

## Consolidated Balance Sheets

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

As of March 31, 2019 and 2018

ASSETS	Millions of yen		Thousands of U.S. dollars
	2019	2018	(Note 1) 2019
<b>Current assets:</b>			
Cash and deposits (Note 4 and 5)	¥831,700	¥765,397	\$7,492,118
Notes and accounts receivable-trade (Note 5)	148,832	155,247	1,340,708
Lease investment assets (Note 5 and 18)	14,731	17,120	132,700
Short-term investment securities (Notes 4, 5 and 6)	119,963	242,573	1,080,650
Merchandise and finished goods	249,558	202,435	2,248,068
Work in process	74,711	52,307	673,011
Raw materials and supplies	66,431	42,448	598,424
Short-term loans receivable (Note 5)	198,737	185,364	1,790,262
Other current assets	121,903	107,893	1,098,126
Allowance for doubtful accounts	(347)	(340)	(3,126)
<b>Total current assets</b>	<b>1,826,219</b>	<b>1,770,444</b>	<b>16,450,941</b>
<b>Property, plant and equipment</b> (Notes 7 and 9)	<b>1,740,853</b>	<b>1,698,491</b>	<b>15,681,948</b>
Accumulated depreciation	(998,902)	(968,876)	(8,998,306)
Accumulated impairment loss	(24,557)	(26,507)	(221,215)
<b>Total property, plant and equipment</b>	<b>717,394</b>	<b>703,108</b>	<b>6,462,427</b>
<b>Investments and other assets:</b>			
Intangible assets	33,754	28,293	304,063
Investment securities (Note 5 and 6)	115,811	106,964	1,043,248
Investments in non-consolidated subsidiaries and affiliated companies	10,971	9,817	98,829
Net defined benefit assets (Note 11)	-	82	-
Deferred tax assets (Note 12)	151,019	139,171	1,360,409
Other assets	130,803	111,957	1,178,300
Allowance for doubtful accounts	(3,246)	(3,362)	(29,241)
<b>Total investments and other assets</b>	<b>439,112</b>	<b>392,922</b>	<b>3,955,608</b>
<b>Total assets</b>	<b>¥2,982,725</b>	<b>¥2,866,474</b>	<b>\$26,868,976</b>

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Current liabilities:</b>			
Notes and accounts payable-trade (Note 5)	¥315,026	¥320,137	\$2,837,816
Electronically recorded obligations-operating (Note 5)	63,772	64,863	574,471
Short-term loans payable (Note 5 and 7)	4,352	22,082	39,204
Current portion of long-term debts (Note 5 and 7)	7,592	42,982	68,390
Accrued income taxes (Note 5 and 12)	5,367	45,372	48,347
Accrued expenses (Note 5)	161,661	148,945	1,456,274
Provision for bonuses	22,650	24,131	204,036
Provision for product warranties	256,814	206,423	2,313,431
Provision for loss on business liquidation	1,575	3,098	14,188
Other current liabilities (Note 5, 7 and 12)	173,362	172,973	1,561,679
<b>Total current liabilities</b>	<b>1,012,171</b>	<b>1,051,006</b>	<b>9,117,836</b>
<b>Long-term liabilities:</b>			
Long-term debts (Note 5 and 7)	88,452	21,138	796,793
Net defined benefit liability (Note 11)	22,900	19,337	206,288
Deferred tax liabilities (Note 12)	5,040	2,466	45,401
Provision for product warranties	43,934	35,801	395,766
Long-term unearned revenue	157,446	132,270	1,418,305
Other long-term liabilities (Note 7)	39,957	43,433	359,942
<b>Total long-term liabilities</b>	<b>357,729</b>	<b>254,445</b>	<b>3,222,495</b>
<b>Contingent liabilities</b> (Note 20)			
<b>Net assets:</b> (Note 13)			
<b>Shareholders' equity:</b>			
Capital stock			
Authorized— 1,500,000,000 shares			
Issued — 769,175,873 shares	153,795	153,795	1,385,416
Capital surplus	160,192	160,197	1,443,041
Retained earnings	1,320,177	1,283,539	11,892,415
Less—treasury stock, at cost,	(6,910)	(7,054)	(62,247)
2019— 2,414,841 shares			
2018— 2,455,039 shares			
Total shareholders' equity	1,627,254	1,590,477	14,658,625
<b>Accumulated other comprehensive income:</b>			
Valuation difference on available-for-sale securities	6,131	7,038	55,229
Foreign currency translation adjustment	(20,687)	(36,193)	(186,353)
Remeasurements of defined benefit plans	(10,631)	(10,136)	(95,766)
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	3,224	1,658	29,042
Total accumulated other comprehensive income	(21,963)	(37,633)	(197,848)
<b>Non-controlling interests</b>	<b>7,534</b>	<b>8,179</b>	<b>67,868</b>
<b>Total net assets</b>	<b>1,612,825</b>	<b>1,561,023</b>	<b>14,528,645</b>
<b>Total liabilities and net assets</b>	<b>¥2,982,725</b>	<b>¥2,866,474</b>	<b>\$26,868,976</b>

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

## Consolidated Statements of Income

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>Net sales</b> (Note 2)	<b>¥3,160,514</b>	<b>¥3,232,695</b>	<b>\$28,470,534</b>
<b>Cost of sales</b> (Note 14)	<b>2,561,753</b>	<b>2,442,706</b>	<b>23,076,777</b>
Gross profit	598,761	789,989	5,393,757
<b>Selling, general and administrative expenses</b> (Note 2 and 15)	<b>403,232</b>	<b>410,542</b>	<b>3,632,393</b>
Operating income	195,529	379,447	1,761,364
<b>Other income (expenses):</b>			
Interest and dividend income	13,594	8,186	122,457
Interest expenses	(732)	(1,379)	(6,594)
Equity in earnings of affiliates	377	778	3,396
Plant shutdown related costs	(2,532)	-	(22,809)
Foreign exchange gains (losses)	(199)	(7,395)	(1,793)
Gain (loss) on valuation of derivatives	(6,993)	2,266	(62,994)
Gain (loss) on sales and retirement of noncurrent assets	(4,336)	(4,837)	(39,060)
Gain on sales of investment securities (Note 6)	3,659	4,618	32,961
Depreciation	(1,287)	(1,025)	(11,594)
Gain on sales of business	1,294	-	11,657
Loss on related to airbags	-	(81,261)	-
Other, net	(2,536)	(2,058)	(22,845)
	309	(82,107)	2,782
<b>Income before income taxes</b>	<b>195,838</b>	<b>297,340</b>	<b>1,764,146</b>
<b>Income taxes</b> (Note 12):			
Current	56,942	113,155	512,945
Deferred	(8,443)	(37,554)	(76,056)
	48,499	75,601	436,889
Net income	147,339	221,739	1,327,257
<b>Net income (loss) attributable to non-controlling Interests</b>	<b>(473)</b>	<b>1,385</b>	<b>(4,261)</b>
<b>Net income attributable to owners of the parent</b>	<b>¥147,812</b>	<b>¥220,354</b>	<b>\$1,331,518</b>

		Yen	U.S. dollars (Note 1)
<b>Per share data (Note 2) :</b>			
Net income	—Basic	¥192.78	¥287.40
	—Diluted *	-	-
Net assets		2,093.60	2,025.31
Cash dividends (Note 13)		¥144.00	¥144.00

The accompanying notes are an integral part of these statements.

