

Consolidated Balance Sheets

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2017 and 2016

ASSETS	Millions of yen		Thousands of U.S. dollars
	2017	2016	(Note 1) 2017
Current assets:			
Cash and deposits (Note 4 and 5)	¥658,822	¥507,553	\$5,871,854
Notes and accounts receivable-trade (Note 5)	158,454	140,319	1,412,246
Lease investment assets (Note 5 and 18)	18,538	21,532	165,223
Short-term investment securities (Notes 4, 5 and 6)	320,579	500,572	2,857,210
Merchandise and finished goods	205,991	192,705	1,835,927
Work in process	51,754	50,666	461,266
Raw materials and supplies	43,586	34,996	388,467
Deferred tax assets (Note 12)	109,600	90,893	976,827
Short-term loans receivable (Note 5)	176,433	151,973	1,572,487
Other current assets	102,045	93,509	909,492
Allowance for doubtful accounts	(551)	(625)	(4,912)
Total current assets	1,845,251	1,784,093	16,446,087
Property, plant and equipment (Notes 7 and 9)	1,622,363	1,485,530	14,459,563
Accumulated depreciation	(937,015)	(886,905)	(8,351,292)
Accumulated impairment loss	(28,083)	(25,992)	(250,294)
Total property, plant and equipment	657,265	572,633	5,857,977
Investments and other assets:			
Intangible assets	24,905	20,989	221,970
Investment securities (Note 5 and 6)	104,278	106,987	929,394
Investments in non-consolidated subsidiaries and affiliated companies	4,006	5,415	35,704
Net defined benefit assets (Note 11)	931	1,774	8,298
Deferred tax assets (Note 12)	20,922	16,339	186,471
Other assets	108,074	87,607	963,226
Allowance for doubtful accounts	(3,311)	(3,427)	(29,510)
Total investments and other assets	259,805	235,684	2,315,553
Total assets	¥2,762,321	¥2,592,410	\$24,619,617

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Current liabilities:			
Notes and accounts payable-trade (Note 5)	¥349,737	¥326,625	\$3,117,086
Electronically recorded obligations-operating (Note 5)	92,098	91,476	820,838
Short-term loans payable (Note 5 and 7)	43,205	33,252	385,071
Current portion of long-term debts (Note 5 and 7)	44,443	43,692	396,105
Accrued expenses (Note 5)	221,328	132,759	1,972,620
Provision for bonuses	23,678	23,554	211,034
Provision for product warranties	59,259	51,251	528,155
Accrued income taxes (Note 5 and 12)	13,858	100,272	123,512
Provision for loss on business liquidation	3,317	-	29,563
Other current liabilities (Note 5, 7 and 12)	162,815	156,614	1,451,113
Total current liabilities	1,013,738	959,495	9,035,097
Long-term liabilities:			
Long-term debts (Note 5 and 7)	60,612	93,030	540,214
Net defined benefit liability (Note 11)	18,615	18,586	165,909
Deferred tax liabilities (Note 12)	29,802	18,769	265,615
Other long-term liabilities (Note 7)	174,666	153,119	1,556,738
Total long-term liabilities	283,695	283,504	2,528,476
Contingent liabilities (Note 20)			
Net assets: (Note 13)			
Shareholders' equity:			
Capital stock			
Authorized— 1,500,000,000 shares			
Issued — 769,175,873 shares	153,795	153,795	1,370,722
Capital surplus	160,178	160,071	1,427,612
Retained earnings	1,173,277	1,049,016	10,457,015
Less—treasury stock, at cost,	(7,173)	(1,402)	(63,931)
2017— 2,490,224 shares			
2016— 2,487,843 shares			
Total shareholders' equity	1,480,077	1,361,480	13,191,418
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	8,099	11,344	72,183
Foreign currency translation adjustments	(16,631)	(13,415)	(148,226)
Remeasurements of defined benefit plans	(10,996)	(12,808)	(98,003)
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	(1,885)	(2,869)	(16,800)
Total accumulated other comprehensive income	(21,413)	(17,748)	(190,846)
Non-controlling interests	6,224	5,679	55,472
Total net assets	1,464,888	1,349,411	13,056,044
Total liabilities and net assets	¥2,762,321	¥2,592,410	\$24,619,617

The accompanying notes are an integral part of these balance sheets.

Consolidated Statements of Income

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net sales (Note 2)	¥3,325,992	¥3,232,258	\$29,643,422
Cost of sales (Note 14)	2,386,266	2,187,136	21,267,967
Gross profit	939,726	1,045,122	8,375,455
Selling, general and administrative expenses (Note 2 and 15)	528,916	479,533	4,714,047
Operating income	410,810	565,589	3,661,408
Other income (expenses):			
Interest and dividend income	4,616	5,190	41,142
Interest expenses	(1,846)	(2,499)	(16,453)
Equity in earnings of affiliates	292	739	2,602
Foreign exchange gains (losses)	(4,800)	(2,056)	(42,781)
Gain (loss) on valuation of derivatives	(4,248)	9,883	(37,861)
Gain (loss) on sales and retirement of noncurrent assets	(3,270)	(4,530)	(29,144)
Gain (loss) on sales of investment securities (Note 6)	10,144	2,430	90,410
Reversal of allowance for doubtful accounts	-	30,152	-
Depreciation	(956)	(981)	(8,520)
Cost of Settlement	(7,659)	-	(68,262)
Impairment loss (Note 9)	(1,188)	(11)	(10,588)
Loss on business liquidation	(5,122)	-	(45,651)
Other, net	(2,078)	15,097	(18,521)
	(16,115)	53,414	(143,627)
Income before income taxes	394,695	619,003	3,517,781
Income taxes (Note 12):			
Current	123,591	191,168	1,101,523
Deferred	(12,448)	(8,524)	(110,943)
	111,143	182,644	990,580
Net income	283,552	436,359	2,527,201
Net income (loss) attributable to non-controlling Interests	1,198	(295)	10,677
Net income attributable to owners of the parent	¥282,354	¥436,654	\$2,516,524

	Yen		U.S. dollars (Note 1)
	2017	2016	2017
Per share data (Note 2) :			
Net income (loss)			
—Basic	¥365.77	¥559.54	\$3.26
—Diluted *	-	-	-
Net assets	1,902.56	1,721.90	16.96
Cash dividends (Note 13)	¥144.00	¥144.00	\$1.28

The accompanying notes are an integral part of these statements.

*For the year ended March 31, 2017 and 2016 diluted information is not presented because potentially dilutive securities do not exist.

Consolidated Statements of Comprehensive Income(loss)

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Net Income	¥283,552	¥436,359	\$2,527,201
Other comprehensive income(loss) (Note 3)			
Valuation difference on available-for-sale securities	(3,245)	(6,642)	(28,922)
Foreign currency translation adjustments	(2,968)	(23,777)	(26,453)
Remeasurements of defined benefit plans	1,812	(1,192)	16,150
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	984	1,007	8,770
Share of other comprehensive income (loss) of associates accounted for using equity method	(783)	(52)	(6,978)
Total other comprehensive income(loss)	(4,200)	(30,656)	(37,433)
Comprehensive income(loss)	¥279,352	¥405,703	\$2,489,768
Comprehensive income (loss) attributable to:			
Owners of the parent	278,689	406,387	2,483,859
Non-controlling interests	¥663	(¥684)	\$5,909

Consolidated Statements of Changes in Net Assets

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

As of March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2017	2016	2017
Shareholders' equity			
Capital stock			
Balance at the beginning of current period	¥153,795	¥153,795	\$1,370,722
Balance at the end of current period	153,795	153,795	1,370,722
Capital surplus			
Balance at the beginning of current period	160,071	160,071	1,426,658
Changes of items during the period			
Disposal of treasury stock	1	0	9
Retirement of treasury shares	(46,973)	-	(418,654)
Transfer to capital surplus from retained earnings	46,972	-	418,645
Other	107	-	954
Total changes of items during the period	107	0	954
Balance at the end of current period	160,178	160,071	1,427,612
Retained earnings			
Balance at the beginning of current period	1,049,016	697,414	9,349,519
Changes of items during the period			
Dividends from surplus	(111,446)	(85,105)	(993,280)
Net income attributable to owners of the parent	282,354	436,654	2,516,524
Disposal of treasury stock	(1)	(1)	(9)
Change of scope of equity method	325	-	2,897
Transfer to capital surplus from retained earnings	(46,972)	-	(418,645)
Other	1	54	9
Total changes of items during the period	124,261	351,602	1,107,496
Balance at the end of current period	1,173,277	1,049,016	10,457,015
Treasury stock			
Balance at the beginning of current period	(1,402)	(1,382)	(12,496)
Changes of items during the period			
Purchase of treasury stock	(52,744)	(20)	(470,089)
Disposal of treasury stock	0	0	0
Retirement of treasury shares	46,973	-	418,654
Other	-	-	-
Total changes of items during the period	(5,771)	(20)	(51,435)
Balance at the end of current period	(7,173)	(1,402)	(63,931)
Total shareholders' equity			
Balance at the beginning of current period	1,361,480	1,009,898	12,134,403
Changes of items during the period			
Dividends from surplus	(111,446)	(85,105)	(993,280)
Net income attributable to owners of the parent	282,354	436,654	2,516,524
Purchase of treasury stock	(52,744)	(20)	(470,089)
Disposal of treasury stock	0	(1)	0
Change of scope of equity method	325	-	2,897
Other	108	54	963
Total changes of items during the period	118,597	351,582	1,057,015
Balance at the end of current period	¥1,480,077	¥1,361,480	\$13,191,418

