

Consolidated Balance Sheets

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

As of March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
ASSETS			
Current assets:			
Cash and deposits (Note 4 and 5)	¥765,397	¥658,822	\$7,202,381
Notes and accounts receivable-trade (Note 5)	155,247	158,454	1,460,873
Lease investment assets (Note 5 and 17)	17,120	18,538	161,099
Short-term investment securities (Notes 4, 5 and 6)	242,573	320,579	2,282,610
Merchandise and finished goods	202,435	205,991	1,904,912
Work in process	52,307	51,754	492,209
Raw materials and supplies	42,448	43,586	399,435
Deferred tax assets (Note 12)	124,766	109,600	1,174,047
Short-term loans receivable (Note 5)	185,364	176,433	1,744,274
Other current assets	107,893	102,045	1,015,272
Allowance for doubtful accounts	(340)	(551)	(3,198)
Total current assets	1,895,210	1,845,251	17,833,914
Property, plant and equipment (Notes 7 and 9)	1,698,491	1,622,363	15,982,789
Accumulated depreciation	(968,876)	(937,015)	(9,117,117)
Accumulated impairment loss	(26,507)	(28,083)	(249,431)
Total property, plant and equipment	703,108	657,265	6,616,241
Investments and other assets:			
Intangible assets	28,293	24,905	266,237
Investment securities (Note 5 and 6)	106,964	104,278	1,006,531
Investments in non-consolidated subsidiaries and affiliated companies	9,817	4,006	92,378
Net defined benefit assets (Note 11)	82	931	772
Deferred tax assets (Note 12)	32,244	20,922	303,416
Other assets	111,957	108,074	1,053,513
Allowance for doubtful accounts	(3,362)	(3,311)	(31,636)
Total investments and other assets	285,995	259,805	2,691,211
Total assets	¥2,884,313	¥2,762,321	\$27,141,366

		Millions of yen	Thousands of U.S. dollars (Note 1)	
		2018	2017	2018
LIABILITIES AND NET ASSETS				
Current liabilities:				
Notes and accounts payable-trade (Note 5)		¥320,137	¥349,737	\$3,012,487
Electronically recorded obligations-operating (Note 5)		64,863	92,098	610,360
Short-term loans payable (Note 5 and 7)		22,082	43,205	207,791
Current portion of long-term debts (Note 5 and 7)		42,982	44,443	404,460
Accrued expenses (Note 5)		255,914	221,328	2,408,149
Provision for bonuses		24,131	23,678	227,073
Provision for product warranties		34,743	59,259	326,931
Accrued income taxes (Note 5 and 12)		45,372	13,858	426,950
Provision for loss on business liquidation		3,098	3,317	29,152
Provision for loss related to airbags		64,711	-	608,930
Other current liabilities (Note 5 and 7)		172,973	162,815	1,627,676
Total current liabilities		1,051,006	1,013,738	9,889,959
Long-term liabilities:				
Long-term debts (Note 5 and 7)		21,138	60,612	198,908
Net defined benefit liability (Note 11)		19,337	18,615	181,961
Provision for product warranties		35,801	-	336,887
Deferred tax liabilities (Note 12)		20,305	29,802	191,070
Other long-term liabilities (Note 7)		175,703	174,666	1,653,365
Total long-term liabilities		272,284	283,695	2,562,191
Contingent liabilities (Note 19)				
Net assets: (Note 13)				
Shareholders' equity:				
Capital stock				
Authorized—	1,500,000,000 shares			
Issued —	769,175,873 shares	153,795	153,795	1,447,210
Capital surplus		160,197	160,178	1,507,453
Retained earnings		1,283,539	1,173,277	12,078,094
Less—treasury stock, at cost,		(7,054)	(7,173)	(66,379)
2018—	2,455,039 shares			
2017—	2,490,224 shares			
Total shareholders' equity		1,590,477	1,480,077	14,966,378
Accumulated other comprehensive income:				
Valuation difference on available-for-sale securities		7,038	8,099	66,227
Foreign currency translation adjustments		(36,193)	(16,631)	(340,576)
Remeasurements of defined benefit plans		(10,136)	(10,996)	(95,379)
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries		1,658	(1,885)	15,602
Total accumulated other comprehensive income		(37,633)	(21,413)	(354,126)
Non-controlling interests		8,179	6,224	76,964
Total net assets		1,561,023	1,464,888	14,689,216
Total liabilities and net assets				
		¥2,884,313	¥2,762,321	\$27,141,366

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

Consolidated Statements of Income

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales (Note 2)	¥3,405,221	¥3,325,992	\$32,043,107
Cost of sales (Note 14)	2,442,706	2,386,266	22,985,847
Gross profit	962,515	939,726	9,057,260
Selling, general and administrative expenses (Note 2 and 15)	583,068	528,916	5,486,666
Operating income	379,447	410,810	3,570,594
Other income (expenses):			
Interest and dividend income	8,186	4,616	77,030
Interest expenses	(1,379)	(1,846)	(12,976)
Equity in earnings of affiliates	778	292	7,321
Foreign exchange gains (losses)	(7,395)	(4,800)	(69,587)
Gain (loss) on valuation of derivatives	2,266	(4,248)	21,323
Gain (loss) on sales and retirement of noncurrent assets	(4,837)	(3,270)	(45,516)
Gain (loss) on sales of investment securities (Note 6)	4,618	10,144	43,455
Depreciation	(1,025)	(956)	(9,645)
Cost of Settlement	-	(7,659)	-
Impairment loss (Note 9)	(31)	(1,188)	(292)
Loss on related to airbags(Note 16)	(81,261)	-	(764,665)
Loss on business liquidation(Note 16)	-	(5,122)	-
Other, net	(2,027)	(2,078)	(19,075)
	(82,107)	(16,115)	(772,627)
Income before income taxes	297,340	394,695	2,797,967
Income taxes (Note 12):			
Current	113,155	123,591	1,064,788
Deferred	(37,554)	(12,448)	(353,384)
	75,601	111,143	711,404
Net income	221,739	283,552	2,086,563
Net income attributable to non-controlling Interests	1,385	1,198	13,033
Net income attributable to owners of the parent	¥220,354	¥282,354	\$2,073,530

		Yen	U.S. dollars (Note 1)
Per share data (Note 2) :			
Net income	—Basic	¥287.40	¥365.77
	—Diluted *	-	-
Net assets		2,025.31	1,902.56
Cash dividends (Note 13)		¥144.00	¥144.00

The accompanying notes are an integral part of these statements.