\*For the year ended March 31, 2019 and 2018 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, 2019 and 2018

	2019	Millions of yen 2018	Thousands of U.S. dollars (Note 1) 2019
Net Income	¥147,339	¥221,739	\$1,327,259
<b>Other comprehensive income(loss) (Note 3)</b>			
Valuation difference on available-for-sale securities	(907)	(1,061)	(8,170)
Foreign currency translation adjustment	15,520	(18,985)	139,807
Remeasurements of defined benefit plans	(495)	860	(4,459)
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	1,566	3,543	14,107
Share of other comprehensive income (loss) of associates accounted for using equity method	(186)	(54)	(1,676)
<b>Total other comprehensive income(loss)</b>	<b>15,498</b>	<b>(15,697)</b>	<b>139,609</b>
<b>Comprehensive income(loss)</b>	<b>¥162,837</b>	<b>¥206,042</b>	<b>\$1,466,868</b>
Comprehensive income (loss) attributable to:			
Owners of the parent	163,482	204,449	1,472,678
Non-controlling interests	(¥645)	¥1,593	(\$5,810)

## Consolidated Statements of Changes in Net Assets

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

As of March 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Shareholders' equity			
Capital stock			
Balance at the beginning of current period	¥153,795	¥153,795	\$1,385,416
Balance at the end of current period	153,795	153,795	1,385,416
Capital surplus			
Balance at the beginning of current period	160,197	160,178	1,443,086
Changes of items during the period			
Disposal of treasury stock	(5)	19	(45)
Total changes of items during the period	(5)	19	(45)
Balance at the end of current period	160,192	160,197	1,443,041
Retained earnings			
Balance at the beginning of current period	1,283,539	1,173,277	11,562,373
Changes of items during the period			
Dividends from surplus	(110,468)	(110,463)	(995,118)
Net income attributable to owners of the parent	147,812	220,354	1,331,520
Adjustments due to change in fiscal year end of consolidated subsidiaries	-	828	-
Change of the scope of consolidation	-	(355)	-
Change of scope of equity method	158	922	1,423
Other	(864)	(1,024)	(7,783)
Total changes of items during the period	36,638	110,262	330,042
Balance at the end of current period	1,320,177	1,283,539	11,892,415
Treasury stock			
Balance at the beginning of current period	(7,054)	(7,173)	(63,544)
Changes of items during the period			
Purchase of treasury stock	(5)	(11)	(45)
Disposal of treasury stock	149	130	1,342
Total changes of items during the period	144	119	1,297
Balance at the end of current period	(6,910)	(7,054)	(62,247)
Total shareholders' equity			
Balance at the beginning of current period	1,590,477	1,480,077	14,327,331
Changes of items during the period			
Dividends from surplus	(110,468)	(110,463)	(995,118)
Net income attributable to owners of the parent	147,812	220,354	1,331,520
Purchase of treasury stock	(5)	(11)	(45)
Disposal of treasury stock	144	149	1,297
Adjustments due to change in fiscal year end of consolidated subsidiaries	-	828	-
Change of the scope of consolidation	-	(355)	-
Change of scope of equity method	158	922	1,423
Other	(864)	(1,024)	(7,783)
Total changes of items during the period	36,777	110,400	331,294
Balance at the end of current period	¥1,627,254	¥1,590,477	\$14,658,625

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	¥7,038	¥8,099	\$63,400
Changes of items during the period			
Net changes of items other than shareholders' equity	(907)	(1,061)	(8,171)
Total changes of items during the period	(907)	(1,061)	(8,171)
Balance at the end of current period	6,131	7,038	55,229
Foreign currency translation adjustment			
Balance at the beginning of current period	(36,193)	(16,631)	(326,034)
Changes of items during the period			
Net changes of items other than shareholders' equity	15,506	(19,562)	139,681
Total changes of items during the period	15,506	(19,562)	139,681
Balance at the end of current period	(20,687)	(36,193)	(186,353)
Remeasurements of defined benefit plans			
Balance at the beginning of current period	(10,136)	(10,996)	(91,307)
Changes of items during the period			
Net changes of items other than shareholders' equity	(495)	860	(4,459)
Total changes of items during the period	(495)	860	(4,459)
Balance at the end of current period	(10,631)	(10,136)	(95,765)
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries			
Balance at the beginning of current period	1,658	(1,885)	14,936
Changes of items during the period			
Net changes of items other than shareholders' equity	1,566	3,543	14,106
Total changes of items during the period	1,566	3,543	14,106
Balance at the end of current period	3,224	1,658	29,042
Total accumulated other comprehensive income			
Balance at the beginning of current period	(37,633)	(21,413)	(339,004)
Changes of items during the period			
Net changes of items other than shareholders' equity	15,670	(16,220)	141,157
Total changes of items during the period	15,670	(16,220)	141,157
Balance at the end of current period	(21,963)	(37,633)	(197,848)
Non-controlling interests			
Balance at the beginning of current period	8,179	6,224	73,677
Changes of items during the period			
Net changes of items other than shareholders' equity	(645)	1,955	(5,809)
Total changes of items during the period	(645)	1,955	(5,809)
Balance at the end of current period	7,534	8,179	67,868
Total net assets			
Balance at the beginning of current period	1,561,023	1,464,888	14,062,004
Changes of items during the period			
Dividends from surplus	(110,468)	(110,463)	(995,118)
Net income attributable to owners of the parent	147,812	220,354	1,331,520
Purchase of treasury stock	(5)	(11)	(45)
Disposal of treasury stock	144	149	1,297
Adjustments due to change in fiscal year end of consolidated subsidiaries	-	828	-
Change of scope of consolidation	-	(355)	-
Change of scope of equity method	158	922	1,423
Other	(864)	(1,024)	(7,783)
Net changes of items other than shareholders' equity	15,025	(14,265)	135,348
Total changes of items during the period	51,802	96,135	466,642
Balance at the end of current period	¥1,612,825	¥1,561,023	\$14,528,645

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES  
Years ended March 31, 2019 and 2018