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2017	2016	2017
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	¥11,344	¥17,986	\$101,105
Changes of items during the period			
Net changes of items other than shareholders' equity	(3,245)	(6,642)	(28,922)
Total changes of items during the period	(3,245)	(6,642)	(28,922)
Balance at the end of current period	8,099	11,344	72,183
Foreign currency translation adjustments			
Balance at the beginning of current period	(13,415)	10,025	(119,563)
Changes of items during the period			
Net changes of items other than shareholders' equity	(3,216)	(23,440)	(28,663)
Total changes of items during the period	(3,216)	(23,440)	(28,663)
Balance at the end of current period	(16,631)	(13,415)	(148,226)
Remeasurements of defined benefit plans			
Balance at the beginning of current period	(12,808)	(11,616)	(114,153)
Changes of items during the period			
Net changes of items other than shareholders' equity	1,812	(1,192)	16,150
Total changes of items during the period	1,812	(1,192)	16,150
Balance at the end of current period	(10,996)	(12,808)	(98,003)
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries			
Balance at the beginning of current period	(2,869)	(3,876)	(25,570)
Changes of items during the period			
Net changes of items other than shareholders' equity	984	1,007	8,770
Total changes of items during the period	984	1,007	8,770
Balance at the end of current period	(1,885)	(2,869)	(16,800)
Total accumulated other comprehensive income			
Balance at the beginning of current period	(17,748)	12,519	(158,181)
Changes of items during the period			
Net changes of items other than shareholders' equity	(3,665)	(30,267)	(32,665)
Total changes of items during the period	(3,665)	(30,267)	(32,665)
Balance at the end of current period	(21,413)	(17,748)	(190,846)
Non-controlling interests			
Balance at the beginning of current period	5,679	8,302	50,615
Changes of items during the period			
Net changes of items other than shareholders' equity	545	(2,623)	4,857
Total changes of items during the period	545	(2,623)	4,857
Balance at the end of current period	6,224	5,679	55,472
Total net assets			
Balance at the beginning of current period	1,349,411	1,030,719	12,026,837
Changes of items during the period			
Dividends from surplus	(111,446)	(85,105)	(993,280)
Net income attributable to owners of the parent	282,354	436,654	2,516,524
Purchase of treasury stock	(52,744)	(20)	(470,089)
Disposal of treasury stock	0	(1)	0
Change of scope of equity method	325	-	2,897
Other	108	54	963
Net changes of items other than shareholders' equity	(3,120)	(32,890)	(27,808)
Total changes of items during the period	115,477	318,692	1,029,207
Balance at the end of current period	¥1,464,888	¥1,349,411	\$13,056,044

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2017 and 2016

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2017	2016	
Net cash provided by (used in) operating activities			
Income before income taxes	¥394,695	¥619,003	\$3,517,781
Depreciation and amortization	85,653	72,938	763,396
Increase (decrease) in allowance for doubtful accounts	(189)	(30,260)	(1,684)
Interest and dividends income	(4,616)	(5,190)	(41,141)
Interest expenses	1,846	2,499	16,453
Increase (decrease) in provision for loss on business liquidation	3,317	-	29,563
Loss (gain) on sales and retirement of noncurrent assets	3,270	4,530	29,144
Loss (gain) on sales and valuation of investment securities	(9,322)	2,957	(83,084)
Decrease (increase) in operating loans receivable	(3,898)	(6,540)	(34,742)
Decrease (increase) in notes and accounts receivable-trade	(19,684)	22,791	(175,437)
Decrease (increase) in inventories	(32,444)	(1,342)	(289,162)
Increase (decrease) in notes and accounts payable-trade	24,458	30,082	217,986
Increase (decrease) in accrued expenses	88,159	(11,792)	785,731
Other, net	19,003	7,674	169,367
Sub-total	550,248	707,350	4,904,171
Interest and dividends income received	5,236	5,668	46,667
Interest expenses paid	(1,852)	(2,528)	(16,506)
Proceeds from compensation for damage	-	48,184	-
Income taxes paid	(208,190)	(144,418)	(1,855,526)
Net cash provided by (used in) operating activities	345,442	614,256	3,078,806
Net cash provided by (used in) investing activities			
Net decrease (increase) in time deposits	(25,809)	(101,631)	(230,027)
Purchase of short-term investment securities	(135,061)	(48,845)	(1,203,752)
Proceeds from sales of short-term investment securities	98,133	47,032	874,626
Purchase of non-current assets	(163,774)	(126,732)	(1,459,661)
Proceeds from sales of non-current assets	1,327	975	11,827
Purchase of investment securities	(48,705)	(47,005)	(434,091)
Proceeds from sales of investment securities	46,585	25,240	415,196
Payments of loans receivable	(137,006)	(106,117)	(1,221,087)
Collection of loans receivable	117,687	108,636	1,048,904
Other, net	(7,629)	(7,229)	(67,996)
Net cash provided by (used in) investing activities	(254,252)	(255,676)	(2,266,061)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	9,939	(7,822)	88,583
Proceeds from long-term loans payable	12,930	11,760	115,241
Repayments of long-term loans payable	(34,605)	(44,797)	(308,422)
Redemption of bonds	(10,000)	-	(89,127)
Purchase of treasury shares	(52,744)	(20)	(470,089)
Cash dividends paid	(111,435)	(84,938)	(993,182)
Dividends paid to non-controlling interests	(1,944)	-	(17,326)
Other, net	(1,185)	(373)	(10,562)
Net cash provided by (used in) financing activities	(189,044)	(126,190)	(1,684,884)
Effect of exchange rate change on cash and cash equivalents	(2,991)	(14,887)	(26,658)
Net increase (decrease) in cash and cash equivalents	(100,845)	217,503	(898,797)
Cash and cash equivalents at beginning of the period	829,461	612,085	7,392,701
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	-	(127)	-
Cash and cash equivalents at end of the period	¥728,616	¥829,461	\$6,493,904

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Basis of Presentation of the Financial Statements

The accompanying consolidated financial statements of SUBARU CORPORATION (the "Company") have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance, as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese-language consolidated financial statements, but not considered necessary for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars in the accompanying consolidated financial statements are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.20 to U.S. \$1. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

[1] The Scope of Consolidation and Application of the Equity Method

The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The fiscal year-end of consolidated subsidiaries is the same as that of the parent company, except for 4 consolidated foreign subsidiaries in fiscal year 2017 and 4 consolidated foreign subsidiaries in fiscal year 2016, respectively, the fiscal year-end of those subsidiaries is December 31. The operating results of those subsidiaries that have different fiscal year-end are consolidated by using the financial statements as of each subsidiary's respective fiscal year-end, the necessary adjustments being made in consolidation if there are any significant transactions between January 1 and March 31.

The consolidated financial statements include the accounts of the Company and 77 subsidiaries in fiscal year 2017 and 77 subsidiaries in fiscal year 2016, respectively.

In addition, 2 affiliated companies were accounted for by the equity method in fiscal 2017, 1 non-consolidated subsidiary and 1 affiliated companies were accounted for by the equity method in fiscal 2016, respectively.

Investments in insignificant non-consolidated subsidiary and affiliated companies not accounted for by the equity method are carried at cost.

[2] Short-Term Investment Securities and Investment Securities

Under the Japanese accounting standards for financial instruments, available-for-sale securities for which fair values are available are stated at their fair value as of the balance sheet dates with unrealized holding gains and losses included as a separate component of net assets until realized, while securities for which fair values are not readily available are stated at cost, as determined by the moving-average method, after taking into consideration devaluation, if any, for permanent impairment. Held-to-maturity debt securities are stated using the amortized cost method.

[3] Inventories

Inventories for regular sales are stated at cost, determined mainly by the moving-average cost method. (Book value on the balance sheet is measured based on the lower of cost or market value.)

[4] Property, Plant and Equipment (Excluding Leased Assets)

Property, plant and equipment are stated at cost. Significant renewals and additions are capitalized; ordinary maintenance, ordinary repairs, minor renewals and minor improvements are charged to the consolidated statements of income as incurred.

Depreciation of the property, plant and equipment of the Company and its consolidated domestic subsidiaries is principally calculated by the declining-balance method, except for those buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016 for which the straight-line method is applied.

Depreciation of the property, plant and equipment of consolidated foreign subsidiaries is calculated by the straight-line method over the estimated useful lives of the assets.

Estimated useful lives for depreciable assets are as follows:

Buildings and structures: 7–50 years

Machinery, equipment and vehicles: 2–20 years

[5] Intangible Assets (Excluding Leased Assets)

Computer software used internally by the Company and its consolidated subsidiaries is amortized by the straight-line method over the relevant economic useful lives of 3 or 5 years.

[6] Leased Assets

For leased assets under finance lease transactions in which the ownership is transferred to the lessee:

The leased assets are depreciated by the same method as used for other property, plant and equipment.

For leased assets under finance lease transactions in which the ownership is not transferred to the lessee: The leased assets are depreciated by the straight-line method over the leased period and the residual value is zero.

[7] Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided based on the amount calculated from the historical ratio of bad debt for ordinary receivables, and estimated amounts of uncollectible accounts for specific overdue receivables.

[8] Provision for Bonuses

Employees' bonuses are recognized as expenses for the period in which those are incurred.

[9] Provision for Product Warranties

The Company and its consolidated subsidiaries provide for accrued warranty claims on products sold based on their past experiences of warranty services and estimated future warranty costs, which are included in "Accrued expenses" in the accompanying consolidated balance sheets.

[10] Provision for Loss on Construction Contracts

The provision for losses on uncompleted construction of contracts in the Aerospace segment is provided when substantial losses on the contracts are anticipated at the fiscal year-end for the next fiscal year and beyond and such losses can be reasonably estimated.

[11] Provision for Loss on business liquidation

The provision for losses on business liquidation is provided due to important business liquidation.

[12] Accounting method for Retirement Benefits

Net defined benefit liability (assets) for employees is provided based on the estimated amounts of projected pension and severance obligation and the fair value of plan assets at the end of the fiscal year. In determining retirement benefit obligations, the straight-line basis is used for attributing expected benefit to periods.