*For the year ended March 31, 2018 and 2017 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, 2018 and 2017

	2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Net Income	¥221,739	¥283,552	\$2,086,563
Other comprehensive income(loss) (Note 3)			
Valuation difference on available-for-sale securities	(1,061)	(3,245)	(9,985)
Foreign currency translation adjustments	(18,985)	(2,968)	(178,649)
Remeasurements of defined benefit plans	860	1,812	8,093
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	3,543	984	33,340
Share of other comprehensive income (loss) of associates accounted for using equity method	(54)	(783)	(508)
Total other comprehensive income(loss)	(15,697)	(4,200)	(147,709)
Comprehensive income(loss)	206,042	¥279,352	\$1,938,854
Comprehensive income (loss) attributable to:			
Owners of the parent	204,449	278,689	1,923,864
Non-controlling interests	¥1,593	¥663	\$14,990

Consolidated Statements of Changes in Net Assets

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

As of March 31, 2018 and 2017

		Millions of yen	Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Shareholders' equity			
Capital stock			
Balance at the beginning of current period	¥153,795	¥153,795	\$1,447,210
Balance at the end of current period	153,795	153,795	1,447,210
Capital surplus			
Balance at the beginning of current period	160,178	160,071	1,507,274
Changes of items during the period			
Disposal of treasury stock	19	1	179
Retirement of treasury shares	-	(46,973)	-
Transfer to capital surplus from retained earnings	-	46,972	-
Other	-	107	-
Total changes of items during the period	19	107	179
Balance at the end of current period	160,197	160,178	1,507,453
Retained earnings			
Balance at the beginning of current period	1,173,277	1,049,016	11,040,529
Changes of items during the period			
Dividends from surplus	(110,463)	(111,446)	(1,039,456)
Net income attributable to owners of the parent	220,354	282,354	2,073,530
Disposal of treasury stock	-	(1)	-
Adjustments due to change in fiscal year end of consolidated subsidiaries	828	-	7,791
Change of scope of consolidation	(355)	-	(3,341)
Change of scope of equity method	922	325	8,676
Transfer to capital surplus from retained earnings	-	(46,972)	-
Other	(1,024)	1	(9,635)
Total changes of items during the period	110,262	124,261	1,037,565
Balance at the end of current period	1,283,539	1,173,277	12,078,094
Treasury stock			
Balance at the beginning of current period	(7,173)	(1,402)	(67,498)
Changes of items during the period			
Purchase of treasury stock	(11)	(52,744)	(104)
Disposal of treasury stock	130	0	1,223
Retirement of treasury shares	-	46,973	-
Total changes of items during the period	119	(5,771)	1,119
Balance at the end of current period	(7,054)	(7,173)	(66,379)
Total shareholders' equity			
Balance at the beginning of current period	1,480,077	1,361,480	13,927,515
Changes of items during the period			
Dividends from surplus	(110,463)	(111,446)	(1,039,456)
Net income attributable to owners of the parent	220,354	282,354	2,073,530
Purchase of treasury stock	(11)	(52,744)	(104)
Disposal of treasury stock	149	0	1,402
Adjustments due to change in fiscal year end of consolidated subsidiaries	828	-	7,791
Change of scope of consolidation	(355)	-	(3,341)
Change of scope of equity method	922	325	8,676
Other	(1,024)	108	(9,635)
Total changes of items during the period	110,400	118,597	1,038,863
Balance at the end of current period	¥1,590,477	¥1,480,077	\$14,966,378

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	¥8,099	¥11,344	\$76,212
Changes of items during the period			
Net changes of items other than shareholders' equity	(1,061)	(3,245)	(9,985)
Total changes of items during the period	(1,061)	(3,245)	(9,985)
Balance at the end of current period	7,038	8,099	66,227
Foreign currency translation adjustments			
Balance at the beginning of current period	(16,631)	(13,415)	(156,498)
Changes of items during the period			
Net changes of items other than shareholders' equity	(19,562)	(3,216)	(184,078)
Total changes of items during the period	(19,562)	(3,216)	(184,078)
Balance at the end of current period	(36,193)	(16,631)	(340,576)
Remeasurements of defined benefit plans			
Balance at the beginning of current period	(10,996)	(12,808)	(103,472)
Changes of items during the period			
Net changes of items other than shareholders' equity	860	1,812	8,093
Total changes of items during the period	860	1,812	8,093
Balance at the end of current period	(10,136)	(10,996)	(95,379)
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries			
Balance at the beginning of current period	(1,885)	(2,869)	(17,738)
Changes of items during the period			
Net changes of items other than shareholders' equity	3,543	984	33,340
Total changes of items during the period	3,543	984	33,340
Balance at the end of current period	1,658	(1,885)	15,602
Total accumulated other comprehensive income			
Balance at the beginning of current period	(21,413)	(17,748)	(201,496)
Changes of items during the period			
Net changes of items other than shareholders' equity	(16,220)	(3,665)	(152,630)
Total changes of items during the period	(16,220)	(3,665)	(152,630)
Balance at the end of current period	(37,633)	(21,413)	(354,126)
Non-controlling interests			
Balance at the beginning of current period	6,224	5,679	58,568
Changes of items during the period			
Net changes of items other than shareholders' equity	1,955	545	18,396
Total changes of items during the period	1,955	545	18,396
Balance at the end of current period	8,179	6,224	76,964
Total net assets			
Balance at the beginning of current period	1,464,888	1,349,411	13,784,587
Changes of items during the period			
Dividends from surplus	(110,463)	(111,446)	(1,039,456)
Net income attributable to owners of the parent	220,354	282,354	2,073,530
Purchase of treasury stock	(11)	(52,744)	(104)
Disposal of treasury stock	149	0	1,402
Adjustments due to change in fiscal year end of consolidated subsidiaries	828	-	7,791
Change of scope of consolidation	(355)	-	(3,341)
Change of scope of equity method	922	325	8,676
Other	(1,024)	108	(9,635)
Net changes of items other than shareholders' equity	(14,265)	(3,120)	(134,234)
Total changes of items during the period	96,135	115,477	904,629
Balance at the end of current period	¥1,561,023	¥1,464,888	\$14,689,216