	Millions of yen	Thousands of U.S. dollars (Note 1)	
	2019	2018	2019
<b>Net cash provided by (used in) operating activities</b>			
Income (loss) before income taxes	¥195,838	¥297,340	\$1,764,147
Depreciation and amortization	102,749	102,102	925,583
Increase (decrease) in allowance for doubtful accounts	(109)	(149)	(982)
Increase (decrease) in provision for product warranties	57,585	103,651	518,737
Interest and dividends income	(13,594)	(8,186)	(122,457)
Interest expenses	732	1,379	6,594
Loss (gain) on sales and retirement of noncurrent assets	4,336	4,837	39,060
Loss (gain) on sales and valuation of investment securities	(3,152)	(4,096)	(28,394)
Decrease (increase) in operating loans receivable	(8,179)	(7,799)	(73,678)
Decrease (increase) in notes and accounts receivable-trade	6,048	40	54,482
Decrease (increase) in inventories	(90,354)	(15,922)	(813,927)
Increase (decrease) in notes and accounts payable-trade	(8,825)	(54,159)	(79,497)
Increase (decrease) in accrued expenses	8,506	13,894	76,624
Other, net	9,801	7,660	88,289
<b>Sub-total</b>	<b>261,382</b>	<b>440,592</b>	<b>2,354,581</b>
Interest and dividends income received	13,717	8,397	123,565
Interest expenses paid	(798)	(1,446)	(7,189)
Income taxes paid	(100,295)	(81,245)	(903,477)
<b>Net cash provided by (used in) operating activities</b>	<b>174,006</b>	<b>366,298</b>	<b>1,567,480</b>
<b>Net cash provided by (used in) investing activities</b>			
Net decrease (increase) in time deposits	14,028	(7,219)	126,367
Purchase of short-term investment securities	(131,019)	(143,418)	(1,180,245)
Proceeds from sales of short-term investment securities	120,940	168,525	1,089,451
Purchase of non-current assets	(144,164)	(149,897)	(1,298,658)
Proceeds from sales of non-current assets	5,469	3,413	49,266
Purchase of investment securities	(54,531)	(52,645)	(491,226)
Proceeds from sales of investment securities	36,549	34,272	329,241
Payments of loans receivable	(129,286)	(123,552)	(1,164,634)
Collection of loans receivable	126,753	120,383	1,141,816
Other, net	(3,066)	(573)	(27,619)
<b>Net cash provided by (used in) investing activities</b>	<b>(158,327)</b>	<b>(150,711)</b>	<b>(1,426,241)</b>
<b>Net cash provided by (used in) financing activities</b>			
Net increase (decrease) in short-term loans payable	(17,482)	(18,393)	(157,481)
Proceeds from long-term loans payable	75,300	3,500	678,317
Repayments of long-term loans payable	(43,382)	(44,443)	(390,794)
Purchase of treasury shares	(5)	(11)	(45)
Cash dividends paid	(110,384)	(110,326)	(994,361)
Other, net	(664)	(1,264)	(5,981)
<b>Other, net</b>	<b>(96,617)</b>	<b>(170,937)</b>	<b>(870,345)</b>
<b>Effect of exchange rate change on cash and cash equivalents</b>	<b>17,675</b>	<b>(10,831)</b>	<b>159,220</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(63,263)</b>	<b>33,819</b>	<b>(569,886)</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>765,591</b>	<b>728,616</b>	<b>6,896,595</b>
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	-	(534)	-
Increase (decrease) in cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries	-	3,690	-
<b>Cash and cash equivalents at end of the period</b>	<b>¥702,328</b>	<b>¥765,591</b>	<b>\$6,326,709</b>

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, 2019, which was ¥111.01 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 GAAP 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.

The consolidated financial statements include the accounts of the Company and 78 and 75 subsidiaries in fiscal years ended March 31, 2019 and 2018, respectively.

In addition, 10 and 8 affiliated companies were accounted for by the equity method in fiscal year ended March 31, 2019, and 2018, 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 GAAP 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 straight-line method.

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 recognizes provisions for product warranties to cover future claim costs for products sold at the total amount of the following;

1. Estimated cost calculated based on historical warranty claim experience with consideration given to the expected level of future warranty costs, according to the terms and conditions of the warranties.
2. Estimated recall related costs in accordance with notifications to the competent authority.

#### **[10] Provision for Loss on business liquidation**

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

#### **[11] 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 (10-18 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.

#### **[12] Translation of Foreign Currency-Denominated Accounts**

Under the Japanese GAAP 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.

#### **[13] 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.

#### **[14] 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.

#### **[15] Derivative Financial Instruments**

The Japanese GAAP 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.

#### **[16] Goodwill**

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

#### **[17] 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.

#### **[18] 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.

#### **[19] Research and Development Expenses**

Research and development costs are expensed as incurred and amounted to 102,719 million yen (US\$ 925,313 thousand) and 121,804 million yen for fiscal years ended March 31, 2019 and 2018, respectively.

## **[20] 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.

## **[21] Changes in Accounting Policy**

(Changes in accounting method for sales)

The Group previously recorded sales incentives as selling, general and administrative expenses. From the fiscal year ended March 31, 2019, the group has changed the method to deduct from sales.

In the business environment surrounding the Group, as sales incentives tend to increase constantly, we reexamined the actual circumstances of the transactions. Sales incentives are taken into consideration when the terms of the transactions are decided and are considered as a part of selling price practically. In addition, the Group has improved business management system such as business process and system structure. It is so judged that the method of deducting sales incentives from sales is more appropriate under the circumstances.

The Group applied the changes in the accounting policy retrospectively, and reclassified in the consolidated financial statements of the previous fiscal year to reflect the changes. As a result, net sales and selling, general and administrative expenses in the consolidated statement of income for the consolidated previous fiscal year decreased by 172,526 million yen (US\$ 1,554,148 thousand), respectively, compared to the amounts before the retroactive application. There is no effect on operating income, ordinary income and income before income taxes by the changes.

(Changes in accounting policies that are difficult to distinguish from changes in accounting estimates)

(Changes in depreciation method for tangible fixed assets)

The Company and its major domestic consolidated subsidiaries changed depreciation method of certain tangible fixed assets from the declining-balance method to the straight-line method from the fiscal year ended March 31, 2019.

In recent years, with the expansion of the product lineup, shorter intervals of full model changes and acceleration of new products to the market, there is a tendency of less fluctuation in the number of units sold after the launch. In addition, it is expected that sharing production facilities among different models makes utilization stable over the useful life in the future. It is so judged that the equalized allocation of depreciation expenses of the tangible fixed assets over the useful life reflects the actual usage of tangible fixed assets.

As a result, compared with the previous method, operating income increased by 12,898 million (US\$ 116,188 thousand) yen, and ordinary income and income before income taxes increased respectively by 13,049 million yen (US\$ 117,548 thousand) in the fiscal year ended March 31, 2019.

## **[22] Changes in Presentation**

(Consolidated Balance sheets)

(Provision for product warranties)

In the fiscal year ended March 31, 2018, recall expenses in the future were included in "Accrued expenses" and "Provision for loss related to airbags", and warranty expenses in the future were included in "Provision for product warranties". From the fiscal year ended March 31, 2019, in order to improve the perspicuity and clarity of provision for claims expenses, all of them are collectively shown as "Provision

for product warranties". To reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2018 have been reclassified.

As a result, the "Accrued expenses" of "Current liabilities" 106,969 million yen out of 255,914 million yen, "Provision for loss related to airbags" 64,711 million yen and "Provision for product warranties" 34,743 million yen in the Consolidated Balance Sheets of the fiscal year ended March 31, 2018 are aggregated and presented as "Provision for product warranties" 206,423 million yen.

(Long-term unearned revenue)

In the fiscal year ended March 31, 2018, "Long-term unearned revenue" was included in "Others" of "Noncurrent liabilities". From the fiscal year ended March 31, 2019, it is presented as a separate balance sheet caption due to the increase in monetary significance. To reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2018 have been reclassified.