Unrecognized prior service cost is being amortized on the straight-line method over a period (13-18 years) that is shorter than the average remaining service period of the eligible employees. Unrecognized net actuarial gain or loss is amortized from the following fiscal year on the straight-line method over a period (primarily 16 years for fiscal years 2017 and 2016) that is shorter than the average remaining service period of the eligible employees.

Directors and statutory auditors of the Company and its consolidated domestic subsidiaries are entitled to receive a lump-sum payment at the time of severance or retirement, subject to shareholder approval. The liabilities for such benefits, which are determined based on the Company's and its consolidated subsidiaries' internal rules, are included in "Other long-term liabilities" in the accompanying consolidated balance sheets.

[13] Translation of Foreign Currency-Denominated Accounts

Under the Japanese accounting standards for foreign currency translation, monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at each balance sheet date with the resulting gain or loss included currently in the statement of income.

The assets and liabilities of foreign subsidiaries and affiliated companies are translated into Japanese yen at the exchange rates in effect at the balance sheet dates of the foreign subsidiaries and affiliated companies, except for common stock and capital surplus, which are translated at historical rates. Revenue and expense accounts are translated at the average exchange rates during the respective years. The resulting foreign currency translation adjustments are included in "Foreign currency translation adjustments" and "Non-controlling interests" in the net assets section of the accompanying consolidated balance sheets.

[14] Revenue Recognition

The percentage-of-completion method is applied to revenue from construction contracts of Aerospace division productions where certain elements are determinable with certainty at the end of fiscal year. (The percentage of completion is estimated using the proportion-of-cost method). The completed-contract method is applied to other works.

[15] Accounting for Lease Transactions

Sales and corresponding cost of sales under finance lease transactions conducted by certain domestic consolidated subsidiaries are recognized on the effective date of each lease contract.

[16] Derivative Financial Instruments and Hedge Accounting

The Japanese accounting standards for financial instruments require that the Company and its consolidated domestic subsidiaries state derivative financial instruments at their fair value and recognize changes in the fair value as a gain or loss, unless such derivative financial instruments are used for hedging purposes.

For interest rate swap contracts used as a hedge that meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed.

Derivative financial instruments qualifying as a hedge, along with the underlying transactions, assets and liabilities are as follows:

Financial Instrument	Transactions, assets and liabilities
Interest swaps	Borrowings

The risk exposures to movements in interest rates are hedged according to the Company's and its consolidated subsidiaries' risk management policy. An evaluation of hedge effectiveness is not considered necessary as the terms and notional amounts of these hedging instruments are the same as those of the underlying transactions, assets and liabilities, and therefore they are presumed to be highly effective in offsetting the effect of movements in interest rates at their inception as well as during their terms.

[17] Goodwill

Goodwill is principally amortized by the straight-line method over 5 years.

[18] Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and have negligible risk of changes in value due to their short maturities.

[19] Income Taxes

The provision for income taxes is computed based on the pretax income for financial reporting purposes. Deferred tax assets and liabilities are recognized for expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. A valuation allowance is recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

[20] Research and Development Expenses

Research and development costs are expensed as incurred and amounted to 114,215 million yen (US\$ 1,017,959 thousand) and 102,373 million yen for fiscal years 2017 and 2016, respectively.

[21] Net Income per Share

Basic net income per share (EPS) is computed based on the average number of shares of common stock outstanding during each year. Diluted EPS assumes the potential dilution that occurs if all the convertible securities are converted or other contracts to issue common stock are exercised to the extent that they are not anti-dilutive.

[22] Reclassification

Certain reclassifications have been made in the consolidated financial statements for the year ended March 31, 2016 to conform to the presentation for the year ended March 31, 2017.

[23] Changes in Accounting Policy

Based on amendments in the CORPORATION Tax Act, "Practical Solution on a change in depreciation method due to Tax Reform 2016"(PITF No.32 issued on June 17, 2016) issued by Accounting Standards Board of Japan (ASBJ) was applied from the fiscal year ended on March 2017.

The company changed depreciation method for facilities attached to buildings and for structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. Since the impact of the change is immaterial, notes for the change was omitted.

[24] Changes in Presentation

(Consolidated Statements of Income)

Consolidated Statements of Income for the fiscal year ended March 31, 2017 include the following reclassification.

"State subsidy", which was presented as a separate account in the prior fiscal year, is included in "Other, net" in the current fiscal year due to its decreased financial materiality. To reflect this change, 2,999 million yen of

"State subsidy" separately stated under "Other income(expense)" in the prior fiscal year has been reclassified into "Other, net" in the consolidated statements of income for the prior fiscal year provided herein.

"Loss on reduction of non-current assets" and "Loss on valuation of investment securities", which were presented as separate accounts in "Other income(expense)" in the prior fiscal year, are included in "Other, net" in the current fiscal year due to its decreased financial materiality.

To reflect these changes, 1,660 million yen of "Loss on reduction of non-current assets" and 5,387 million yen of "Loss on valuation of investment securities" have been reclassified into "Other, net".

As a result, the account "Other, net" in "Other income (expense)" in the prior fiscal year has been 15,097 million yen.

(Consolidated Statements of Cash Flows)

Consolidated Statements of Cash Flows for the fiscal year ended March 31, 2017 include the following reclassifications.

"Increase (decrease) in accrued expenses", which was included in "Other, net" under "Net cash provided by (used in) operating activities" in the prior fiscal year, is presented as a separate item in the current fiscal year due to its increased financial materiality.

In addition, "Other extraordinary income", which was presented as a separate item in "Net cash provided by (used in) operating activities", is included in "Other, net" in "Net cash provided by (used in) operating activities" in the current fiscal year due to its decreased financial materiality.

To reflect these changes, 15,538 million yen of "Other, net" under "Net cash provided by (used in) operating activities" in Consolidated Statements of Cash Flows in the prior fiscal year has been split into 11,792 million yen of "Increase (decrease) in accrued expenses" and 27,330 million yen of "Other, net".

19,656 million yen of "Other extraordinary income" has been reclassified into "Other, net".

As a result, "Other, net" in "Net cash provided by (used in) operating activities" is 7,674 million yen.

"Purchase of treasury shares", which was included in "Other, net" under "Net cash provided by (used in) financing activities" in the prior fiscal year, is presented as a separate item in the current fiscal year due to its increased financial materiality.

To reflect this change, 393 million yen of "Other, net" under "Net cash provided by (used in) financing activities" in the Consolidated Statements of Cash Flows" in the prior fiscal year, has been split into 20 million yen of "Purchase of treasury shares" and 373 million yen of "Other, net".

[25] Additional Information

The Company applied "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" issued by ASBJ from the fiscal year ended March 2017.

3. Other comprehensive income

Amounts reclassified to net income (loss) in fiscal 2017 and 2016, which were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Valuation difference on available-for-sale securities			
Increase(decrease) during the year	¥5,003	(¥8,513)	\$44,590
Reclassification adjustments	(9,572)	(2,288)	(85,312)
Before tax effect	(4,569)	(10,801)	(40,722)
Tax effect	1,324	4,159	11,800
Balance at the end of the period	(3,245)	(6,642)	(28,922)
Foreign currency translation adjustments			
Increase(decrease) during the year	(2,968)	(23,670)	(26,453)
Reclassification adjustments	-	(107)	-
Before tax effect	(2,968)	(23,777)	(26,453)
Tax effect	-	-	-
Balance at the end of the period	(2,968)	(23,777)	(26,453)
Remeasurements of defined benefit plans			
Increase(decrease) during the year	(109)	(3,648)	(971)
Reclassification adjustments	2,553	2,406	22,754
Before tax effect	2,444	(1,242)	21,783
Tax effect	(632)	50	(5,633)
Balance at the end of the period	1,812	(1,192)	16,150
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries			
Increase(decrease) during the year	1,595	1,548	14,216
Reclassification adjustments	-	-	-
Before tax effect	1,595	1,548	14,216
Tax effect	(611)	(541)	(5,446)
Balance at the end of the period	984	1,007	8,770
Share of other comprehensive income of affiliated companies accounted for using equity method			
Increase(decrease) during the year	(639)	(52)	(5,695)
Reclassification adjustments	(144)	-	(1,283)
Before tax effect	(783)	(52)	(6,978)
Tax effect	-	-	-
Balance at the end of the period	(783)	(52)	(6,978)
Total other comprehensive income(loss)	(¥4,200)	(¥30,656)	(\$37,433)

4. Additional Cash Flow Information

Cash and cash equivalents as of March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Cash and deposits	¥658,822	¥507,553	\$5,871,854
Short-term investment securities	320,579	500,572	2,857,210
Sub-total	979,401	1,008,125	8,729,064
Less maturity over three months	(151,924)	(126,107)	(1,354,046)
Short-term investment securities excluding cash equivalents	(98,861)	(52,557)	(881,114)
Cash and cash equivalents	¥728,616	¥829,461	\$6,493,904

5. Financial Instruments

(1) Summary of Financial Instruments Status

[1] Action Policy with Regard to Financial Instruments

With regard to planned capital expenditure to support SUBARU CORPORATION, its consolidated subsidiaries and affiliated companies (the "SUBARU Group") in their main operations of automobile manufacturing and sales, the SUBARU Group finances mainly from bank loans. Temporary surpluses are invested in highly secure financial assets. Bank loans and liquidation of accounts receivable are utilized to provide short-term working capital. It is the SUBARU Group's policy to use derivatives as a way to avoid the risks stated below and not to conduct speculative transactions.