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2018 and 2017

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2018	2017	2018
Net cash provided by (used in) operating activities			
Income before income taxes	¥297,340	¥394,695	\$2,797,967
Depreciation and amortization	102,102	85,653	960,779
Increase (decrease) in allowance for doubtful accounts	(149)	(189)	(1,402)
Increase (decrease) in provision for loss related to airbags	64,711	-	608,930
Interest and dividends income	(8,186)	(4,616)	(77,030)
Interest expenses	1,379	1,846	12,976
Loss (gain) on sales and retirement of noncurrent assets	4,837	3,270	45,516
Loss (gain) on sales and valuation of investment securities	(4,096)	(9,322)	(38,543)
Decrease (increase) in operating loans receivable	(7,799)	(3,898)	(73,389)
Decrease (increase) in notes and accounts receivable-trade	40	(19,684)	376
Decrease (increase) in inventories	(15,922)	(32,444)	(149,826)
Increase (decrease) in notes and accounts payable-trade	(54,159)	24,458	(509,636)
Increase (decrease) in accrued expenses	40,158	88,159	377,887
Other, net	20,336	22,320	191,363
Sub-total	440,592	550,248	4,145,968
Interest and dividends income received	8,397	5,236	79,016
Interest expenses paid	(1,446)	(1,852)	(13,607)
Income taxes paid	(81,245)	(208,190)	(764,515)
Net cash provided by (used in) operating activities	366,298	345,442	3,446,862
Net cash provided by (used in) investing activities			
Net decrease (increase) in time deposits	(7,219)	(25,809)	(67,931)
Purchase of short-term investment securities	(143,418)	(135,061)	(1,349,562)
Proceeds from sales of short-term investment securities	168,525	98,133	1,585,819
Purchase of non-current assets	(149,897)	(163,774)	(1,410,530)
Proceeds from sales of non-current assets	3,413	1,327	32,116
Purchase of investment securities	(52,645)	(48,705)	(495,389)
Proceeds from sales of investment securities	34,272	46,585	322,499
Payments of loans receivable	(123,552)	(137,006)	(1,162,624)
Collection of loans receivable	120,383	117,687	1,132,803
Other, net	(573)	(7,629)	(5,391)
Net cash provided by (used in) investing activities	(150,711)	(254,252)	(1,418,190)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	(18,393)	9,939	(173,078)
Proceeds from long-term loans payable	3,500	12,930	32,935
Repayments of long-term loans payable	(44,443)	(34,605)	(418,208)
Redemption of bonds	-	(10,000)	-
Purchase of treasury shares	(11)	(52,744)	(104)
Cash dividends paid	(110,326)	(111,435)	(1,038,167)
Other, net	(1,264)	(3,129)	(11,894)
Net cash provided by (used in) financing activities	(170,937)	(189,044)	(1,608,516)
Effect of exchange rate change on cash and cash equivalents	(10,831)	(2,991)	(101,919)
Net increase (decrease) in cash and cash equivalents	33,819	(100,845)	318,237
Cash and cash equivalents at beginning of the period(Note 4)	728,616	829,461	6,856,272
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	(534)	-	(5,025)
Increase (decrease) in cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries	3,690	-	34,722
Cash and cash equivalents at end of the period(Note 4)	¥765,591	¥728,616	\$7,204,206

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, 2018, which was ¥106.27 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.

We are planning to voluntarily adopt International Financial Reporting Standards (IFRS) to the Group's consolidated financial statements from the fiscal year ending March 31, 2020, instead of the Japanese Generally Accepted Accounting Principles currently adopted.

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 ended March 31, 2017, the fiscal year-end of those subsidiaries was December 31. The operating results of those subsidiaries that had different fiscal year-end were consolidated by using the financial statements as of each subsidiary's respective fiscal year-end, the necessary adjustments being made in consolidation if there were any significant transactions between January 1 and March 31.

To synchronize the reporting period, Subaru of China Ltd. changed its reporting period for consolidation purposes by conducting a provisional book-closing from the consolidated fiscal year ended March 31, 2018. This change allows the consolidated financial statements as of and for the 12 months period ended March 31, 2018 to include the financial information of Subaru of China Ltd. in the same period. Net operating results of Subaru of China Ltd. from January 1, 2017 to March 31, 2017 have been reflected as a change in retained earnings in the consolidated financial statement.

The consolidated financial statements include the accounts of 75 and 77 subsidiaries in the fiscal years ended March 31, 2018 and 2017, respectively.

In addition, 8 and 2 affiliated companies were accounted for by the equity method in the fiscal years ended March 31, 2018 and 2017, respectively.

Investments in insignificant non-consolidated subsidiaries 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.

[10] Provision for Loss on business liquidation

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

[11] Provision for loss related to airbags

The provision for losses on quality-assurance expenses is provided for the market measures relating to airbags in the future.

[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) 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

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.

[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 121,084 million yen (US\$ 1,139,400 thousand) and 114,215 million yen for the fiscal years ended March 31, 2018 and 2017, 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] Changes in Accounting Estimates
(Provision for product warranties)**

In the current consolidated fiscal year, there was a change in accounting estimate due to the fact that the expenses for after-sales services in the future can be estimated more precisely.

The effect of this change on profit and loss for current consolidated fiscal year is immaterial.

[23] Changes in Presentation

(Consolidated Statements of Cash Flows)

Consolidated Statements of Cash Flows for the fiscal year ended March 31, 2018 include the following reclassifications.

“Increase (decrease) in provision for loss on business liquidation”, 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.

In addition, “Dividends paid to non-controlling interests”, which was presented as a separate item in “Net cash provided by (used in) financing activities”, is included in “Other, net” in “Net cash provided by (used in) financing activities” in the current fiscal year due to its decreased financial materiality.

To reflect these changes, 3,317 million yen of “Increase (decrease) in provision for loss on business liquidation” has been reclassified into “Other, net” in “Net cash provided by (used in) operating activities”, in addition, (1,944) million yen of “Dividends paid to non-controlling interests” has been reclassified into “Other, net” in “Net cash provided by (used in) financing activities”.

As a result, “Other, net” in “Net cash provided by (used in) operating activities” is 22,320 million yen. In addition, “Other, net” in “Net cash provided by (used in) financing activities” is (3,129) million yen.