As a result, the "Others" of "Noncurrent liabilities" 175,256 million yen in the Consolidated Balance Sheets of the fiscal year ended March 31, 2018 have been split to "Long-term unearned revenue" 132,270 million yen and "Others" 42,986 million yen.

(Changes according to application of Guidance on Accounting Standard for Tax Effect Accounting)

"Guidance on Accounting Standard for Tax Effect Accounting" (ASBJ Guidance No. 28, revised on February 16, 2018) has been applied from the first quarter of the fiscal year ended March 31, 2019. Deferred tax assets are presented in the "Investment and other assets", and Deferred tax liabilities are presented in the "Non-current liabilities" on the consolidated balance sheets.

As a result, the "Deferred tax assets" of "Current liabilities" 124,766 million yen, "Deferred tax assets" of "Investments and other assets" 32,244 million yen and "Deferred tax liabilities" of "Noncurrent liabilities" 17,839 million yen out of 20,305 million yen in the Consolidated Balance Sheet of the fiscal year ended March 31, 2018 are presented as "Deferred tax assets" of "Investments and other assets" 139,171 million yen and "Deferred tax liabilities" of "Noncurrent liabilities" 2,466 million yen.

(Consolidated Statements of Cash Flows)

"Increase (decrease) in provision for loss related to airbags" 64,711 million yen, "Increase (decrease) in accrued expenses" 26,264 million yen out of 40,158 million yen and "Other, net" 12,676 million yen of 20,336 million yen "Net cash provided by(used in) operating activities" section in the Consolidated Statements of Cash Flows of the fiscal year ended March 31, 2018 are aggregated and presented as "Increase (decrease) in Provision for product warranties" 103,651 million yen.

### 3. Other comprehensive income

Amounts reclassified to net income (loss) for the fiscal years ended March 31, 2019 and 2018, which were recognized in other comprehensive income for 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
	2019	2018	2019
Valuation difference on available-for-sale securities			
Increase(decrease) during the year	¥1,601	¥1,815	\$14,423
Reclassification adjustments	(3,281)	(4,243)	(29,556)
Before tax effect	(1,680)	(2,428)	(15,133)
Tax effect	773	1,367	6,963
Balance at the end of the period	(907)	(1,061)	(8,170)
Foreign currency translation adjustments			
Increase(decrease) during the year	15,520	(18,985)	139,807
Reclassification adjustments	-	-	-
Before tax effect	15,520	(18,985)	139,807
Tax effect	-	-	-
Balance at the end of the period	15,520	(18,985)	139,807
Remeasurements of defined benefit plans			
Increase(decrease) during the year	(2,257)	(933)	(20,332)
Reclassification adjustments	1,670	2,135	15,044
Before tax effect	(587)	1,202	(5,288)
Tax effect	92	(342)	829
Balance at the end of the period	(495)	860	(4,459)
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries			
Increase(decrease) during the year	2,074	4,932	18,683
Reclassification adjustments	-	-	-
Before tax effect	2,074	4,932	18,683
Tax effect	(508)	(1,389)	(4,576)
Balance at the end of the period	1,566	3,543	14,107
Share of other comprehensive income of affiliated companies accounted for using equity method			
Increase(decrease) during the year	(186)	(54)	(1,676)
Reclassification adjustments	-	-	-
Before tax effect	(186)	(54)	(1,676)
Tax effect	-	-	-
Balance at the end of the period	(186)	(54)	(1,676)
Total other comprehensive income(loss)	¥15,498	(¥15,697)	139,609

#### 4. Additional Cash Flow Information

Cash and cash equivalents as of March 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and deposits	<b>¥831,700</b>	¥765,397	<b>\$7,492,118</b>
Short-term investment securities	<b>119,963</b>	242,573	<b>1,080,650</b>
Sub-total	<b>951,663</b>	1,007,970	<b>8,572,768</b>
Less maturity over three months	<b>(139,572)</b>	(158,576)	<b>(1,257,292)</b>
Short-term investment securities excluding cash equivalents	<b>(109,763)</b>	(83,803)	<b>(988,767)</b>
Cash and cash equivalents	<b>¥702,328</b>	¥765,591	<b>\$6,326,709</b>

#### 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 are primarily used for operating funds and capital expenditure, whose repayment or redemption dates will come within 6 years after March 31, 2019 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 etc. 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.

###### [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.

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, 2019 and 2018 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, 2019

	Millions of yen		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	¥831,700	¥831,700	¥-
Notes and accounts receivable-trade	148,832		
Allowance for doubtful accounts (*1)	(29)		
	148,803	148,803	-
Lease investment assets	14,731		
Allowance for doubtful accounts (*1)	(2)		
	14,729	16,395	1,666
Short-term loans receivable	198,737		
Allowance for doubtful accounts (*1)	(305)		
	198,432	205,938	7,506
Short-term investment securities, Investment securities and Other securities	149,843	149,843	-
Total Assets	1,343,507	1,352,679	9,172
Notes and accounts payable-trade	315,026	315,026	-
Electronically recorded obligations-operating	63,772	63,772	-
Short-term loans payable	4,352	4,352	-
Current portion of long-term loans payable	7,592	7,596	4
Accrued income taxes	5,367	5,367	-
Accrued expenses	161,661	161,661	-
Long-term loans payable	88,452	88,518	66
Total Liabilities	646,222	646,292	70
Derivative transactions (*2)			
hedge accounting is not applied	(1,816)	(1,816)	-
hedge accounting is applied	¥-	¥-	¥-



As of March 31, 2019

	Thousands of U.S. dollars		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	\$7,492,118	\$7,492,118	\$-
Notes and accounts receivable-trade	1,340,708		
Allowance for doubtful accounts (*1)	(261)		
	1,340,447	1,340,447	-
Lease investment assets	132,700		
Allowance for doubtful accounts (*1)	(18)		
	132,682	147,689	15,007
Short-term loans receivable	1,790,262		
Allowance for doubtful accounts (*1)	(2,748)		
	1,787,514	1,855,131	67,617
Short-term investment securities, Investment securities and Other securities	1,349,814	1,349,814	-
Total Assets	12,102,575	12,185,199	82,624
Notes and accounts payable-trade	2,837,816	2,837,816	-
Electronically recorded obligations-operating	574,471	574,471	-
Short-term loans payable	39,204	39,204	-
Current portion of long-term loans payable	68,390	68,426	36
Accrued income taxes	48,347	48,347	-
Accrued expenses	1,456,274	1,456,274	-
Long-term loans payable	796,793	797,388	595
Total Liabilities	5,821,295	5,821,926	631
Derivative transactions (*2)			
hedge accounting is not applied	(16,359)	(16,359)	-
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, 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(*2)	148,945	148,945	-
Long-term loans payable	21,138	21,208	70
Total Liabilities	665,519	665,649	130
Derivative transactions (*3)			
hedge accounting is not applied	5,177	5,177	-
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. This numerical value reflects the content described in Changes in Presentation.