[2] Details of Financial Instruments and Respective Risks

Notes and accounts receivable-trade and Lease investment assets are subject to customer credit risks. In addition, operating receivables denominated in foreign currencies due to globalized business of the SUBARU Group are subject to the risk of changes in foreign exchange rates. As a general rule, however, forward foreign exchange contracts are utilized to hedge the foreign exchange rate risk, considering the net amount of operating receivables denominated in foreign currencies that exceed foreign currency denominated operating liabilities. Available-for-sale securities and investment securities are mainly stocks associated with business and capital alliances with principal business partners, and are subject to risk of market price fluctuation.

Majority of payables included in Notes and accounts payable-trade and Electronically recorded obligations-operating are due within one year. A certain portion of such liabilities involve foreign currency denominated transactions associated with the import of raw materials and is subject to exchange rate fluctuation risk, although it is consistently less than accounts receivable balance denominated in the same foreign currency. Funds financed by bank loans and corporate bonds are primarily used for capital expenditure, whose repayment or redemption dates will come within 7 years after March 31, 2017 at the latest. A certain portion of those liabilities may have variable interest rates and are subject to the risk of changes in interest rates, although such risk is mitigated using derivative transactions (interest rate swap transactions).

Derivative transactions include foreign exchange forward contracts to hedge against exchange rate fluctuations associated with trade accounts receivables and liabilities denominated in foreign currencies, and interest rate swap contracts to hedge against the risk of change in interest rates on bank loans. With regard to hedging instruments and hedged items, hedge policy, the method of evaluation of hedge effectiveness and other related items, please refer to "2-[15] Derivative Financial Instruments and Hedge Activities".

[3] Risk Management System with Regard to Financial Instruments

(a) Credit Risk management (Risks Associated with Business Partner's Breach of Contract)

The Company and its consolidated subsidiaries have credit control function and regularly monitor the financial status of key customers with regard to accounts receivables and lease investment assets. In addition to keeping track of payment due dates and balances of each customer, such credit control function identifies and mitigates the potential risk of uncollectibility due to deterioration in financial status or other factors of customers.

(b) Market Risk Management (Risks Associated with Fluctuations in Foreign Exchange and Interest Rates)

With regard to operating assets and liabilities denominated in foreign currencies, as a general rule, the Company uses foreign exchange forward contracts to hedge against risks of exchange rate fluctuation on a monthly basis by each currency. Depending on the status of exchange rates, foreign exchange forward contracts with no longer than six months term are used to hedge against the risk of exchange rate fluctuation to the extent that net position of accounts receivable and accounts payable dominated in foreign currency is exposed. In addition, the Company and certain consolidated subsidiaries use interest rate swap transactions to mitigate the risk of fluctuation in interest rates on bank loans and corporate bonds.

The Company also regularly monitors the market values of investments included in Short-term investment securities and Investment securities as well as the financial conditions of issuers (business partner companies), and continuously reviews its investment portfolio taking into consideration its relationships with respective business partner companies.

Basic policies with regard to derivative transactions are approved by the Executive Management Board. Finance & Accounting Department engages in derivative transactions in line with the applicable the Company's rule. The results of these transactions are reported to the Finance Officer every time the transactions are conducted.

(c) Liquidity Risk Management (Risk of Becoming Unable to Make Payments by the Due Date)

The Company secures liquidity at a level sufficient to satisfy its current needs with commitment lines contracted with major banks in combination with keeping cash and cash equivalents balance at a certain level.

[4] Supplemental Explanation of Items with Regard to Fair Value of Financial Instruments

Fair value of financial instruments includes quoted prices of financial instruments in the market and, in the event market prices are not available, prices that are calculated based on the underlying assumptions under the appropriate valuation model. Because the factors incorporated into the valuation model are subject to change, calculated fair value may differ. The values of derivative transactions contracts stated in "(2) Items with Regard to Fair Value of Financial Instruments" do not by themselves indicate the market risk associated with the respective derivative transactions.

(2) Items with Regard to Fair Value of Financial Instruments

The consolidated balance sheet amounts, the fair value and difference as of March 31, 2017 and 2016 were as follows:

The items whose fair values were extremely difficult to measure were not included in the table below (refer to Note [2]).

As of March 31, 2017

	Millions of yen		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	¥658,822	¥658,822	¥-
Notes and accounts receivable-trade	158,454		
Allowance for doubtful accounts (*1)	(88)		
	158,366	158,366	-
Lease investment assets	18,538		
Allowance for doubtful accounts (*1)	(21)		
	18,517	20,065	1,548
Short-term loans receivable	176,433		
Allowance for doubtful accounts (*1)	(250)		
	176,183	181,938	5,755
Short-term investment securities, Investment securities and Other securities	122,272	122,272	-
Total Assets	1,134,160	1,141,463	7,303
Notes and accounts payable-trade	349,737	349,737	-
Electronically recorded obligations-operating	92,098	92,098	-
Short-term loans payable	43,205	43,205	-
Current portion of long-term loans payable	44,443	44,442	1
Current portion of bonds	-	-	-
Accrued income taxes	13,858	13,858	-
Accrued expenses	221,328	221,328	-
Long-term loans payable	60,612	60,913	(301)
Total Liabilities	825,281	825,581	(300)
Derivative transactions (*2)			
hedge accounting is not applied	2,911	2,911	-
hedge accounting is applied	¥-	¥-	¥-

As of March 31, 2017

	Thousands of U.S. dollars		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	\$5,871,854	\$5,871,854	\$-
Notes and accounts receivable-trade	1,412,246		
Allowance for doubtful accounts (*1)	(784)		
	1,411,462	1,411,462	-
Lease investment assets	165,223		
Allowance for doubtful accounts (*1)	(188)		
	165,035	178,832	13,797
Short-term loans receivable	1,572,487		
Allowance for doubtful accounts (*1)	(2,228)		
	1,570,259	1,621,551	51,292
Short-term investment securities, Investment securities and Other securities	1,089,768	1,089,768	-
Total Assets	10,108,378	10,173,467	65,089
Notes and accounts payable-trade	3,117,086	3,117,086	-
Electronically recorded obligations-operating	820,838	820,838	-
Short-term loans payable	385,071	385,071	-
Current portion of long-term loans payable	396,105	396,096	9
Current portion of bonds	-	-	-
Accrued income taxes	123,512	123,512	-
Accrued expenses	1,972,620	1,972,620	-
Long-term loans payable	540,214	542,897	(2,683)
Total Liabilities	7,355,446	7,358,120	(2,674)
Derivative transactions (*2)			
hedge accounting is not applied	25,945	25,945	-
hedge accounting is applied	\$-	\$-	\$-

*1. Allowance for doubtful accounts corresponding to Notes and accounts receivable-trade, Lease investment assets and Short-term loans receivable is deducted.

*2. Indicated are the net amounts of assets and liabilities results from derivative transactions, with the total net liabilities indicated in ().

As of March 31, 2016

	Millions of yen		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	¥507,553	¥507,553	¥-
Notes and accounts receivable-trade	140,319		
Allowance for doubtful accounts (*1)	(105)		
	140,214	140,214	-
Lease investment assets	21,532		
Allowance for doubtful accounts (*1)	(53)		
	21,479	23,095	1,616
Short-term loans receivable	151,973		
Allowance for doubtful accounts (*1)	(294)		
	151,679	155,038	3,359
Short-term investment securities, Investment securities and Other securities	118,565	118,565	-
Total Assets	939,490	944,465	4,975
Notes and accounts payable-trade	326,625	326,625	-
Electronically recorded obligations-operating	91,476	91,476	-
Short-term loans payable	33,252	33,252	-
Current portion of long-term loans payable	33,692	33,807	(115)
Current portion of bonds	10,000	10,011	(11)
Accrued income taxes	100,272	100,272	-
Accrued expenses	132,759	132,759	-
Long-term loans payable	93,030	93,673	(643)
Total Liabilities	821,106	821,875	(769)
Derivative transactions (*2)			
hedge accounting is not applied	7,159	7,159	-
hedge accounting is applied	¥-	¥-	¥-

*1. Allowance for doubtful accounts corresponding to Notes and accounts receivable-trade, Lease investment assets and Short-term loans receivable is deducted.

*2. Indicated are the net amounts of assets and liabilities results from derivative transactions, with the total net liabilities indicated in ().

[1] The calculation methods of financial instrument fair value together with securities and derivative transactions

Assets

Cash and deposits and Notes and accounts receivable-trade

Because these are settled in the short-term, the fair value is mostly the same as the book value and as such the book value is deemed as fair value.

Lease investment assets and Short-term loans receivable

Fair value is the present value calculated by discounting relevant cash flows by each category of the assets and timing of cash flow, where discount rates were adopted taking into consideration the period until maturity and credit risks. In addition, the estimated residual value is included in the balance of Lease investment assets.

Short-term investment securities and investment securities

Fair value is determined by the stock exchange price, while bonds are determined by the stock exchange price or by quotations received from financial institutions. Please refer to the note entitled "6.Short-term investment securities and investment securities" regarding to respective objectives for holding securities.

Liabilities

Notes and accounts payable-trade, Short-term loans payable, Accrued income taxes and Accrued expenses

Because these are settled in the short-term, the fair value is mostly the same as the book value and as such the book value is deemed as fair value.

Current portion of long-term loans payable and Long-term loans payable

Fair value is measured based on the present value that is calculated as discounted cash flow of the total amount of principal and interest, where the interest would be set, if the Company concluded a brand new loan agreement with the same condition at the date of measurement.

Current portion of bonds

The fair value of bonds issued by the Company is based on market prices if available. For bonds with no available market price, fair value is calculated using the present value that is calculated as discounted cash flow of the total amount of principal and interest by, where discount rates are adopted taking into consideration the remaining redemption period and credit risks.

Derivative transactions

Fair value of interest rate swap that meets certain hedging criteria is included in the fair value of long-term debt as a hedged item.