3. Other comprehensive income

Amounts reclassified to net income (loss) for the fiscal years ended March 31, 2018 and 2017, 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
	2018	2017	2018
Valuation difference on available-for-sale securities			
Increase(decrease) during the year	¥1,815	¥5,003	\$17,080
Reclassification adjustments	(4,243)	(9,572)	(39,927)
Before tax effect	(2,428)	(4,569)	(22,847)
Tax effect	1,367	1,324	12,862
Balance at the end of the period	(1,061)	(3,245)	(9,985)
Foreign currency translation adjustments			
Increase(decrease) during the year	(18,985)	(2,968)	(178,649)
Reclassification adjustments	-	-	-
Before tax effect	(18,985)	(2,968)	(178,649)
Tax effect	-	-	-
Balance at the end of the period	(18,985)	(2,968)	(178,649)
Remeasurements of defined benefit plans			
Increase(decrease) during the year	(933)	(109)	(8,779)
Reclassification adjustments	2,135	2,553	20,090
Before tax effect	1,202	2,444	11,311
Tax effect	(342)	(632)	(3,218)
Balance at the end of the period	860	1,812	8,093
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries			
Increase(decrease) during the year	4,932	1,595	46,410
Reclassification adjustments	-	-	-
Before tax effect	4,932	1,595	46,410
Tax effect	(1,389)	(611)	(13,070)
Balance at the end of the period	3,543	984	33,340
Share of other comprehensive income of affiliated companies accounted for using equity method			
Increase(decrease) during the year	(54)	(639)	(508)
Reclassification adjustments	-	(144)	-
Before tax effect	(54)	(783)	(508)
Tax effect	-	-	-
Balance at the end of the period	(54)	(783)	(508)
Total other comprehensive income(loss)	(¥15,697)	(¥4,200)	(\$147,709)

4. Additional Cash Flow Information

Cash and cash equivalents as of March 31, 2018 and 2017, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and deposits	¥765,397	¥658,822	\$7,202,381
Short-term investment securities	242,573	320,579	2,282,610
Sub-total	1,007,970	979,401	9,484,991
Less maturity over three months	(158,576)	(151,924)	(1,492,199)
Short-term investment securities excluding cash equivalents	(83,803)	(98,861)	(788,586)
Cash and cash equivalents	¥765,591	¥728,616	\$7,204,206

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. Short-term investment securities mainly consist of investments in short-term financial instruments, and investment securities mainly consist of investments in stocks of the companies with business or capital alliances, and are subject to risk of market price fluctuation.

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 6 years after March 31, 2018 at the latest.

Derivative transactions include foreign exchange forward contracts to hedge against exchange rate fluctuations associated with trade accounts receivables and liabilities denominated in foreign currencies.

[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.

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 financial institutions 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, 2018 and 2017 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, 2018

	Millions of yen		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	¥765,397	¥765,397	¥-
Notes and accounts receivable-trade	155,247		
Allowance for doubtful accounts (*1)	(60)		
	155,187	155,187	-
Lease investment assets	17,120		
Allowance for doubtful accounts (*1)	(3)		
	17,117	18,766	1,649
Short-term loans receivable	185,364		
Allowance for doubtful accounts (*1)	(274)		
	185,090	192,393	7,303
Short-term investment securities, Investment securities and Other securities	129,886	129,886	-
Total Assets	1,252,677	1,261,629	8,952
Notes and accounts payable-trade	320,137	320,137	-
Electronically recorded obligations-operating	64,863	64,863	-
Short-term loans payable	22,082	22,082	-
Current portion of long-term loans payable	42,982	43,042	60
Accrued income taxes	45,372	45,372	-
Accrued expenses	255,914	255,914	-
Long-term loans payable	21,138	21,208	70
Total Liabilities	772,488	772,618	130
Derivative transactions (*2)			
hedge accounting is not applied	5,177	5,177	-
hedge accounting is applied	¥-	¥-	¥-

As of March 31, 2018

	Thousands of U.S. dollars		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	\$7,202,381	\$7,202,381	\$-
Notes and accounts receivable-trade	1,460,873		
Allowance for doubtful accounts (*1)	(564)		
	1,460,309	1,460,309	-
Lease investment assets	161,099		
Allowance for doubtful accounts (*1)	(28)		
	161,071	176,588	15,517
Short-term loans receivable	1,744,274		
Allowance for doubtful accounts (*1)	(2,578)		
	1,741,696	1,810,417	68,721
Short-term investment securities, Investment securities and Other securities	1,222,226	1,222,226	-
Total Assets	11,787,683	11,871,921	84,238
Notes and accounts payable-trade	3,012,487	3,012,487	-
Electronically recorded obligations-operating	610,360	610,360	-
Short-term loans payable	207,791	207,791	-
Current portion of long-term loans payable	404,460	405,025	565
Accrued income taxes	426,950	426,950	-
Accrued expenses	2,408,149	2,408,149	-
Long-term loans payable	198,908	199,567	659
Total Liabilities	7,269,105	7,270,329	1,224
Derivative transactions (*2)			
hedge accounting is not applied	48,716	48,716	-
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, 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)
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	¥-	¥-	¥-

*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

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, Electronically recorded obligations-operating, 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.

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

Consolidated balance sheet amount as of March 31, 2018 and 2017:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Stocks of non-consolidated subsidiary and affiliated companies	¥6,501	¥1,232	\$61,174
Other securities (available-for-sale securities)			
Certificate of deposit	55,000	135,000	517,550
Commercial paper	17,499	42,499	164,665
Money management fund	116,270	104,218	1,094,100
Unlisted stocks (excluding over-the-counter stocks)	874	866	8,224
Medium Term Note	20,000	20,000	188,200
Trust beneficiary right	10,000	-	94,100
Other	3	3	28
Investments and other assets			
Investments in equity of affiliated companies and others	¥1,090	¥1,661	\$10,257

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" and "Investment securities".