\*3. 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, 2019 and 2018:

	Millions of yen		Thousands of U.S. dollars
	<b>2019</b>	2018	<b>2019</b>
Stocks of non-consolidated subsidiary and affiliated companies	<b>¥6,642</b>	¥6,501	<b>\$59,832</b>
Other securities (available-for-sale securities)			
Certificate of deposit	<b>15,000</b>	55,000	<b>135,123</b>
Commercial paper	<b>30,997</b>	17,499	<b>279,227</b>
Money management fund	<b>4,200</b>	116,270	<b>37,834</b>
Unlisted stocks (excluding over-the-counter stocks)	<b>730</b>	874	<b>6,576</b>
Medium Term Note	<b>30,000</b>	20,000	<b>270,246</b>
Trust beneficiary right	<b>5,000</b>	10,000	<b>45,041</b>
Other	<b>3</b>	3	<b>27</b>
Investments and other assets			
Investments in equity of affiliated companies and others	<b>2,262</b>	1,090	<b>20,377</b>

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, 2019:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	¥831,700	¥-	¥-	¥-
Notes and accounts receivable-trade	133,376	15,456	-	-
Lease investment assets	6,353	8,365	13	-
Short-term loans receivable	78,046	119,460	1,231	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	25,477	28,123	5,221	5,781
Corporate bonds	9,177	26,650	4,182	5,728
Other	81,109	3,147	1,609	5,601

As of March 31, 2019:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	\$7,492,118	\$-	\$-	\$-
Notes and accounts receivable-trade	1,201,477	139,231	-	-
Lease investment assets	57,229	75,354	117	-
Short-term loans receivable	703,054	1,076,119	11,089	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	229,502	253,338	47,032	52,076
Corporate bonds	82,668	240,068	37,672	51,599
Other	730,646	28,349	14,494	50,455

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

[4] Amount of repayment for long-term debt and other interest-bearing debt

As of March 31, 2019:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Short-term loans payable	¥4,352	¥-	¥-	¥-
Long-term loans payable	¥7,592	¥83,452	¥5,000	¥-

As of March 31, 2019:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 Years
Short-term loans payable	\$39,204	\$-	\$-	\$-
Long-term loans payable	\$68,390	\$751,752	\$45,041	\$-

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	¥-

## 6. Short-Term Investment Securities and Investment Securities

Information on the value of short-term investment securities and investment securities as of March 31, 2019 and 2018 was as follows:

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

As of March 31, 2019:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	¥28,730	¥20,916	¥7,814
Debt securities			
Government and municipal bonds	48,831	48,437	394
Corporate bonds	19,196	18,921	275
Other	4,980	4,932	48
Sub-total	101,737	93,206	8,531
Book value not exceeding acquisition cost:			
Equity securities	304	485	(181)
Debt securities			
Government and municipal bonds	15,771	15,916	(145)
Corporate bonds	26,541	26,795	(254)
Other	5,490	5,572	(82)
Sub-total	48,106	48,768	(662)
Total	¥149,843	¥141,974	¥7,869

As of March 31, 2019:

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	\$258,806	\$188,415	\$70,391
Debt securities			
Government and municipal bonds	439,879	436,330	3,549
Corporate bonds	172,921	170,444	2,477
Other	44,861	44,429	432
Sub-total	916,467	839,618	76,849
Book value not exceeding acquisition cost:			
Equity securities	2,738	4,369	(1,631)
Debt securities			
Government and municipal bonds	142,068	143,374	(1,306)
Corporate bonds	239,087	241,375	(2,288)
Other	49,455	50,194	(739)
Sub-total	433,348	439,312	(5,964)
Total	\$1,349,815	\$1,278,930	\$70,885

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

(2) Other securities (available-for-sale securities) sold during fiscal years ended March 31, 2019 and 2018:  
For the year ended March 31, 2019:

	Millions of yen		
	Sales amount	Total gains	Total losses
Equity securities	¥5,644	¥3,560	¥10
Debt securities			
Government and municipal bonds	52,597	78	211
Corporate bonds	14,302	15	112
Other	84,946	6	44
<b>Total</b>	<b>¥157,489</b>	<b>¥3,659</b>	<b>¥377</b>

For the year ended March 31, 2019:

	Thousands of U.S. dollars		
	Sales amount	Total gains	Total losses
Equity securities	\$50,842	\$32,069	\$90
Debt securities			
Government and municipal bonds	473,804	\$703	\$1,901
Corporate bonds	128,835	\$135	\$1,009
Other	765,211	\$54	\$396
<b>Total</b>	<b>\$1,418,692</b>	<b>\$32,961</b>	<b>\$3,396</b>

For the 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
<b>Total</b>	<b>¥202,797</b>	<b>¥4,618</b>	<b>¥522</b>

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

Short-term loans payable as of March 31, 2019 and 2018, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Bank loans with average interest rate of 1.84% and 2.03% per annum as of March 31, 2019 and 2018, respectively	<b>¥4,352</b>	¥22,082	<b>\$39,204</b>

Long-term debts as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Loans principally from banks and insurance companies due through 2025 with average interest rate of 0.30% and 0.48% per annum as of March 31, 2019 and 2018, respectively	<b>¥96,044</b>	¥64,120	<b>\$865,183</b>
Subtotal	<b>96,044</b>	64,120	<b>865,183</b>
Less-Portion due within one year	<b>(7,592)</b>	(42,982)	<b>(68,390)</b>
Total	<b>¥88,452</b>	¥21,138	<b>\$796,793</b>

Annual maturities of long-term loans payable as of March 31, 2019 were as follows:

	Millions of yen	Thousands of U.S. dollars
2020	<b>¥7,592</b>	<b>68,390</b>
2021	<b>7,345</b>	<b>66,165</b>
2022	<b>14,991</b>	<b>135,042</b>
2023	<b>51,227</b>	<b>461,463</b>
2024	<b>9,889</b>	<b>89,082</b>
2025 and thereafter	<b>5,000</b>	<b>45,041</b>
Total	<b>¥96,044</b>	<b>\$865,183</b>



Lease obligations as of March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2019	2018	2019
Lease obligations due within one year	¥976	¥1,157	\$8,792
Lease obligations due after one year	925	1,810	8,333
Total	¥1,901	¥2,967	\$17,125

Annual maturities of lease obligations as of March 31, 2019 were as follows:

	Millions of yen	Thousands of U.S. dollars
2020	¥976	\$8,792
2021	564	5,081
2022	207	1,865
2023	111	1,000
2024	42	378
2025 and thereafter	1	9
Total	¥1,901	\$17,125

The following assets as of March 31, 2019 and 2018 were pledged as collateral for certain loans:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Property, plant and equipment	¥26,457	¥28,752	\$238,330
Total	¥26,457	¥28,752	\$238,330

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 229,652 million yen (US\$2,068,751 thousand) as of March 31, 2019. 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, 2019 and 2018 was as follows:

Derivative transactions to which hedge accounting is not applied

(1) Foreign currency contracts:

As of March 31, 2019

	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	¥184,016	(¥1,780)	(¥1,780)	\$1,657,652	(\$16,035)	(\$16,035)
Foreign currency options contracts:						
Sell/Buy-						
U.S. dollar	2,196	(17)	(17)	19,782	(153)	(153)
<b>Total</b>	<b>¥186,212</b>	<b>(¥1,797)</b>	<b>(¥1,797)</b>	<b>\$1,677,434</b>	<b>(\$16,188)</b>	<b>(\$16,188)</b>

As of March 31, 2018

	Millions of yen		
	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:			
Sell-			
U.S. dollar	¥254,467	¥4,163	¥4,163
Euro	5,997	132	132
Canadian dollar	25,349	882	882
<b>Total</b>	<b>¥285,813</b>	<b>¥5,177</b>	<b>¥5,177</b>

Note: 1. The method to determine the fair value is based on quotations obtained from financial institutions.