[2] Financial instruments which fair value is extremely difficult to measure

Consolidated balance sheet amount as of March 31, 2017 and 2016:

Other securities (available-for-sale securities)	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Stocks of non-consolidated subsidiary and affiliated companies	¥1,232	¥2,817	\$10,980
Certificate of deposit	135,000	149,900	1,203,209
Commercial paper	42,499	172,996	378,779
Money management fund	104,218	135,119	928,859
Unlisted stocks (excluding over-the-counter stocks)	866	976	7,718
Medium Term Note	20,000	30,000	178,253
Other	3	3	27
Investments and other assets			
Investments in equity of affiliated companies and others	¥1,661	¥768	\$14,804

These have no available market prices and are expected to entail excessive costs in the estimation of future cash flows. Consequently, estimating their fair value is recognized as extremely difficult and they are not included in "Short-term investment securities, Investment securities and Other securities".

[3] Scheduled redemption of monetary assets and securities with maturity

As of March 31, 2017:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	¥658,822	¥-	¥-	¥-
Notes and accounts receivable-trade	145,641	12,813	-	-
Lease investment assets	6,136	12,393	9	-
Short-term loans receivable	73,229	101,058	2,146	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	10,574	17,959	5,080	3,594
Corporate bonds	8,270	25,433	4,939	4,265
Other	¥197,517	¥1,175	¥917	¥5,595

As of March 31, 2017:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	\$5,871,854	\$-	\$-	\$-
Notes and accounts receivable-trade	1,298,048	114,198	-	-
Lease investment assets	54,688	110,455	80	-
Short-term loans receivable	652,665	900,695	19,127	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	94,242	160,062	45,276	32,032
Corporate bonds	73,708	226,676	44,020	38,012
Other	\$1,760,401	\$10,472	\$8,173	\$49,866

As of March 31, 2016:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	¥507,553	¥-	¥-	¥-
Notes and accounts receivable-trade	130,484	8,142	1,693	-
Lease investment assets	6,555	14,896	81	-
Short-term loans receivable	48,205	101,691	2,077	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	8,595	19,447	2,585	4,106
Corporate bonds	3,440	19,623	3,317	4,299
Other	¥353,419	¥1,006	¥1,056	¥4,189

[4] Amount of repayment for long-term debt and other interest-bearing debt
As of March 31, 2017:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Short-term loans payable	¥43,205	¥-	¥-	¥-
Bonds payable	-	-	-	-
Long-term loans payable	¥44,443	¥58,774	¥1,838	¥-

As of March 31, 2017:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years
Short-term loans payable	\$385,071	\$-	\$-	\$-
Bonds payable	-	-	-	-
Long-term loans payable	\$396,105	\$523,832	\$16,382	\$-

As of March 31, 2016:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Short-term loans payable	¥33,252	¥-	¥-	¥-
Bonds payable	10,000	-	-	-
Long-term loans payable	¥33,692	¥90,918	¥2,112	¥-

6. Short-Term Investment Securities and Investment Securities

Information on the value of short-term investment securities and investment securities as of March 31, 2017 and 2016 was as follows:

(1) Other securities (available-for-sale securities):

As of March 31, 2017:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	¥33,393	¥21,153	¥12,240
Debt securities			
Government and municipal bonds	17,369	17,259	110
Corporate bonds	21,851	21,694	157
Other	3,370	3,329	41
Sub-total	75,983	63,435	12,548
Book value not exceeding acquisition cost:			
Equity securities	1,062	3,566	(2,504)
Debt securities			
Government and municipal bonds	19,837	20,077	(240)
Corporate bonds	21,056	21,301	(245)
other	4,334	4,403	(69)
Sub-total	46,289	49,347	(3,058)
Total	¥122,272	¥112,782	¥9,490

As of March 31, 2017:

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	\$297,620	\$188,529	\$109,091
Debt securities			
Government and municipal bonds	154,804	153,824	980
Corporate bonds	194,750	193,351	1,399
Other	30,036	29,670	366
Sub-total	677,210	565,374	111,836
Book value not exceeding acquisition cost:			
Equity securities	9,465	31,783	(22,318)
Debt securities			
Government and municipal bonds	176,800	178,939	(2,139)
Corporate bonds	187,665	189,848	(2,183)
Other	38,627	39,242	(615)
Sub-total	412,557	439,812	(27,255)
Total	\$1,089,767	\$1,005,186	\$84,581

As of March 31, 2016:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	¥39,363	¥22,386	¥16,977
Debt securities			
Government and municipal bonds	28,450	28,019	431
Corporate bonds	21,151	20,835	316
Other	5,307	5,229	78
Sub-total	94,271	76,469	17,802
Book value not exceeding acquisition cost:			
Equity securities	7,020	8,100	(1,080)
Debt securities			
Government and municipal bonds	6,282	6,336	(54)
Corporate bonds	9,527	9,670	(143)
Other	1,465	1,504	(39)
Sub-total	24,294	25,610	(1,316)
Total	¥118,565	¥102,079	¥16,486

(2) Other securities (available-for-sale securities) sold during fiscal years 2017 and 2016:

For the year ended March 31, 2017:

	Millions of yen		
	Sales amount	Total gains	Total losses
Equity securities	¥23,650	¥9,968	¥419
Debt securities			
Government and municipal bonds	28,576	128	219
Corporate bonds	9,586	45	45
Other	82,906	3	46
Total	¥144,718	¥10,144	¥729

For the year ended March 31, 2017:

	Thousands of U.S. dollars		
	Sales amount	Total gains	Total losses
Equity securities	\$210,784	\$88,841	\$3,734
Debt securities			
Government and municipal bonds	\$254,688	\$1,141	\$1,952
Corporate bonds	\$85,437	\$401	\$401
Other	\$738,913	\$27	\$410
Total	\$1,289,822	\$90,410	\$6,497

For the year ended March 31, 2016:

	Millions of yen		
	Sales amount	Total gains	Total losses
Equity securities	¥4,190	¥2,571	¥99
Debt securities			
Government and municipal bonds	27,456	115	143
Corporate bonds	38,575	43	43
Other	2,051	3	17
Total	¥72,272	¥2,732	¥302

7. Short-Term Loans Payable and Long-Term Debts

Short-term loans payable as of March 31, 2017 and 2016, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Bank loans with average interest rate of 1.40% and 1.48% per annum as of March 31, 2017 and 2016, respectively	¥43,205	¥33,252	\$385,071
Unsecured 0.71% bonds due June 13, 2016	¥-	¥10,000	\$-

Long-term debts as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Loans principally from banks and insurance companies due through 2024 with average interest rate of 0.51% and 0.7% per annum as of March 31, 2017 and 2016, respectively	¥105,055	¥126,722	\$936,319
Subtotal	105,055	126,722	936,319
Less-Portion due within one year	(44,443)	(33,692)	(396,105)
Total	¥60,612	¥93,030	\$540,214

Annual maturities of long-term loans payable and bonds payable as of March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars
2018	¥44,443	\$396,105
2019	43,312	386,025
2020	7,473	66,604
2021	7,268	64,777
2022	721	6,426
2023 and thereafter	1,838	16,382
Total	¥105,055	\$936,319

Lease obligations as of March 31, 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2017	2016	2017
Lease obligations due within one year as of March 31, 2017	¥1,189	¥861	\$10,597
Lease obligations due after one year as of March 31, 2017	1,765	1,254	15,731
Total	¥2,954	¥2,115	\$26,328

Annual maturities of lease obligations as of March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars
2018	¥1,189	\$10,597
2019	1,462	13,030
2020	139	1,239
2021	89	793
2022	55	490
2023 and thereafter	20	179
Total	¥2,954	\$26,328

The following assets as of March 31, 2017 and 2016 were pledged as collateral for certain loans:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Property, plant and equipment	¥32,520	¥36,799	\$289,840
Total	¥32,520	¥36,799	\$289,840

To raise working capital efficiently, the SUBARU Group has entered into the commitment-line contracts. The maximum amount that can be made available under these contracts is 210,330 million yen (US\$1,874,599 thousand) as of March 31, 2017. At the end of the fiscal year, there were no borrowings under the commitment line.

8. Derivative transactions

In the normal course of business, the Company and its consolidated subsidiaries employ derivative financial instruments, including foreign exchange forward contracts, foreign currency options and interest rate swaps, to manage their exposures to fluctuations in foreign currency exchange rates and interest rates. The Company and its consolidated subsidiaries do not use derivatives for speculative or trading purposes. The fair value information of derivative financial instruments as of March 31, 2017 and 2016 was as follows:

Derivative transactions to which hedge accounting is not applied

(1) Foreign currency contracts:

As of March 31, 2017

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Fair value	Valuation gain (loss)	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:						
Sell-						
U.S. dollar	¥262,186	¥2,585	¥2,585	\$2,336,774	\$23,039	\$23,039
Euro	3,421	11	11	30,490	98	98
Canadian dollar	21,521	315	315	191,809	2,808	2,808
Total	¥287,128	¥2,911	¥2,911	\$2,559,073	\$25,945	\$25,945

As of March 31, 2016

	Millions of yen		
	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:			
Sell-			
U.S. dollar	¥287,156	¥7,975	¥7,975
Euro	3,254	(44)	(44)
Canadian dollar	22,516	(772)	(772)
Total	¥312,926	¥7,159	¥7,159

Note: The method to determine the fair value is based on quotations obtained from financial institutions.

Derivative transactions to which hedge accounting is applied

(1) Interest rate contracts:

Accounting treatment: Exception processing of interest rate swap

Hedge item: Long-term loans payable

As of March 31, 2017

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Over 1 year Fair value		Notional Amount	Over 1 year Fair value	
Interest rate swap contracts:						
Receive floating rate pay fixed rate	¥1,000	¥-	(*)	\$8,913	\$-	(*)

As of March 31, 2016

	Millions of yen		
	Notional Amount	Over 1 year	Fair value
Interest rate swap contracts:			
Receive floating rate pay fixed rate	¥3,000	¥1,000	(*)

Note *Fair value of interest rate swap that meets certain hedging criteria is included in the fair value of long-term debt as a hedged item.