[3] Scheduled redemption of monetary assets and securities with maturity
As of March 31, 2018:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	¥765,397	¥-	¥-	¥-
Notes and accounts receivable-trade	144,170	11,077	-	-
Lease investment assets	6,626	10,471	23	-
Short-term loans receivable	71,620	112,068	1,676	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	17,013	18,337	7,018	4,793
Corporate bonds	6,632	26,315	4,160	5,271
Other	102,658	1,732	923	6,526

As of March 31, 2018:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	\$7,202,381	\$-	\$-	\$-
Notes and accounts receivable-trade	1,356,639	104,234	-	-
Lease investment assets	62,351	98,532	216	-
Short-term loans receivable	673,944	1,054,559	15,771	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	160,092	172,551	66,039	45,102
Corporate bonds	62,407	247,624	39,146	49,600
Other	\$966,011	\$16,298	\$8,685	\$61,410

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

[4] Amount of repayment for long-term debt and other interest-bearing debt
As of March 31, 2018:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Short-term loans payable	¥22,082	¥-	¥-	¥-
Long-term loans payable	¥42,982	¥20,675	¥463	¥-

As of March 31, 2018:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years
Short-term loans payable	\$207,791	\$-	\$-	\$-
Long-term loans payable	\$404,460	\$194,552	\$4,356	\$-

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	¥-	¥-	¥-
Long-term loans payable	¥44,443	¥58,774	¥1,838	¥-

6. Short-Term Investment Securities and Investment Securities

Information on the value of short-term investment securities and investment securities as of March 31, 2018 and 2017 was as follows:

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

As of March 31, 2018:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	¥30,619	¥19,748	¥10,871
Debt securities			
Government and municipal bonds	4,356	4,326	30
Corporate bonds	3,068	3,032	36
Other	1,027	1,016	11
Sub-total	39,070	28,122	10,948
Book value not exceeding acquisition cost:			
Equity securities	389	471	(82)
Debt securities			
Government and municipal bonds	42,805	43,345	(540)
Corporate bonds	39,309	40,023	(714)
Other	8,313	8,488	(175)
Sub-total	90,816	92,327	(1,511)
Total	¥129,886	¥120,449	¥9,437

As of March 31, 2018:

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	\$288,125	\$185,829	\$102,296
Debt securities			
Government and municipal bonds	40,990	40,708	282
Corporate bonds	28,870	28,531	339
Other	9,664	9,561	103
Sub-total	367,649	264,629	103,020
Book value not exceeding acquisition cost:			
Equity securities	3,660	4,432	(772)
Debt securities			
Government and municipal bonds	402,795	407,876	(5,081)
Corporate bonds	369,897	376,616	(6,719)
Other	78,225	79,872	(1,647)
Sub-total	854,577	868,796	(14,219)
Total	\$1,222,226	\$1,133,425	\$88,801

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

(2) Other securities (available-for-sale securities) sold during the fiscal years ended March 31, 2018 and 2017:

The fiscal year ended March 31, 2018:

	Millions of yen		
	Sales amount	Total gains	Total losses
Equity securities	¥7,022	¥4,399	¥149
Debt securities			
Government and municipal bonds	32,982	97	254
Corporate bonds	19,794	119	84
Other	142,999	3	35
Total	¥202,797	¥4,618	¥522

The fiscal year ended March 31, 2018:

	Thousands of U.S. dollars		
	Sales amount	Total gains	Total losses
Equity securities	\$66,077	\$41,395	\$1,402
Debt securities			
Government and municipal bonds	\$310,360	\$913	\$2,390
Corporate bonds	\$186,261	\$1,120	\$790
Other	\$1,345,620	\$28	\$329
Total	\$1,908,318	\$43,456	\$4,911

The fiscal 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

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

Short-term loans payable as of March 31, 2018 and 2017, consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2018	2017 2018
Bank loans with average interest rate of 2.03% and 1.40% per annum as of March 31, 2018 and 2017, respectively	¥22,082	¥43,205 \$207,791

Long-term debts as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2018	2017 2018
Loans principally from banks and insurance companies due through 2024 with average interest rate of 0.48% and 0.51% per annum as of March 31, 2018 and 2017, respectively	¥64,120	¥105,055 \$603,368
Subtotal	64,120	105,055 603,368
Less-Portion due within one year	(42,982)	(44,443) (404,460)
Total	¥21,138	¥60,612 \$198,908

Annual maturities of long-term loans payable as of March 31, 2018 were as follows:

	Millions of yen	Thousands of U.S. dollars
2019	¥42,982	\$404,460
2020	7,872	74,075
2021	7,300	68,693
2022	4,121	38,779
2023	1,382	13,005
2024 and thereafter	463	4,356
Total	¥64,120	\$603,368

Lease obligations as of March 31, 2018 and 2017 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2018	2017 2018
Lease obligations due within one year as of March 31, 2018	¥1,157	¥1,189 \$10,887
Lease obligations due after one year as of March 31, 2018	1,810	1,765 17,032
Total	¥2,967	¥2,954 \$27,919

Annual maturities of lease obligations as of March 31, 2018 were as follows:

	Millions of yen	Thousands of U.S. dollars
2019	¥1,157	10,887
2020	1,484	13,964
2021	152	1,430
2022	113	1,063
2023	46	433
2024 and thereafter	15	142
Total	¥2,967	\$27,919

The following assets as of March 31, 2018 and 2017 were pledged as collateral for certain loans:

	Millions of yen	Thousands of U.S. dollars
	2018	2017
Property, plant and equipment	¥28,752	¥32,520
Total	¥28,752	¥32,520

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 237,441 million yen (US\$2,234,318 thousand) as of March 31, 2018. 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, 2018 and 2017 was as follows:

Derivative transactions to which hedge accounting is not applied

(1) Foreign currency contracts:

As of March 31, 2018

	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	¥254,467	¥4,163	¥4,163	\$2,394,533	\$39,174	\$39,174
Euro	5,997	132	132	56,432	1,242	1,242
Canadian dollar	25,349	882	882	238,534	8,300	8,300
Total	¥285,813	¥5,177	¥5,177	\$2,689,499	\$48,716	\$48,716

As of March 31, 2017

	Millions of yen		
	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:			
Sell-			
U.S. dollar	¥262,186	¥2,585	¥2,585
Euro	3,421	11	11
Canadian dollar	21,521	315	315
Total	¥287,128	¥2,911	¥2,911

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		
	Notional Amount	Over 1 year	Fair value
Interest rate swap contracts:			
Receive floating rate pay fixed rate	¥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, 2018 and 2017 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Buildings and structures	¥441,879	¥407,758	\$4,158,078
Machinery, equipment and vehicles	609,736	603,416	5,737,612
Vehicles and equipment on operating leases	22,648	15,391	213,118
Other	371,661	354,599	3,497,327
Subtotal	1,445,924	1,381,164	13,606,135
Land	196,659	195,783	1,850,560
Construction in progress	55,908	45,416	526,094
Accumulated depreciation	(968,876)	(937,015)	(9,117,117)
Accumulated impairment loss	(26,507)	(28,083)	(249,431)
Total	¥703,108	¥657,265	\$6,616,241

