cars production / Retail sales units

1st Half :
Non-operating Income & Expenses and Extraordinary Income & Loss (Consolidated)

(100 Million Yen)

	Actual Results 1st Half FYE 2018	Actual Results 1st Half FYE 2019	Variance
Financial revenue and expenditure	24	56	+32
FOREX effects	-20	-8	+12
Other	2	2	-0
Total non-operating income & expenses	**6**	**50**	**+44**
Gain on sales of noncurrent assets	2	10	+9
Gain on sales of investment securities	6	36	+29
Loss on sales and retirement of noncurrent assets	-29	-25	+4
Loss related to airbags	-813	-	+813
Others	-9	+8	+17
Total extraordinary income & loss	**-842**	**+30**	**+872**

1st Half :

Net Sales and Operating Income by Business Segment (Consolidated)

(100 Million Yen)

	Net Sales				Operating Income		
	Actual Results 1st Half FYE 2018		Actual Results 1st Half FYE 2019	Variance	Actual Results 1st Half FYE 2018	Actual Results 1st Half FYE 2019	Variance
Automobile	*(16,000)*	15,217	14,164	-1,053	2,053	500	-1,553
Aerospace	*(680)*	680	630	-50	42	30	-12
Others	*(183)*	183	74	-109	24	18	-6
Elimination & Corporate					3	3	+0
Total	*(16,863)*	16,080	14,868	-1,212	2,121	550	-1,571

* Changed accounting policies from FYE 2019 (deducting sales incentives from net sales). The comparative year has been also recalculated under the same conditions.
* Figure in ( ) : Net sales before deducting sales incentives

1st Half :
Net Sales and Operating Income by Geographic Area (Consolidated)

(100 Million Yen)

	Net Sales				Operating Income		
	Actual Results 1st Half FYE 2018		Actual Results 1st Half FYE 2019	Variance	Actual Results 1st Half FYE 2018	Actual Results 1st Half FYE 2019	Variance
Japan	*(4,979)*	4,975	4,496	-479	1,586	266	-1,321
North America	*(10,927)*	10,176	9,553	-623	439	239	-200
Others	*(957)*	929	820	-110	24	13	-11
Elimination& Corporate					72	32	-40
Total	*(16,863)*	16,080	14,868	-1,212	2,121	550	-1,571

* Changed accounting policies from FYE 2019 (deducting sales incentives from net sales). The comparative year has been also recalculated under the same conditions.
* Figure in ( ): Net sales before deducting sales incentives

1st Half :

Overseas Net Sales (Consolidated)

(100 Million Yen)

	Actual Results 1st Half FYE 2018		Actual Results 1st Half FYE 2019	Variance
North America	*(11,492)*	10,741	10,016	-725
Europe	*(541)*	538	629	+91
Asia	*(698)*	673	538	-136
Other	*(846)*	844	811	-33
Total	*(13,577)*	12,797	11,994	-804

* Changed accounting policies from FYE 2019 (deducting sales incentives from net sales). The comparative year has been also recalculated under the same conditions.
* Figure in ( ): Net sales before deducting sales incentives

1st Half :
Non-consolidated Unit Sales

(Thousand Units)

	Actual Results 1st Half FYE 2018	Actual Results 1st Half FYE 2019	Variance
Domestic production	346.2	318.9	-27.2
Domestic sales	85.6	68.9	-16.7
Passenger cars	70.0	56.0	-14.0
Minicars	15.7	12.9	-2.7
Number of exported vehicles	271.3	254.4	-16.9
Components for overseas production	178.4	190.6	+12.2
Total	535.3	513.8	-21.5

* Domestic production figures include Toyota 86/FR-S.

2Q (3 months) :

Consolidated Unit Sales

(Thousand Units)

	Actual Results 2Q (3 months) FYE 2018	Actual Results 2Q (3 months) FYE 2019	Variance
Passenger car	34.0	29.5	-4.5
Minicar	7.9	6.6	-1.3
Domestic total	**41.9**	**36.0**	**-5.8**
US	159.3	152.4	-6.9
Canada	15.3	16.1	+0.8
Russia	1.8	2.6	+0.8
Europe	9.4	5.3	-4.1
Australia	13.6	12.6	-1.0
China	5.8	5.8	-0.0
Others	12.8	13.3	+0.4
Overseas total	**218.1**	**208.1**	**-9.9**
Total	**259.9**	**244.2**	**-15.7**

2Q (3 months) :

Consolidated Income Statements

(100 Million Yen)