2. Foreign currency option contracts are zero cost options and option premiums are not paid or received.

In addition, call options and put options are presented collectively because they are integrated contracts.

As of March 31, 2019

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Over 1 year Fair value	Fair value	Notional Amount	Over 1 year Fair value	Fair value
Interest rate swap contracts:						
Receive floating rate pay fixed rate	¥7,300	¥7,300	(¥19)	\$65,760	\$65,760	(\$171)

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

As of March 31, 2018

Not applicable.

Derivative transactions to which hedge accounting is applied

Not applicable.

## 9. Property, Plant and Equipment

Property, plant and equipment as of March 31, 2019 and 2018 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Buildings and structures	<b>¥459,603</b>	¥441,879	<b>\$4,140,195</b>
Machinery, equipment and vehicles	<b>642,894</b>	609,736	<b>5,791,316</b>
Vehicles and equipment on operating leases	<b>19,282</b>	22,648	<b>173,696</b>
Other	<b>388,386</b>	371,661	<b>3,498,658</b>
Subtotal	<b>1,510,165</b>	1,445,924	<b>13,603,865</b>
Land	<b>199,354</b>	196,659	<b>1,795,820</b>
Construction in progress	<b>31,334</b>	55,908	<b>282,263</b>
Accumulated depreciation	<b>(998,902)</b>	(968,876)	<b>(8,998,306)</b>
Accumulated impairment loss	<b>(24,557)</b>	(26,507)	<b>(221,214)</b>
Total	<b>¥717,394</b>	¥703,108	<b>\$6,462,427</b>

## 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, 2019 and 2018 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Total overdraft facilities and lending commitments	<b>¥5,600</b>	¥4,800	<b>\$50,446</b>
Less amounts currently executed	<b>2,256</b>	1,637	<b>20,322</b>
Unexecuted balance	<b>¥3,344</b>	¥3,163	<b>\$30,124</b>

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, 2019, 52 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

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Balance at the beginning of the period	<b>¥119,837</b>	¥115,699	<b>1,079,515</b>
a. Service cost	<b>¥6,815</b>	6,563	<b>61,391</b>
b. Interest cost	<b>709</b>	796	<b>6,387</b>
c. Actuarial loss (gain)	<b>1,749</b>	1,446	<b>15,755</b>
d. Benefits paid	<b>(4,830)</b>	(4,620)	<b>(43,510)</b>
e. Amortization of prior service cost	-	-	-
f. Other	<b>(48)</b>	(47)	<b>(432)</b>
Balance at the end of the period	<b>¥124,232</b>	¥119,837	<b>1,119,106</b>

Movements in plan assets, except plans applied simplified method

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Balance at the beginning of the period	<b>¥107,770</b>	¥104,828	<b>970,813</b>
a. Expected return on plan assets	<b>¥1,962</b>	1,917	<b>17,674</b>
b. Actuarial loss (gain)	<b>(507)</b>	513	<b>(4,567)</b>
c. Contributions paid by the employer	<b>4,533</b>	3,441	<b>40,834</b>
d. Payment for retirement benefits	<b>(2,965)</b>	(2,929)	<b>(26,709)</b>
e. Other	<b>(2)</b>	-	<b>(18)</b>
Balance at the end of the period	<b>¥110,791</b>	¥107,770	<b>\$998,027</b>

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

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance at the beginning of the period	<b>¥7,188</b>	¥6,813	<b>\$64,751</b>
a. Retirement benefit cost	<b>3,386</b>	820	<b>30,502</b>
b. Benefits paid	<b>(1,084)</b>	(417)	<b>(9,765)</b>
c. Contributions paid by the employer	<b>(31)</b>	(28)	<b>(279)</b>
Balance at the end of the period	<b>¥9,459</b>	¥7,188	<b>\$85,209</b>

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
	2019	2018	2019
a. Funded retirement benefit obligations	<b>¥114,160</b>	109,766	<b>\$1,028,376</b>
b. Plan assets	<b>(111,140)</b>	(108,110)	<b>(1,001,171)</b>
Sub total	<b>3,020</b>	1,656	<b>27,205</b>
c. Unfunded retirement benefit obligations	<b>19,880</b>	17,599	<b>179,083</b>
a+b+c. Total Net liability (asset) for retirement benefits	<b>22,900</b>	19,255	<b>206,288</b>
d. Net defined benefit liability	<b>22,900</b>	19,337	<b>206,288</b>
e. Net defined benefit asset	-	(82)	-
d+e. Total Net liability (asset) for retirement benefits	<b>¥22,900</b>	¥19,255	<b>\$206,288</b>

#### Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
a. Service cost	<b>¥6,815</b>	¥6,563	<b>\$61,390</b>
b. Interest cost	<b>709</b>	796	<b>6,387</b>
c. Expected return on plan assets	<b>(1,962)</b>	(1,917)	<b>(17,674)</b>
d. Net actuarial loss amortization	<b>1,655</b>	2,142	<b>14,909</b>
e. Past service costs amortization	<b>15</b>	(6)	<b>135</b>
f. Additional retirement payments	<b>273</b>	342	<b>2,459</b>
g. Retirement benefit cost of the plan applying the simplified method	<b>3,386</b>	820	<b>30,502</b>
Total retirement benefit costs for the fiscal year ended	<b>10,891</b>	¥8,740	<b>\$98,108</b>

Adjustments for retirement benefit (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
a. Past service costs	¥15	(¥6)	135
b. Actuarial gains and losses	(602)	1,208	(5,423)
Total	(587)	¥1,202	(5,288)

Accumulated adjustments for retirement benefit (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
a. Past service costs that are yet to be recognized	¥259	¥274	\$2,333
b. Actuarial gains and losses that are yet to be recognized	14,892	14,290	134,150
Total	¥15,151	¥14,564	\$136,483

Plan assets

Plan assets comprise:

	Percentage	
	2019	2018
a. Bonds	70%	68%
b. Equity securities	12%	16%
c. Other	18%	16%
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

	2019	2018
a. Attribution of expected benefit obligation	Benefit formula method	Benefit formula method
b. Discount rate	Primarily 0.5%	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	Primarily 16 years
e. Amortization of past service cost	10 to 18 years	13 to 18 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.

## Defined contribution pension plan

The amount required to contribute to defined contribution plans was 5,496 million yen (US\$49,509 thousand) and 5,161 million yen for the fiscal years ended March 31, 2019 and March 31, 2018, 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, 2019 and 2018)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Plan assets	<b>¥9,070</b>	¥9,130	<b>\$81,704</b>
Projected benefit obligation	<b>10,215</b>	11,180	<b>92,018</b>
Funded status	<b>(¥1,145)</b>	(¥2,050)	<b>(\$10,314)</b>

(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 ended March 31, 2019 and 2018 were 5% and 4% respectively.