9. Property, Plant and Equipment

Property, plant and equipment as of March 31, 2017 and 2016 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Buildings and structures	¥407,758	¥381,255	\$3,634,207
Machinery, equipment and vehicles	603,416	540,376	5,378,039
Vehicles and equipment on operating leases	15,391	11,221	137,175
Other	354,599	312,029	3,160,419
Subtotal	1,381,164	1,244,881	12,309,840
Land	195,783	193,698	1,744,947
Construction in progress	45,416	46,951	404,777
Accumulated depreciation	(937,015)	(886,905)	(8,351,292)
Accumulated impairment loss	(28,083)	(25,992)	(250,294)
Total	¥657,265	¥572,633	\$5,857,977

10. Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at a consolidated subsidiary (Subaru Finance Co., Ltd.) as of March 31, 2017 and 2016 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Total overdraft facilities and lending commitments	¥4,800	¥4,800	\$42,781
Less amounts currently executed	1,263	801	11,257
Unexecuted balance	¥3,537	¥3,999	\$31,524

A portion of the overdraft facilities and lending commitments above is subject to credit considerations as documented in the customer contracts. Therefore, the total balance above is not always available.

11. Pension and Severance Plans

The Company and its consolidated domestic subsidiaries have lump-sum retirement payment plans, contributory defined benefit employees' welfare pension funds, defined benefit pension plan, and certain domestic subsidiaries have defined contribution pension plans. In addition, in certain occasions, additional retirement payments are made to employees for their retirement. Consolidated foreign subsidiaries primarily have defined contribution plans.

As of March 31, 2017, the Company and 54 of its consolidated domestic subsidiaries, which add up to a total of 55 companies, have lump-sum retirement payment plans. Within the SUBARU Group, there are also 25 defined contribution plans, and 6 defined benefits pension plans. In addition, there are 3 single-employer employees' welfare pension funds subject to the provisions of Article 33 of "Accounting Standard for Retirement Benefits."

Certain insignificant consolidated subsidiaries calculated their pension liability using the simplified method. Under the simplified method, an accrued pension and net defined benefit liability is provided at the amount that would have been payable had all the employees voluntarily retired at the end of the fiscal year, less an amount to be covered from the plan assets, while the Company and significant subsidiaries provide an accrued pension and net defined benefit liability based on the estimated amount of pension and severance obligation (projected benefit obligations), less the fair value of plan assets at the end of the fiscal year under the actuarial method.

Defined benefit pension plans (including the multi-employer pension plan of contributory defined benefit employees' welfare pension funds settled as defined benefit pension plan.)

Movement in retirement benefit obligation, except plans applied simplified method

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the period	¥116,331	¥107,397	\$1,036,818
a. Service cost	6,752	6,115	60,178
b. Interest cost	679	1,161	6,052
c. Actuarial loss (gain)	(3,149)	7,769	(28,066)
d. Benefits paid	(4,373)	(5,791)	(38,975)
e. Amortization of prior service cost	(15)	152	(134)
f. Other	(526)	(472)	(4,688)
Balance at the end of the period	¥115,699	¥116,331	\$1,031,185

Movements in plan assets, except plans applied simplified method

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the period	¥105,917	¥99,140	\$944,002
a. Expected return on plan assets	1,953	1,836	17,406
b. Actuarial loss (gain)	(3,258)	4,254	(29,037)
c. Contributions paid by the employer	3,290	4,288	29,323
d. Payment for retirement benefits	(2,886)	(3,601)	(25,722)
e. Other	(188)	-	(1,676)
Balance at the end of the period	¥104,828	¥105,917	\$934,296

Movement in net defined benefit liability in the plans applying the simplified method

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Balance at the beginning of the period	¥6,398	¥6,072	\$57,023
a. Retirement benefit cost	841	722	7,496
b. Benefits paid	(383)	(357)	(3,414)
c. Contributions paid by the employer	(43)	(39)	(383)
Balance at the end of the period	¥6,813	¥6,398	\$60,722

Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability (asset), include plans applied simplified method

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
a. Funded retirement benefit obligations	¥105,901	¥106,762	\$943,859
b. Plan assets	(105,157)	(106,162)	(937,228)
Sub total	744	600	6,631
c. Unfunded retirement benefit obligations	16,940	16,212	150,980
a+b+c. Total Net liability (asset) for retirement benefits	17,684	16,812	157,611
d. Net defined benefit liability	18,615	18,586	165,909
e. Net defined benefit asset	(931)	(1,774)	(8,298)
d+e. Total Net liability (asset) for retirement benefits	¥17,684	¥16,812	\$157,611

Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
a. Service cost	¥6,752	¥6,115	\$60,178
b. Interest cost	679	1,161	6,052
c. Expected return on plan assets	(1,953)	(1,836)	(17,406)
d. Net actuarial loss amortization	2,560	2,346	22,816
e. Past service costs amortization	(6)	60	(53)
f. Additional retirement payments	225	215	2,005
g. Retirement benefit cost of the plan applying the simplified method	841	722	7,496
h. Other	(149)	22	(1,329)
Total retirement benefit costs for the fiscal year ended	¥8,949	¥8,805	\$79,759

Adjustments for retirement benefit (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
a. Past service costs	¥21	(¥92)	\$187
b. Actuarial gains and losses	(2,465)	(1,150)	(21,970)
Total	(¥2,444)	(¥1,242)	(\$21,783)

Accumulated adjustments for retirement benefit (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
a. Past service costs that are yet to be recognized	¥267	¥246	\$2,380
b. Actuarial gains and losses that are yet to be recognized	15,498	17,963	138,128
Total	¥15,765	¥18,209	\$140,508

Plan assets

Plan assets comprise:

	Percentage	
	2017	2016
a. Bonds	47%	49%
b. Equity securities	16%	13%
c. Cash and deposit	28%	28%
d. Other	9%	10%
Total	100%	100%

Long-term expected rate of return

Current and target asset allocations, historical and expected returns on various categories of plan assets have been considered in determining the long-term expected rate of return.

Actuarial assumptions

The principal actuarial assumptions

	2017	2016
a. Attribution of expected benefit obligation	Benefit formula method	Benefit formula method
b. Discount rate	Primarily 0.7%	Primarily 0.6%
c. Long-term expected rate of return	Primarily 2.1%	Primarily 2.1%
d. Amortization of actuarial gain/loss	Primarily 16 years (amortized by the straight-line method starting from the following fiscal year, over a period shorter than the average remaining service periods of the eligible employees)	Primarily 16 years (amortized by the straight-line method starting from the following fiscal year, over a period shorter than the average remaining service periods of the eligible employees)
e. Amortization of past service cost	13 to 18 years	10 to 19 years

Defined contribution pension plan

The amount required to contribute to defined contribution plans was 4,698 million yen (US\$41,872 thousand) and 4,844 million yen for the fiscal years 2017 and 2016, respectively, which included the multi-employer pension plan of contributory defined benefit employees' welfare pension funds settled as defined contribution plans.

Certain information concerning the multi-employer pension plan, which requires contributions that are expensed as they become due as pension and severance costs, was as follows:

(1) Overall funded status of the multi-employer pension plan (mainly as of March 31, 2017 and 2016)

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets	¥10,660	¥49,530	\$95,009
Projected benefit obligation	11,320	58,015	100,891
Funded status	(¥660)	(¥8,485)	(\$5,882)

(2) Contributions by the Company and its consolidated domestic subsidiaries as a percentage of total contributions to the multi-employer pension plan for fiscal years 2017 and 2016 were 4% and 6% respectively.

Other than the above, 27,795 million yen (US\$247,727 thousand) and 26,943 million yen of postretirement benefit plan obligation for fiscal years 2017 and 2016 respectively is included in "Other" of accrued expense and long-term liabilities in some U.S. subsidiaries.

12. Income Taxes

The Company and its consolidated subsidiaries were subject to a number of taxes based on income, which in the aggregate resulted in a normal statutory income tax rate of approximately 30.7% and 32.9% for fiscal years 2017 and 2016, respectively.

A reconciliation of the statutory income tax rates in Japan to the Company's effective income tax rates for fiscal years 2017 and 2016 were as follows:

	2017	2016
Statutory income tax rate in Japan	30.7%	32.9%
Increase (reduction) in taxes resulting from:		
Difference of applicable tax rate in subsidiaries	2.4%	0.6%
Adjustment of deferred tax assets in the end of fiscal year 2016 by change of the tax rate	-	0.5%
Entertainment expenses not qualifying for deduction	0.1%	0.1%
Changes in valuation allowance and tax benefits realized from loss carry forwards	0.0%	(1.9)%
Deduction of research and development expense	(4.7)%	(3.1)%
Other	(0.3)%	0.4%
Effective income tax rate	28.2%	29.5%

Significant components of the deferred tax assets and liabilities as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017

Deferred tax assets:			
Accrued expenses	¥53,348	¥28,427	\$475,472
Unrealized profit on inventories	22,748	24,451	202,745
Provision for product warranties	19,875	17,324	177,139
Net defined benefit liability	15,082	14,173	134,421
Depreciation and amortization expenses	11,307	10,554	100,775
Long-term accounts payable-other	10,858	10,593	96,774
Provision for bonuses	7,493	7,456	66,783
Loss on valuation of inventories	2,247	3,230	20,027
Other	21,300	25,089	189,839
Total deferred tax assets	164,258	141,297	1,463,975
Valuation allowance	(8,778)	(8,714)	(78,235)
Total deferred tax assets, net of valuation allowance	155,480	132,583	1,385,740
Deferred tax liabilities:			
Deferred revenue of foreign consolidated subsidiaries	(26,494)	(22,045)	(236,132)
Depreciation and amortization expenses	(22,466)	(14,167)	(200,232)
Valuation difference on available-for-sale securities	(2,354)	(4,280)	(20,980)
Reserve for reduction entry	(1,770)	(1,862)	(15,775)
Net defined benefit asset	(932)	(966)	(8,307)
Other	(744)	(800)	(6,631)
Total deferred tax liabilities	(54,760)	(44,120)	(488,057)
Net deferred tax assets	¥100,720	¥88,463	\$897,683

The net deferred tax assets are included in the following line items in the accompanying consolidated balance sheets.