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, 2018 and 2017 was as follows:

			Thousands of
	Millions of yen		U.S. dollars
	2018	2017	2018
Total overdraft facilities and lending commitments	¥4,800	¥4,800	\$45,168
Less amounts currently executed	1,637	1,263	15,404
Unexecuted balance	¥3,163	¥3,537	\$29,764

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, 2018, 54 companies including the Company and its consolidated domestic subsidiaries 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 2 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

	Thousands of		
	Millions of yen	U.S. dollars	
	2018	2017	2018
Balance at the beginning of the period	¥115,699	¥116,331	\$1,088,727
a. Service cost	6,563	6,752	61,758
b. Interest cost	796	679	7,490
c. Actuarial loss (gain)	1,446	(3,149)	13,607
d. Benefits paid	(4,620)	(4,373)	(43,474)
e. Amortization of prior service cost	-	(15)	-
f. Other	(47)	(526)	(443)
Balance at the end of the period	¥119,837	¥115,699	\$1,127,665

Movements in plan assets, except plans applied simplified method

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the period	¥104,828	¥105,917	\$986,431
a. Expected return on plan assets	1,917	1,953	18,039
b. Actuarial loss (gain)	513	(3,258)	4,827
c. Contributions paid by the employer	3,441	3,290	32,380
d. Payment for retirement benefits	(2,929)	(2,886)	(27,562)
e. Other	-	(188)	-
Balance at the end of the period	¥107,770	¥104,828	\$1,014,115

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of the period	¥6,813	¥6,398	\$64,110
a. Retirement benefit cost	820	841	7,716
b. Benefits paid	(417)	(383)	(3,924)
c. Contributions paid by the employer	(28)	(43)	(263)
Balance at the end of the period	¥7,188	¥6,813	\$67,639

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
	2018	2017	2018
a. Funded retirement benefit obligations	109,766	¥105,901	\$1,032,897
b. Plan assets	(108,110)	(105,157)	(1,017,314)
Sub total	1,656	744	15,583
c. Unfunded retirement benefit obligations	17,599	16,940	165,606
a+b+c. Total Net liability (asset) for retirement benefits	19,255	17,684	181,189
d. Net defined benefit liability	19,337	18,615	181,961
e. Net defined benefit asset	(82)	(931)	(772)
d+e. Total Net liability (asset) for retirement benefits	¥19,255	¥17,684	\$181,189

Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
a. Service cost	¥6,563	¥6,752	\$61,758
b. Interest cost	796	679	7,490
c. Expected return on plan assets	(1,917)	(1,953)	(18,039)
d. Net actuarial loss amortization	2,142	2,560	20,156
e. Past service costs amortization	(6)	(6)	(56)
f. Additional retirement payments	342	225	3,218
g. Retirement benefit cost of the plan applying the simplified method	820	841	7,716
h. Other	-	(149)	-
Total retirement benefit costs for the fiscal year ended	¥8,740	¥8,949	\$82,243

Adjustments for retirement benefit (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
a. Past service costs	(¥6)	(¥21)	(\$56)
b. Actuarial gains and losses	1,208	2,465	11,367
Total	¥1,202	¥2,444	\$11,311

Accumulated adjustments for retirement benefit (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
a. Past service costs that are yet to be recognized	¥274	¥267	\$2,578
b. Actuarial gains and losses that are yet to be recognized	14,290	15,498	134,469
Total	¥14,564	¥15,765	\$137,047

Plan assets

Plan assets comprise:

	Percentage	
	2018	2017
a. Bonds	44%	47%
b. Equity securities	16%	16%
c. Cash and deposit	29%	28%
d. Other	11%	9%
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

	2018	2017
a. Attribution of expected benefit obligation	Benefit formula method	Benefit formula method
b. Discount rate	Primarily 0.6%	Primarily 0.7%
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	13 to 18 years

Defined contribution pension plan

The amount required to contribute to defined contribution plans was 5,161 million yen (US\$48,565 thousand) and 4,698 million yen for the fiscal years ended March 31, 2018 and 2017, 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, 2018 and 2017)

	Millions of yen	Thousands of U.S. dollars
	2018	2017
Plan assets	¥9,130	¥10,660
Projected benefit obligation	11,180	11,320
Funded status	(¥2,050)	(¥660)
		\$85,913
		105,204
		(\$19,291)

(2) Contributions by the Company and its consolidated domestic subsidiaries as a percentage of total contributions to the multi-employer pension plan for the fiscal years ended March 31, 2018 and 2017 were 4% and 4% respectively.

Other than the above, "Accrued expenses" and "Other long-term liabilities" include 24,606 million yen (US\$231,542 thousand) and 27,795 million yen of postretirement benefit plan obligations of certain U.S. subsidiaries as of March 31, 2018 and 2017, respectively.

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% for the fiscal years ended March 31, 2018 and 2017.

A reconciliation of the statutory income tax rate in Japan to the Company's effective income tax rate for the fiscal years ended March 31, 2018 and 2017 were as follows:

	2018	2017
Statutory income tax rate in Japan	30.7%	30.7%
Increase (reduction) in taxes resulting from:		
Difference of applicable tax rate in subsidiaries	0.5%	2.4%
Adjustment of deferred tax assets by change of the tax rate	0.1%	-
Entertainment expenses not qualifying for deduction	0.1%	0.1%
Correction for income tax in previous years	0.6%	-
Changes in valuation allowance and tax benefits realized from loss carry forwards	(0.4)%	0.0%
Deduction of research and development expense	(6.3)%	(4.7)%
Other	0.1%	(0.3)%
Effective income tax rate	25.4%	28.2%

Significant components of the deferred tax assets and liabilities as of March 31, 2018 and 2017 were as follows:

	Thousands of		
	Millions of yen	U.S. dollars	
	2018	2017	2018
Deferred tax assets:			
Accrued expenses	¥77,088	¥53,348	\$725,398
Unrealized profit on inventories	20,130	22,748	189,423
Provision for product warranties	19,653	19,875	184,935
Net defined benefit liability	14,763	15,082	138,920
Depreciation and amortization expenses	8,585	11,307	80,785
Provision for bonuses	7,605	7,493	71,563
Long-term accounts payable-other	6,216	10,858	58,493
Accrued enterprise tax	2,843	677	26,753
Inventories	2,578	2,247	24,259
Other	20,689	20,623	194,681
Total deferred tax assets	180,150	164,258	1,695,210
Valuation allowance	(7,405)	(8,778)	(69,681)
Total deferred tax assets, net of valuation allowance	172,745	155,480	1,625,529
Deferred tax liabilities:			
Deferred revenue of foreign consolidated subsidiaries	(16,441)	(26,494)	(154,710)
Depreciation and amortization expenses	(14,230)	(22,466)	(133,904)
Valuation difference on available-for-sale securities	(2,408)	(2,354)	(22,659)
Reserve for reduction entry	(1,690)	(1,770)	(15,903)
Net defined benefit asset	(527)	(932)	(4,959)
Other	(744)	(744)	(7,001)
Total deferred tax liabilities	(36,040)	(54,760)	(339,136)
Net deferred tax assets	¥136,705	¥100,720	\$1,286,393

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

		Millions of yen	Thousands of U.S. dollars
	2018	2017	2018
Current assets—Deferred tax assets	¥124,766	¥109,600	\$1,174,047
Investments and other assets—Deferred tax assets	32,244	20,922	303,416
Long-term liabilities—Deferred tax liabilities	(20,305)	(29,802)	(191,070)
Total net deferred tax assets	¥136,705	¥100,720	\$1,286,393

Revision of deferred tax assets and liabilities due to change in income tax rate

In the United States, the Tax Cuts and Jobs Act was enacted on December 22, 2017, and the federal income tax rate was reduced from 35% to 21% for fiscal years beginning on or after January 1, 2018. The effect of the change in the tax rate is immaterial.

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 22, 2018, the shareholders approved cash dividends amounting to 55,233 million yen (US\$519,742 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2018. 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 ended March 31, 2018 and 2017 is provision of 95 million yen (US\$ 894 thousand) and reversal of 579 million yen, respectively.

15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the fiscal years ended March 31, 2018 and 2017 consisted of the following:

	Thousands of	
	Millions of yen	U.S. dollars
	2018	2017
Freightage and packing expenses	¥28,438	¥27,813
Advertising expenses	82,801	80,780
Sales incentives	173,785	137,209
Salaries and bonuses	58,002	55,123
Research and development expenses	120,330	113,490
Other	119,712	114,501
Total	¥583,068	¥528,916

16. Extraordinary loss

(The fiscal year ended March 31, 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 of loss on fixed assets, 2,127 million yen on inventory valuation, and 471 million yen 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 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 of impairment losses were recognized. The recoverable amounts are

measured at net realizable value, calculated based on real estate appraisal value.

(The fiscal year ended March 31, 2018)

Loss on related to airbags

The loss was recognized due to the market measures concerning Takata airbag inflator not containing desiccant (hereinafter referred to as "the airbag"). It is quality-assurance expenses which further market measures relating to the airbags to be taken in the current fiscal year and beyond.

17. 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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Lease revenue receivable	¥20,534	¥22,210	\$193,225
Estimated residual value	395	386	3,717
Interest income portion	(3,809)	(4,058)	(35,843)
Lease investment assets	¥17,120	¥18,538	\$161,099

(2) Lease revenue related to lease investment assets

Amounts of collections on lease receivable after the fiscal years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Within 1 year	¥7,882	¥7,355	\$74,170
1 to 2 years	5,456	6,022	51,341
2 to 3 years	3,494	4,590	32,879
3 to 4 years	2,322	2,638	21,850
4 to 5 years	1,347	1,594	12,675
Over 5 years	¥33	¥11	\$310

18. Operating Lease

Information as Lessee

The future minimum lease/rent payments, excluding the portion of interest thereon, as of March 31, 2018 and 2017, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Operating leases:			
Due within one year	¥3,372	¥3,490	\$31,730
Due after one year	14,048	17,101	132,192
Total	¥17,420	¥20,591	\$163,922

Information as Lessor

The future minimum lease/rent payments receivable, excluding the portion of interest thereon, as of March 31, 2018 and 2017 were as follows:

	Thousands of		
	Millions of yen	U.S. dollars	
	2018	2017	2018
Operating leases:			
Due within one year	¥125	¥137	\$1,176
Due after one year	71	72	668
Total	¥196	¥209	\$1,844

19. Contingent Liabilities

Contingent liabilities as of March 31, 2018 and 2017 were as follows:

			Thousands of
		Millions of yen	U.S. dollars
	2018	2017	2018
As guarantor of third-party indebtedness from financial institutions	¥29,795	¥28,555	\$280,371

(The fiscal year ended March 31, 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.

(The fiscal year ended March 31, 2018)

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, 2018.

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

20. The Amount of Discount of Export Bill

The amount of discount of export bill as of March 31, 2018 and 2017 were as follows:

	Thousands of		
	Millions of yen	U.S. dollars	
	2018	2017	2018
The amount of discount of export bill	¥1,891	¥1,210	\$17,794

21. Transfer of Financial Assets to Special Purpose Company

The balance of financial assets transferred to special purpose company as of March 31, 2018 and 2017 were as follows:

	Thousands of	
	Millions of yen	U.S. dollars
	2018	2017
		2018
Balance of financial assets transferred to special purpose company (loan receivable of Automobiles and accounts receivable-trade of Aerospace)	¥4,251	¥4,488
		\$40,002

22. 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 do not belong to Automobile nor Aerospace. Automobile segment manufactures and sells vehicles and related products. Aerospace segment manufactures aircrafts, parts of space-related devices.

(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, 2018 and 2017 were summarized as follows

	Thousands of	
	Millions of yen	U.S. dollars
	2018	2017
		2018
Net Sales:		
Automobiles		
Outside customers	¥3,234,866	¥3,151,961
Inter-segment	2,918	4,720
Sub-total	3,237,784	3,156,681
Aerospace		
Outside customers	142,163	138,759
Inter-segment	5	-
Sub-total	142,168	138,759
Other (*1)		
Outside customers	28,192	35,272
Inter-segment	23,852	23,785
Sub-total	52,044	59,057
Total	3,431,996	3,354,497
Adjustment (*2)	(26,775)	(28,505)
Consolidated total	¥3,405,221	¥3,325,992
		\$32,043,107

	Millions of yen		Thousands of U.S. dollars
Segment income:	2018	2017	2018
Automobiles	¥361,454	¥397,657	\$3,401,280
Aerospace	12,259	9,102	115,357
Other (*1)	5,066	3,512	47,671
Total	378,779	410,271	3,564,308
Adjustment (*2)	668	539	6,286
Consolidated total (*3)	¥379,447	¥410,810	\$3,570,594