Other than the above, "Accrued expenses" and "Other long-term liabilities" include 26,315 million yen (US\$235,429 thousand) and 24,606 million yen of postretirement medical insurance plan obligations of certain U.S. subsidiaries as of March 31, 2019 and 2018, 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 30.5% and 30.7% for fiscal years ended March 31, 2019 and 2018, respectively.

A reconciliation of the statutory income tax rate in Japan to the Company's effective income tax rates for fiscal years ended March 31, 2019 and 2018 were as follows:

	2019	2018
Statutory income tax rate in Japan	<b>30.5%</b>	30.7%
Increase (reduction) in taxes resulting from:		
Difference of applicable tax rate in subsidiaries	<b>(2.7%)</b>	0.5%
Adjustment of deferred tax assets by change of the tax rate	-	0.1%
Entertainment expenses not qualifying for deduction	<b>0.1%</b>	0.1%
Correction for income tax in previous years	<b>0.9%</b>	0.6%
Changes in valuation allowance and tax benefits realized from loss carry forwards	<b>0.5%</b>	(0.4)%
Deduction of research and development expense	<b>(4.6)%</b>	(6.3)%
Other	<b>0.1%</b>	0.1%
Effective income tax rate	<b>24.8%</b>	25.4%

Significant components of the deferred tax assets and liabilities as of March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Deferred tax assets:			
Provision for product warranties	<b>¥94,559</b>	¥72,015	<b>\$851,806</b>
Accrued expenses	<b>18,549</b>	24,726	<b>167,093</b>
Unrealized profit on inventories	<b>16,645</b>	20,130	<b>149,941</b>
Net defined benefit liability	<b>16,538</b>	14,763	<b>148,978</b>
Depreciation and amortization expenses	<b>8,672</b>	8,585	<b>78,119</b>
Provision for bonuses	<b>7,150</b>	7,605	<b>64,409</b>
Long-term accounts payable, other	<b>6,926</b>	6,216	<b>62,391</b>
Loss on devaluation of inventories	<b>1,982</b>	2,578	<b>17,854</b>
Accrued enterprise tax	<b>407</b>	2,843	<b>3,666</b>
Other	<b>27,323</b>	20,689	<b>246,131</b>
Total deferred tax assets	<b>198,751</b>	180,150	<b>1,790,388</b>
Valuation allowance	<b>(8,501)</b>	(7,405)	<b>(76,578)</b>
Total deferred tax assets, net of valuation allowance	<b>190,250</b>	172,745	<b>1,713,810</b>
Deferred tax liabilities:			
Depreciation and amortization expenses	<b>(20,103)</b>	(14,230)	<b>(181,092)</b>
Deferred revenue of foreign consolidated subsidiaries	<b>(19,998)</b>	(16,441)	<b>(180,146)</b>
Valuation difference on available-for-sale securities	<b>(1,672)</b>	(2,408)	<b>(15,062)</b>
Reserve for reduction entry	<b>(1,618)</b>	(1,690)	<b>(14,575)</b>
Net defined benefit asset	<b>(180)</b>	(527)	<b>(1,621)</b>
Other	<b>(700)</b>	(744)	<b>(6,306)</b>
Total deferred tax liabilities	<b>(44,271)</b>	(36,040)	<b>(398,802)</b>
Net deferred tax assets	<b>¥145,979</b>	¥136,705	<b>\$1,315,008</b>

As written in "Change in Presentation", the consolidated financial statements for the fiscal year ended March 31, 2018 have been reclassified.

As a result, the "Accrued expenses" 52,362 million yen (US\$ 471,687 thousand) out of 77,088 million yen (US\$ 694,424 thousand) are aggregated and presented as "Provision for product warranties" 72,015 million yen (US\$ 648,725 thousand).

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
	2019	2018	2019
Deferred tax assets	<b>¥151,019</b>	¥139,171	<b>\$1,360,409</b>
Deferred tax liabilities	<b>(5,040)</b>	(2,466)	<b>(45,401)</b>
Total net deferred tax assets	<b>¥145,979</b>	¥136,705	<b>\$1,315,008</b>

### 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 21, 2019, the shareholders approved cash dividends amounting to 55,236 million yen (US\$497,577 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2019. 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, 2019 and March 31, 2018 is provision of 506 million yen (US\$ 4,558 thousand) and provision of 95 million yen, respectively.

#### 15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for fiscal year ended March 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Freightage and packing expenses	¥31,303	¥28,438	\$281,984
Advertising expenses	84,890	82,801	764,706
Salaries and bonuses	59,126	58,002	532,619
Research and development expenses	101,711	120,330	916,233
Other	126,202	120,971	1,136,851
Total	¥403,232	¥410,542	\$3,632,393

#### 16. Extraordinary Gain /loss

##### (Fiscal year ended March 31, 2019)

Gain on sales on business

The gain is recognized due to the sale of retail business of other brand vehicles.

(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 GAAP, 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, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Lease revenue receivable	¥17,547	¥20,534	\$158,067
Estimated residual value	392	395	3,531
Interest income portion	(3,208)	(3,809)	(28,898)
Lease investment assets	¥14,731	¥17,120	\$132,700

(2) Lease revenue related to lease investment assets

Amounts of collections on lease receivable after the fiscal year ended March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Within 1 year	¥7,565	¥7,882	\$68,148
1 to 2 years	4,175	5,456	37,609
2 to 3 years	2,955	3,494	26,619
3 to 4 years	1,864	2,322	16,791
4 to 5 years	972	1,347	8,756
Over 5 years	¥16	¥33	\$144

### 18. Operating Lease

#### Information as Lessee

The future minimum lease/rent payments, excluding the portion of interest thereon, as of March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Operating leases:			
Due within one year	¥3,396	¥3,372	\$30,592
Due after one year	13,244	14,048	119,305
Total	¥16,640	¥17,420	\$149,896

#### Information as Lessor

The future minimum lease/rent payments receivable, excluding the portion of interest thereon, as of March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Operating leases:			
Due within one year	¥120	¥125	\$1,081
Due after one year	59	71	531
Total	¥179	¥196	\$1,612

## 19. Contingent Liabilities

Contingent liabilities as of March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
As guarantor of third-party indebtedness from financial institutions	¥27,309	¥29,795	\$246,005

(Fiscal year ended 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.

(Fiscal year ended March 31, 2019)

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, 2019.