	Thousands of		
	Millions of yen	U.S. dollars	
	2017	2016	2017
Current assets—Deferred tax assets	¥109,600	¥90,893	\$976,827
Investments and other assets—Deferred tax assets	20,922	16,339	186,471
Current liabilities—Deferred tax liabilities (Other current liabilities)			
Long-term liabilities—Deferred tax liabilities	(29,802)	(18,769)	(265,615)
Total net deferred tax assets	¥100,720	¥88,463	\$897,683

13. Net Assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of its Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Companies Act (“the Act”), in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Act, both legal earnings reserve and additional paid-in capital used to eliminate or reduce a

deficit generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Act, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Act.

At the annual shareholders' meeting held on June 23, 2017, the shareholders approved cash dividends amounting to 55,230 million yen (US\$492,246 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2017. Such appropriations are recognized in the period in which they are approved by the shareholders.

14. Presentation of inventories and provision for loss on construction contracts

"Provision for loss on construction contracts" included in "Cost of sales" for the fiscal years 2017 and 2016 is reversal of 579 million yen (US\$ 5,160 thousand) and provision of 644 million yen, respectively.

15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for fiscal years 2017 and 2016 consisted of the following:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Freightage and packing expenses	¥27,813	¥27,023	\$247,888
Advertising expenses	80,780	87,666	719,964
Sales incentives	137,209	98,505	1,222,897
Salaries and bonuses	55,123	54,008	491,292
Research and development expenses	113,490	101,499	1,011,497
Other	114,501	110,832	1,020,509
Total	528,916	¥479,533	\$4,714,047

16. Extraordinary income

(Fiscal 2016)

Reversal of allowance for doubtful accounts

Reversal of allowance for doubtful account includes 29,624 million yen of the allowance for receivables of the initial investment fees associated with the AH-64D combat helicopter for the Japan Ministry of Defense was released because the lawsuit against the Government of Japan over the claims of the initial investment fees was concluded.

Other extraordinary income

Other extraordinary income includes 18,561 million yen of interest receivable recognized due to the conclusion of the lawsuit against the Government of Japan over the claims of the initial investment fees associated with the AH-64D combat helicopter for the Japan Ministry of Defense.

17. Extraordinary loss

(Fiscal 2017)

Loss on business liquidation

The loss was recognized due to the decision to liquidate the Industrial Products business on November 2, 2016. The loss consists of 2,524 million yen (US\$22,496 thousand) of loss on fixed assets, 2,127 million yen (US\$18,957 thousand) on inventory valuation, and 471 million yen (US\$4,198 thousand) on others. The loss on fixed assets above includes impairment losses on the following assets.

Use	Location	Category	Impairment loss (millions of yen)
Production facilities	Kitamoto City Saitama Prefecture and other locations	Machinery, equipment and vehicles	1,201

Production facilities that impairment losses are recognized on are grouped together with assets owned mainly by the Industrial Products business for impairment recognition and measurement purposes.

Due to the decision to discontinue properties were recognized as follows the Industrial Products business, it is expected that future cash flows would fall below book values of related facilities, the book values of those assets were written down to the recoverable amounts accordingly.

As a result, 1,201 million yen (US\$10,704 thousand) of impairment losses were recognized and presented in Loss on business liquidation in the quarterly consolidated statements of income.

The recoverable amounts are measured at value in use, calculated based on future cash flows discounted principally at 10.30%.

Impairment loss

In addition to the impairment loss on production facilities referred to above, impairment losses on rental properties were recognized as follows:

Use	Location	Category	Impairment loss (millions of yen)
Rental properties	Konan City Shiga Prefecture	Land	1,175
		Other	10

Grouping unit for recognition and measurement of impairment loss is defined by each property for lease.

Due to the declining profitability and significant decline in market value, it is expected that future cash flows would fall below book values of those properties, the book values of those properties were written down to the recoverable amounts accordingly.

As a result, 1,185 million yen (US\$10,561 thousand) of impairment losses were recognized.

The recoverable amounts are measured at net realizable value, calculated based on real estate appraisal value.

18. Finance Leases

As allowed under the Japanese accounting standards, the Company and its consolidated subsidiaries in Japan account for finance leases.

Information as Lessor

(1) The details of lease investment assets as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Lease revenue receivable	¥22,210	¥25,716	\$197,950
Estimated residual value	386	363	3,440
Interest income portion	(4,058)	(4,547)	(36,167)
Lease investment assets	¥18,538	¥21,532	\$165,223

(2) Lease revenue related to lease investment assets

Amounts of collections on lease receivable after the fiscal year ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Within 1 year	¥7,355	¥7,878	\$65,553
1 to 2 years	6,022	6,804	53,672
2 to 3 years	4,590	5,374	40,909
3 to 4 years	2,638	3,705	23,512
4 to 5 years	1,594	1,851	14,207
Over 5 years	¥11	¥104	\$98

19. Operating Lease Information as Lessee

The future minimum lease/rent payments, excluding the portion of interest thereon, as of March 31, 2017 and 2016, were as follows:

			Thousands of
	Millions of yen	2016	U.S. dollars
	2017		2017
Operating leases:			
Due within one year	¥3,490	¥2,937	\$31,105
Due after one year	17,101	20,570	152,415
Total	¥20,591	¥23,507	\$183,520

Information as Lessor

The future minimum lease/rent payments receivable, excluding the portion of interest thereon, as of March 31, 2017 and 2016, were as follows:

			Thousands of
	Millions of yen	2016	U.S. dollars
	2017		2017
Operating leases:			
Due within one year	¥137	¥158	\$1,221
Due after one year	72	74	642
Total	¥209	¥232	\$1,863

20. Contingent Liabilities

Contingent liabilities as of March 31, 2017 and 2016, were as follows:

			Thousands of
	Millions of yen	2016	U.S. dollars
	2017		2017
As guarantor of third-party indebtedness from financial institutions	¥28,555	¥44,059	\$254,501

(Fiscal 2016)

Expenses with regard to the modified agreement contents between the U.S. subsidiary of Takata Co., Ltd. and NHTSA (The National Highway Traffic and Safety Administration of the United States) dated May 4, 2016, Notification "Extended schedule of the recalls of airbag inflators manufactured by Takata Co., Ltd." released by MLIT (The Ministry of Land, Infrastructure, Transport and Tourism of Japan) dated May 27, 2016, and recalls in the other regions including China and Australia required by the U.S. and Japanese authorities are not accrued in the consolidated financial statements for the fiscal year ended March 31, 2016, since the amounts of these expenses can not be estimated reasonably at present.

Expenses with regard to recall of airbag inflators manufactured by Takata Co., Ltd. which can be reasonably estimated were accrued in the consolidated financial statements for the fiscal year ended March 31, 2016.

SUBARU group notified the regulators to take corresponding actions in North American Market on May 25, 2016 and decided to do it in Japan and the other regions including China and Australia by the end of June 2016, that cover a part of contingent liabilities mentioned above.

(Fiscal 2017)

Expenses with regard to the modified agreement contents between the U.S. subsidiary of Takata Co., Ltd. and NHTSA (The National Highway Traffic and Safety Administration of the United States) dated May 4, 2016, Notification "Extended schedule of the recalls of airbag inflators manufactured by Takata Co., Ltd." released by MLIT (The Ministry of Land, Infrastructure, Transport and Tourism of Japan) dated May 27, 2016, and recalls in the other regions including China and Australia required by the U.S. and Japanese authorities are accrued to the extent that the amount can be reasonably estimated in the consolidated financial statements for the fiscal year ended March 31, 2017.

There is a possibility that additional expense may be accrued required due to events in the future.

21. The Amount of Discount of Export Bill

The amount of discount of export bill as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
The amount of discount of export bill	¥1,210	¥1,718	\$10,784

22. Transfer of Financial Assets to Special Purpose Company

The balance of financial assets transferred to special purpose company as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of
	2017	2016	U.S. dollars
Balance of financial assets transferred to special purpose company (loan receivable of Automobiles and accounts receivable-trade of Aerospace)	¥4,488	¥4,508	\$40,000

23. Segment Information

(1) Outline of business segment

The business segments the Company reports are the business units for which the Company is able to obtain respective financial information separately in order for the Board of Directors to conduct periodic investigation to determine distribution of management resources and evaluate their business result.

The Company recognizes Automobile as its main business, and introduces an internal company system and recognizes Aerospace, and Other divisions. This framework makes clearer the responsibility of each division and accelerates business execution. The Company manages the subsidiaries on the basis of this classification. Therefore, the business segments consist of Automobile, Aerospace, and Other which does not belong to Automobile nor Aerospace.

Automobile segment manufactures and sells vehicles and related products. Aerospace segment manufactures aircrafts, parts of space-related devices.

(Changes in reporting segments)

"Industrial Products", which had been formerly reported as a single segment, is included in "Other" segment from the fiscal year ended March 2017 due to the decision to liquidate the Industrial Products business at the Board of Directors meeting held on November 2, 2016.

Segment information for the twelve months period ended March 31, 2016 is presented in conformity with the change.

(2) Calculation method of sales, profit or loss, assets, liabilities and other items by reportable segments

Accounting method for reportable segments is almost the same as "2. Summary of Significant Accounting Policies".

Segment incomes are calculated based on operating income.

Net sales - Inter-segment are calculated based on current market prices.