	Millions of yen		Thousands of U.S. dollars
Segment assets:	2018	2017	2018
Automobiles	¥2,598,192	¥2,477,309	\$24,448,970
Aerospace	234,619	223,148	2,207,763
Other (*1)	77,583	87,484	730,055
Total	2,910,394	2,787,941	27,386,788
Adjustment (*2)	(26,081)	(25,620)	(245,422)
Consolidated total	¥2,884,313	¥2,762,321	\$27,141,366

	Millions of yen		Thousands of U.S. dollars
Other Items:	2018	2017	2018
Depreciation and amortization:			
Automobiles	¥95,193	¥80,058	\$895,766
Aerospace	5,298	3,663	49,854
Other (*1)	1,611	1,932	15,159
Total	102,102	85,653	960,779
Adjustment (*2)	-	-	-
Consolidated total	102,102	85,653	960,779
Investment to equity-method affiliates:			
Automobiles	3,461	1,467	32,568
Aerospace	-	-	-
Other (*1)	54	-	508
Total	3,515	1,467	33,076
Adjustment (*2)	-	-	-
Consolidated total	3,515	1,467	33,076
Increase of property, plant and equipment and intangible assets:			
Automobiles	185,056	180,469	1,741,376
Aerospace	8,316	14,699	78,254
Other (*1)	417	1,448	3,923
Total	193,789	196,616	1,823,553
Adjustment (*2)	-	-	-
Consolidated total	¥193,789	¥196,616	\$1,823,553

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, 2018 and 2017 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Sales: (*1)			
Japan	¥668,566	¥650,343	\$6,291,202
North America	2,305,797	2,192,260	21,697,535
[United States] (*2)	[2,152,276]	[2,056,176]	[20,252,903]
Europe	119,113	112,602	1,120,853
Asia	140,577	211,325	1,322,829
Other	171,168	159,462	1,610,688
Consolidated total	¥3,405,221	¥3,325,992	\$32,043,107

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 as of March 31, 2018 and 2017 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Property, plant and equipment: (*1)			
Japan	¥527,698	¥489,383	4,965,635
North America	174,290	166,665	1,640,068
[United States] (*2)	[173,557]	[165,877]	[1,633,170]
Europe	519	425	4,884
Other	601	792	5,654
Consolidated total	¥703,108	¥657,265	6,616,241

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, 2018 and 2017

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, 2018 and 2017 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Impairment loss in fixed assets:			
Automobiles	¥31	¥3	\$292
Aerospace	-	-	-
Other	-	2,386	-
Total	31	2,389	292
Adjustment	-	-	-
Total	¥31	¥2,389	\$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 as of March 31, 2018 and 2017 was summarized as follows:

Goodwill

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Amount written off of current period:			
Automobiles	¥211	¥206	\$1,986
Aerospace	-	-	-
Other	-	-	-
Total	211	206	1,986
Corporate and elimination	-	-	-
Total	211	206	1,986
Balance at the end of current period:			
Automobiles	1,566	1,867	14,736
Aerospace	-	-	-
Other	-	-	-
Total	1,566	1,867	14,736
Corporate and elimination	-	-	-
Total	¥1,566	¥1,867	\$14,736

Information on Negative Goodwill by Reportable segments

No items to be reported.

23. 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 the fiscal years ended March 31, 2018 and 2017, and fair value as of March 31, 2018 and 2017 were as follows:

The fiscal year ended March 31, 2018

				Millions of yen
	Consolidated balance sheet amounts			Fair value as the end of the fiscal year
	beginning balance	Increase(decrease) during the year	ending balance	
Investment and rental property	¥27,036	¥242	¥27,278	¥40,136
Properties that include portions used as investment and rental property	¥13,712	(¥253)	¥13,459	¥22,804

The fiscal year ended March 31, 2018

				Thousands of U.S. dollars
	Consolidated balance sheet amounts			Fair value as the end of the fiscal year
	beginning balance	Increase(decrease) during the year	ending balance	
Investment and rental property	\$254,409	\$2,277	\$256,686	\$377,679
Properties that include portions used as investment and rental property	\$129,030	(\$2,381)	\$126,649	\$214,585

The fiscal year ended March 31, 2017

				Millions of yen
	Consolidated balance sheet amounts			Fair value as the end of the fiscal year
	beginning balance	Increase(decrease) during the year	ending balance	
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

Note 1. The amounts of consolidated balance sheet exclude 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 year ended March 31, 2018, principal increases were 1,539 million yen (US\$14,482 thousand) of properties acquisitions and 720 million yen (US\$6,775 thousand) of other, and principal decreases were 1,001 million yen (US\$9,419 thousand) of depreciation, 1,469 million yen (US\$13,823 thousand) of loss on sales and retirement.

Among changes in the amount of investment and rental property and properties that include portions used as investment and rental property during the fiscal year ended March 31, 2017, principal increases were 1,337 million yen of properties acquisitions, and principal decreases were 1,071 million yen of depreciation, 1,203 million yen of impairment losses, 568 million yen of loss on sales and retirement, 928 million yen of end of contracts, and 543 million yen of other decreases.

3. Fair values of main properties are calculated based on the appraised value of the external real-estate appraiser. Some of them are adjusted by the Company using relevant indicators etc. Fair values of the remaining properties are estimated by the Company mainly using the assessed land values that are used to calculate property taxes.

Profit and loss in the fiscal years ended March 31, 2018 and 2017 from investment and rental property and properties that include portions used as investment and rental property were as follows:

The fiscal year ended March 31, 2018

	Millions of yen			
	Rental income	Rental expenses	Difference	Other profit and loss
Investment and rental property	¥3,825	¥2,043	¥1,782	¥15
Properties that include portions used as investment and rental property	¥780	¥1,198	(¥418)	¥-

The fiscal year ended March 31, 2018

	Thousands of U.S. dollars			
	Rental income	Rental expenses	Difference	Other profit and loss
Investment and rental property	\$35,993	\$19,225	\$16,768	\$141
Properties that include portions used as investment and rental property	\$7,340	\$11,273	(\$3,933)	\$-

The fiscal year ended March 31, 2017

	Millions of yen			
	Rental income	Rental expenses	Difference	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)	¥-

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 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 25, 2018
Tokyo, Japan