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, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
The amount of discount of export bill	¥1,174	¥1,891	\$10,576

## 21. Transfer of Financial Assets to Special Purpose Company

The balance of financial assets transferred to special purpose company as of March 31, 2019 and 2018, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Balance of financial assets transferred to special purpose company (loan receivable of Automobiles and accounts receivable-trade of Aerospace)	¥3,330	¥4,251	\$29,997

## 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 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.

(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, 2019 and 2018 was summarized as follows

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
<b>Net Sales:</b>			
Automobiles			
Outside customers	¥3,014,476	¥3,062,340	27,154,995
Inter-segment	3,134	2,918	28,232
Sub-total	3,017,610	3,065,258	27,183,227
Aerospace			
Outside customers	131,669	142,163	1,186,100
Inter-segment	804	5	7,243
Sub-total	132,473	142,168	1,193,343
Other (*1)			
Outside customers	14,369	28,192	129,439
Inter-segment	26,822	23,852	241,618
Sub-total	41,191	52,044	371,057
Total	3,191,274	3,259,470	28,747,627
Adjustment (*2)	(30,760)	(26,775)	(277,092)
Consolidated total	¥3,160,514	¥3,232,695	28,470,535

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
<b>Segment income:</b>			
Automobiles	¥184,947	¥361,454	\$1,666,039
Aerospace	6,047	12,259	54,473
Other (*1)	3,846	5,066	34,646
Total	194,840	378,779	1,755,157
Adjustment (*2)	689	668	6,207
Consolidated total (*3)	¥195,529	¥379,447	\$1,761,364

<b>Segment assets:</b>			Thousands of
		Millions of yen	U.S. dollars
	2019	2018	2019
Automobiles	¥2,656,560	¥2,580,353	\$23,930,817
Aerospace	275,866	234,619	2,485,055
Other (*1)	76,818	77,583	691,992
Total	3,009,244	2,892,555	27,107,864
Adjustment (*2)	(26,519)	(26,081)	(238,888)
<b>Consolidated total</b>	<b>¥2,982,725</b>	<b>¥2,866,474</b>	<b>\$26,868,976</b>

<b>Other Items:</b>			Thousands of
		Millions of yen	U.S. dollars
	2019	2018	2019
Depreciation and amortization:			
Automobiles	¥96,867	¥95,193	\$872,597
Aerospace	4,487	5,298	40,420
Other (*1)	1,395	1,611	12,566
Total	102,749	102,102	925,583
Adjustment (*2)	-	-	-
<b>Consolidated total</b>	<b>102,749</b>	<b>102,102</b>	<b>925,583</b>
Investment to equity-method affiliates:			
Automobiles	3,362	3,461	30,286
Aerospace	-	-	-
Other (*1)	1,321	54	11,900
Total	4,683	3,515	42,185
Adjustment (*2)	-	-	-
<b>Consolidated total</b>	<b>4,683</b>	<b>3,515</b>	<b>42,185</b>
Increase of property, plant and equipment and intangible assets:			
Automobiles	162,132	185,056	1,460,517
Aerospace	6,058	8,316	54,572
Other (*1)	1,770	417	15,945
Total	169,960	193,789	1,531,033
Adjustment (*2)	-	-	-
<b>Consolidated total</b>	<b>¥169,960</b>	<b>¥193,789</b>	<b>\$1,531,033</b>

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.

(4) Changes in Segment reported

(Changes in accounting method for sales)

As described in "(Changes in Accounting policies)", changes in accounting method for sales are retrospectively applied. As a result, sales of "Automobiles" decreased by 172,526 million yen in the FYE 2018.

(Changes in depreciation method for tangible fixed assets)

As described in "(Changes in Accounting policies)", the Company and its major consolidated subsidiaries changed the depreciation method for tangible fixed assets. Segment income of "Automobiles" increased by 11,731 million yen, "Aerospace" increased by 1,055 million yen and "Other" increased by 112 million yen respectively in the FYE 2019.

(Changes in classification of Deferred tax assets)

As described in "(Changes in presentation methods)", the Company changed classification of Deferred tax assets. As a result, identifiable assets by business segment of "Automobile" decreased by 17,839 million yen in the FYE 2018.

## 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, 2019 and 2018 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Sales: (*1)			
Japan	<b>¥596,591</b>	¥667,991	<b>\$5,374,210</b>
North America	<b>2,201,655</b>	2,140,593	<b>19,832,943</b>
[United States] (*2)	<b>[2,062,424]</b>	[2,004,390]	<b>[18,578,723]</b>
Europe	<b>100,535</b>	118,105	<b>905,639</b>
Asia	<b>116,394</b>	135,058	<b>1,048,500</b>
Other	<b>145,339</b>	170,948	<b>1,309,242</b>
Consolidated total	<b>¥3,160,514</b>	¥3,232,695	<b>\$28,470,534</b>

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, 2019 and 2018 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Property, plant and equipment: (*1)			
Japan	<b>¥533,687</b>	¥527,698	<b>4,807,558</b>
North America	<b>182,978</b>	174,290	<b>1,648,302</b>
[United States] (*2)	<b>[182,384]</b>	[173,557]	<b>[1,642,951]</b>
Europe	<b>387</b>	519	<b>3,486</b>
Other	<b>342</b>	601	<b>3,081</b>
Consolidated total	<b>¥717,394</b>	¥703,108	<b>6,462,427</b>

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, 2019 and 2018

### Information on Impairment Loss in Fixed Assets by Reportable segments

It has been omitted for March 31, 2019 and 2018 because the amount is immaterial.

### 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, 2019 and 2018 was summarized as follows:

Goodwill

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amount written off of current period:			
Automobiles	¥211	¥211	\$1,901
Aerospace	-	-	-
Other	-	-	-
Total	211	211	1,901
Corporate and elimination	-	-	-
Total	211	211	1,901
Balance at the end of current period:			
Automobiles	1,425	1,566	12,837
Aerospace	-	-	-
Other	-	-	-
Total	1,425	1,566	12,837
Corporate and elimination	-	-	-
Total	¥1,425	¥1,566	\$12,837

### 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, 2019 and 2018, and fair value as of March 31, 2019 and 2018 were as follows:

As of March 31, 2019

	Consolidated balance sheet amounts			Millions of yen
	beginning balance	Increase(dec rease) during the year	ending balance	Fair value as the end of the fiscal year
Investment and rental property	¥27,278	(¥2,971)	¥24,307	¥40,207
Properties that include portions used as investment and rental property	¥13,459	¥272	¥13,731	¥27,743

As of March 31, 2019

	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	\$245,726	(\$26,763)	\$218,963	\$362,193
Properties that include portions used as investment and rental property	\$121,241	\$2,450	\$123,691	\$249,914

As of 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

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, 2019, principal increases were 948 million yen (US\$8,540 thousand) of new rental properties, and principal decreases were 1,016 million yen (US\$9,152 thousand) of depreciation, 2,001 million yen (US\$18,025 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 2018, principal increases were 1,539 million yen of properties acquisitions and 720 million yen of others, and principal decreases were 1,001 million yen of depreciation, 1,469 million yen of loss on sales and retirement.

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 fiscal year ended March 31, 2019 and March 31, 2018 from investment and rental property and properties that include portions used as investment and rental property were as follows:

As of March 31, 2019

	Millions of yen			
	Rental income	Rental expenses	Difference	Other profit and loss
Investment and rental property	¥3,830	¥2,110	¥1,720	¥52
Properties that include portions used as investment and rental property	¥842	¥1,178	(¥336)	¥-

As of March 31, 2019

	Thousands of U.S. dollars			
	Rental income	Rental expenses	Difference	Other profit and loss
Investment and rental property	\$34,501	\$19,007	\$15,494	\$468
Properties that include portions used as investment and rental property	\$7,585	\$10,612	(\$3,027)	\$-

As of 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)	¥-

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 others.

## 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, 2019 and 2018, 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 misstatement, 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 judgment, 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, 2019 and 2018, 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, 2019 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 24, 2019  
Tokyo, Japan