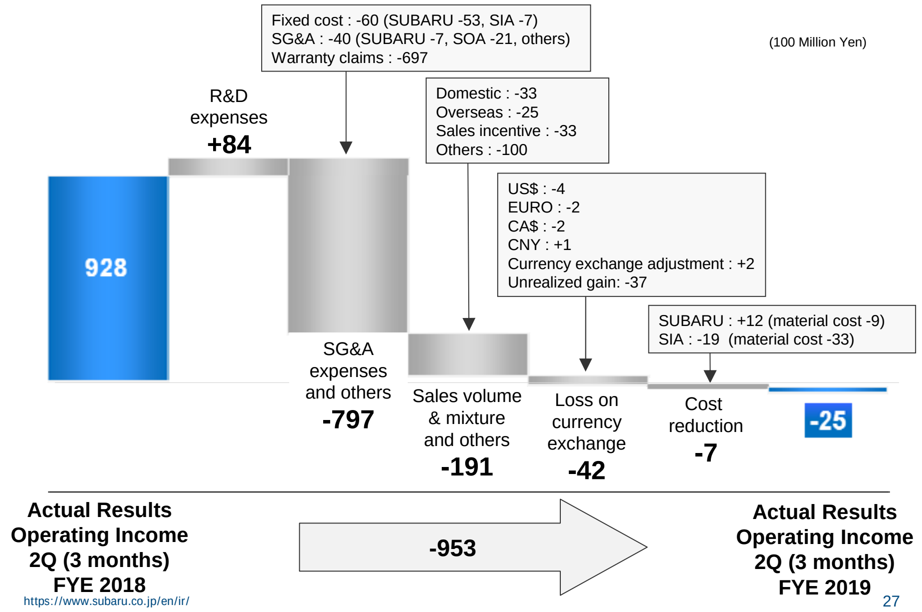
	Actual Results 2Q (3 months) FYE 2018		Actual Results 2Q (3 months) FYE 2019	Variance
Net sales	(8,315)	7,940	7,776	-164
Domestic	(1,681)	1,679	1,572	-107
Overseas	(6,634)	6,261	6,204	-57
Operating income		928	-25	-953
Ordinary income		935	-1	-935
Income before taxes and minority interests		103	14	-88
Net income attributable to owners of parent		27	-12	-38
SUBARU exchange rate		¥111/US$	¥111/US$	-¥0/US$

* Changed accounting policies from FYE 2019 (deducting sales incentives from net sales). The comparative year has been also recalculated under the same conditions.

* Figure in ( ) :Net sales before deducting sales incentives

2Q (3 months) :

Analysis of Variance in Operating Income(Consolidated)



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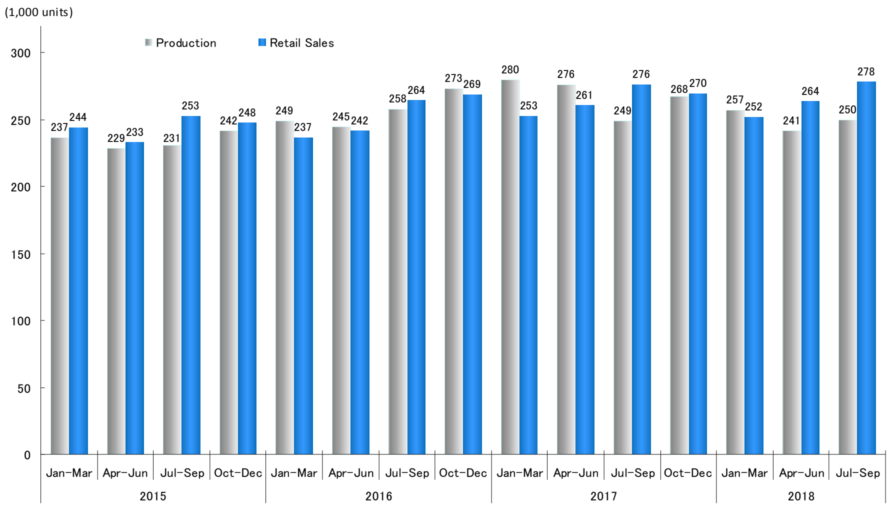
Complete Cars Production / Retail Sales Units



※ Production figures include Toyota 86

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Forward-looking statements including projections and future strategies mentioned in this presentation are based on currently available information and assumptions and are subject to risks and uncertainties. Actual results may vary materially as a result of various factors including, without limitation, economic conditions, market demand and fluctuations in foreign exchange rates. Investors are asked not to rely solely on the information in this presentation when they make their final investment decisions.

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