(3) Information on sales, income, assets and other items by reportable segments for the fiscal years ended March 31, 2017 and 2016 was summarized as follows

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net Sales:			
Automobiles			
Outside customers	¥3,151,961	¥3,039,424	\$28,092,344
Inter-segment	4,720	4,752	42,068
Sub-total	3,156,681	3,044,176	28,134,412
Aerospace			
Outside customers	138,759	152,786	1,236,711
Inter-segment	-	-	-
Sub-total	138,759	152,786	1,236,711
Other (*1)			
Outside customers	35,272	40,048	314,367
Inter-segment	23,785	17,850	211,988
Sub-total	59,057	57,898	526,355
Total	3,354,497	3,254,860	29,897,478
Adjustment (*2)	(28,505)	(22,602)	(254,056)
Consolidated total	¥3,325,992	¥3,232,258	\$29,643,422

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Segment income:			
Automobiles	¥397,657	¥543,609	\$3,544,180
Aerospace	9,102	18,201	81,123
Other (*1)	3,512	2,998	31,301
Total	410,271	564,808	3,656,604
Adjustment (*2)	539	781	4,804
Consolidated total (*3)	¥410,810	¥565,589	\$3,661,408

Segment assets:			Thousands of
		Millions of yen	U.S. dollars
	2017	2016	2017
Automobiles	¥2,477,309	¥2,298,942	\$22,079,403
Aerospace	223,148	220,786	1,988,841
Other (*1)	87,484	97,376	779,715
Total	2,787,941	2,617,104	24,847,959
Adjustment (*2)	(25,620)	(24,694)	(228,342)
Consolidated total	¥2,762,321	¥2,592,410	\$24,619,617

Other Items:			Thousands of
		Millions of yen	U.S. dollars
	2017	2016	2017
Depreciation and amortization:			
Automobiles	¥80,058	¥67,229	\$713,529
Aerospace	3,663	3,668	32,647
Other (*1)	1,932	2,041	17,220
Total	85,653	72,938	763,396
Adjustment (*2)	-	-	-
Consolidated total	85,653	72,938	763,396
Investment to equity-method affiliates:			
Automobiles	1,467	711	13,075
Aerospace	-	-	-
Other (*1)	-	768	-
Total	1,467	1,479	13,075
Adjustment (*2)	-	-	-
Consolidated total	1,467	1,479	13,075
Increase of property, plant and equipment and intangible assets:			
Automobiles	180,469	160,048	1,608,458
Aerospace	14,699	6,902	131,007
Other (*1)	1,448	1,388	12,906
Total	196,616	168,338	1,752,371
Adjustment (*2)	-	-	-
Consolidated total	¥196,616	¥168,338	\$1,752,371

Note: *1. Other means the category which is not included into any business segment reported. It consists of Industrial product, real estate lease, etc.

*2. Adjustment of segment income refers to elimination of intersegment transaction.

*3. Segment income is adjusted on operating income on the consolidated statements of income.

Related Information

(1) Products and services information

Products and services information is omitted since the same information is in the segment information

(2) Information about geographic areas

[1] Sales for the fiscal years ended March 31, 2017 and 2016 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Sales: (*1)			
Japan	¥650,343	¥605,401	\$5,796,283
North America	2,192,260	2,104,498	19,538,859
[United States] (*2)	[2,056,176]	[1,972,797]	[18,325,989]
Europe	112,602	126,201	1,003,583
Asia	211,325	237,297	1,883,467
Other	159,462	158,861	1,421,230
Consolidated total	¥3,325,992	¥3,232,258	\$29,643,422

Note: *1 Sales is categorized by country or area which is based on customer location.

*2 Sales of the United States is included in North America area.

[2] Property, plant and equipment for the fiscal years ended March 31, 2017 and 2016 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Property, plant and equipment: (*1)			
Japan	¥489,383	¥440,019	\$4,361,702
North America	166,665	131,654	1,485,428
[United States] (*2)	[165,877]	[130,978]	[1,478,405]
Europe	425	462	3,788
Other	792	498	7,059
Consolidated total	¥657,265	¥572,633	\$5,857,977

Note: *1 Property, plant and equipment is categorized by country or area according to geographic adjacent level.

*2 Property, plant and equipment of the United States is included in North America area.

[3] Major customers Information

Information about major customers is omitted because there were no outside sales to single customer with equal to or more than 10% of Net sales on the consolidated statements of income for the fiscal years ended March 31, 2017 and 2016

Information on Impairment Loss in Fixed Assets by Reportable segments

Impairment loss in fixed assets by reportable segments for the fiscal years ended March 31, 2017 and 2016 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Impairment loss in fixed assets:			
Automobiles	¥3	¥11	\$27
Aerospace	-	-	-
Other	2,386	-	21,265
Total	2,389	11	21,292
Adjustment	-	-	-
Total	¥2,389	¥11	\$21,292

“Other” represents the business segments which are not included in any reportable business segments. It includes, Industrial products and Real estate lease, and other.

Information on Amortization of Goodwill and Unamortized Balance by Reportable segments

Information on amortization of goodwill and unamortized balance by reportable segments for the fiscal years ended March 31, 2017 and 2016 was summarized as follows:

Goodwill

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Amount written off of current period:			
Automobiles	¥206	¥241	\$1,836
Aerospace	-	-	-
Other	-	-	-
Total	206	241	1,836
Corporate and elimination	-	-	-
Total	206	241	1,836
Balance at the end of current period:			
Automobiles	1,867	2,090	16,640
Aerospace	-	-	-
Other	-	-	-
Total	1,867	2,090	16,640
Corporate and elimination	-	-	-
Total	¥1,867	¥2,090	\$16,640

Information on Negative Goodwill by Reportable segments

No items to be reported.

24. Fair Value of Investment and Rental Property

The Company and certain consolidated subsidiaries own rental office buildings and rental commercial facilities with the objective of generating rental income in Saitama prefecture and other locations. Certain domestic rental office buildings in Japan are classified as properties that include portions used as investment and rental property, because part of them are used by the Company and certain consolidated subsidiaries.

The consolidated balance sheet amounts, principal changes during fiscal 2017 and 2016, and fair value at the end of fiscal 2017 and 2016 were as follows:

As of March 31, 2017

	Consolidated balance sheet amounts			Millions of yen
	beginning balance	Increase(decrease) during the year	ending balance	Fair value as the end of the fiscal year
Investment and rental property	¥29,243	(¥2,207)	¥27,036	¥40,819
Properties that include portions used as investment and rental property	¥14,495	(¥783)	¥13,712	¥21,490

As of March 31, 2017

	Consolidated balance sheet amounts			Thousands of U.S. dollars
	beginning balance	Increase(decrease) during the year	ending balance	Fair value as the end of the fiscal year
Investment and rental property	\$260,633	(\$19,670)	\$240,963	\$363,806
Properties that include portions used as investment and rental property	\$129,189	(\$6,979)	\$122,210	\$191,533

As of March 31, 2016

	Consolidated balance sheet amounts			Millions of yen
	beginning balance	Increase(decrease) during the year	ending balance	Fair value as the end of the fiscal year
Investment and rental property	¥29,248	(¥5)	¥29,243	¥40,173
Properties that include portions used as investment and rental property	¥15,228	(¥733)	¥14,495	¥22,775

Note 1. The amounts of consolidated balance sheet excludes accumulated depreciation and accumulated impairment loss from acquisition costs.

2. Among changes in the amount of investment and rental property and properties that include portions used as investment and rental property during the fiscal 2017, principal increases were 1,337 million yen (US\$11,916 thousand) of properties acquisitions, and principal decreases were 1,071 million yen (US\$9,545 thousand) of depreciation, 1,203 million yen (US\$10,722 thousand) of impairment losses, 568 million yen (US\$5,062 thousand) of loss on sales and retirement, 928 million yen (US\$8,271 thousand) of end of contracts, and 543 million yen (US\$4,840 thousand) of other decreases.

Among changes in the amount of investment and rental property and properties that include portions used as investment and rental property during the fiscal 2016, principal increases were 622 million yen

(US\$5,520 thousand) of properties acquisitions, and principal decreases were 1,264 million yen (US\$11,217 thousand) of depreciation, and 265 million yen (US\$2,352 thousand) of loss on sale and retirement.

3. Fair value of a part of main investment and rental property is the amount estimated by based value of real-estate appraiser, and fair value of a part of other investment and rental property is the amount estimated by the Company based principally on land assessment value.

Profit and loss in fiscal 2017 and 2016 from investment and rental property and properties that include portions used as investment and rental property were as follows:

As of March 31, 2017

	Millions of yen			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	¥3,909	¥2,059	¥1,850	(¥1,133)
Properties that include portions used as investment and rental property	¥775	¥1,224	(¥449)	¥-

As of March 31, 2017

	Thousands of U.S. dollars			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	\$34,840	\$18,351	\$16,489	(\$10,098)
Properties that include portions used as investment and rental property	\$6,907	\$10,909	(\$4,002)	\$-

As of March 31, 2016

	Millions of yen			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	¥3,862	¥2,344	¥1,518	(¥262)
Properties that include portions used as investment and rental property	¥855	¥1,077	(¥222)	¥-

Note:1. Rental income (from the properties that include portions used as investment and rental property) does not include the portion that the Company or certain subsidiaries use as the provision of services and business administration purposes. Rental expenses, however, include all portions of the expenses (costs related to depreciation, repairs, insurance and taxes).

2. Other profit and loss include in gain on sale and impairment loss.

25. Subsequent Events

No items to be reported.

26. Other

No items to be reported.

Independent Auditor's Report

To the Board of Directors of SUBARU CORPORATION:

We have audited the accompanying consolidated financial statements of SUBARU CORPORATION, and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SUBARU CORPORATION, and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 26, 2017
Tokyo, Japan