



Annual Report 2018

For the year ended March 31, 2018



SUBARU Business Style

Vision for 2025

From a company making things, to a company making people smile.

SUBARU, by no means a large automaker, is implementing a business model centered on selection and concentration of limited management resources, creating added value, and pursuing uncompromised differentiation. We have made “Enhance corporate quality” the cornerstone of the mid-term management vision announced in July 2018.

By swiftly transforming what needs to be changed, including aspects of corporate culture, we will work to bring smiles to the faces of ever greater numbers of customers.

Strengthening of the management foundation

We will strengthen the management foundation by pursuing qualitative improvement in every aspect of the company, including products, services, culture, human resources, organizations, finance, and operations.

Focus business strategy to enhance strengths

Rather than pursue an omnidirectional business strategy, we have chosen to optimally focus our limited management resources on categories and markets in which we can leverage our strengths. In business development, our product focus is mainly on SUVs and sports models, and our market focus is on the U.S. and other developed countries in mature stages of motorization.



Achieve an industry-leading profit margin

While continuously making strategic investments for future sustained growth, we will pursue a management approach that emphasizes a high operating margin, focusing on differentiation and value-added strategies. On that basis, we will aim for steady volume growth.



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Disclaimer Regarding Forward-Looking Statements

Statements herein concerning plans and strategies, expectations or projections about the future, SUBARU's efforts with regard to various management issues, and other statements, except for historical facts, are forward-looking statements. These forward-looking statements are subject to uncertainties that could cause actual results to differ materially from those anticipated. These uncertainties include, but are not limited to, general economic conditions, demand for and prices of SUBARU's products, SUBARU's ability to continue to develop and market advanced products, raw material prices, and currency exchange rates. SUBARU disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events, or otherwise.

Message from the CEO

A professional portrait of Tomomi Nakamura, the CEO. He is a middle-aged man with short, graying hair, wearing glasses, a dark gray suit jacket, a white shirt, and a patterned tie. He is seated at a dark wooden desk with his hands clasped in front of him. The background is a plain, light-colored wall.

Representative Director of the Board,
President and CEO

Tomomi Nakamura

Steadily build up intrinsic strengths and
take strong steps in preparation for
a future jump to overcome social changes.

Aspirations upon Becoming President

Allow me to begin by introducing myself. I am Tomomi Nakamura. I assumed office as Representative Director, President and CEO of SUBARU CORPORATION in June 2018.

Having assumed management of the Company during a period of transformation in today's mobility society, I feel a great weight of responsibility. In keeping with SUBARU's unchanging management philosophy of "Aiming to be a compelling company with a strong market presence built upon its customer-first principle," I intend to assess this sweeping change in the business environment and respond with a sense of urgency and alacrity. Issues accompanying SUBARU's rapid growth have come to light since the end of 2017, but I consider it my mission as president to cultivate SUBARU's true capabilities, and I will make every effort to achieve sustained growth. I consider SUBARU's current difficulties an opportunity to bring genuine change to the Company and accomplish transformation in a number of areas. I will carefully ascertain what needs to be changed and what should not be changed and implement reforms together with the new management team.

For four years beginning in 2014, I served as chairman and CEO of U.S. sales and marketing subsidiary Subaru of America, Inc., where I spearheaded management and experienced firsthand the growth momentum of the U.S. market. At the same time, I constantly watched SUBARU from the outside with a sense of impending crisis, wondering what might occur to stop ongoing growth and what would be necessary to sustain it. One solution that occurred to me was pushing quality in products, services, operations, and every other aspect of the business, and another was fundamental reform of car-making. In formulating the mid-term management vision, we made these two solutions key priorities.

Response to Improprieties Relating to Final Vehicle Inspections

Inappropriate practices, such as the performance of final vehicle inspections by persons not certified as final inspectors, and inappropriate conduct in fuel economy and emissions sampling in the final vehicle inspection process and other final vehicle inspection work at the SUBARU Gunma Manufacturing Division have been identified. I sincerely apologize for the significant trouble and inconvenience we have caused our customers, partners, and all other stakeholders.

An investigative report by a team of external experts cited not only organizational issues relating to the corporate climate and poor employee awareness of applicable standards but also the inadequacy of SUBARU management's stance on quality assurance, as causes of the long-term, various, and wide-ranging repeated incidents of nonconforming and inappropriate conduct, and we take a very serious view of management's responsibility. It is the responsibility of senior management to prevent any reoccurrence of such issues and produce results, and we will spearhead efforts to restore trust in SUBARU step by step.

A Review of Prominence 2020

Through initiatives set out in Prominence 2020, the mid-term management vision announced in 2014, SUBARU has implemented a business strategy aimed at establishing a prominent presence in the minds of customers. Growth in sales volume in the North American market became a major pillar of business growth. We pursued a course of practicing selection and concentration to focus allocation of limited management resources and leverage strengths. Our product focus was mainly on SUV and sports models, and our market focus was on the U.S. and other developed countries in mature stages of motorization. At the same time, in the U.S. market, a combination of products, sales network restructuring, and marketing measures featuring the word "Love" became a powerful driving force that resulted in sales of 671,000 units in the fiscal year ended (FYE) March 2018, with sales reaching a record high for the ninth consecutive year.

Although we may take a measure of satisfaction in our recent business growth, the fact is that issues remain. In Prominence 2020, we articulated our vision for 2020, consisting of four goals: No. 1 for customer trust; strong brand; industry-leading high profitability; and vehicle sales of 1.2 million-plus units. With regard to the goals No.1 for customer trust and strong brand, we recognize that we have lost the trust of customers and society due to recent quality-related problems and issues stemming from the corporate culture. Although at present we have achieved our goal of an industry-leading profit margin, profitability is trending down due to changes in the sales environment and deteriorating cost structures. On the whole, we are still halfway to achieving the management vision. From a quantity and quality perspective, qualitative growth has not kept pace with quantitative growth, and we realize that restoration of trust and improvement of SUBARU's fundamental capabilities are indispensable for achieving sustained growth.

STEP: the New Mid-term Management Vision

In July 2018, SUBARU announced STEP, which is our new mid-term management vision to make SUBARU a company that is trusted by, and resonates with, customers through providing "Enjoyment and Peace of Mind."



Vision for 2025

Our vision for 2025 is "From a company making things, to a company making people smile." We want more and more customers to love SUBARU. To make this happen, we intend to provide products and services that will make customers smile by constantly thinking about customer value. Accordingly, we have established three specific visions for 2025.

1. Become a brand that is "different" from others by enhancing distinctiveness.

We often hear from customers and SUBARU dealers comments such as "I like that SUBARU is different from other automakers" and "SUBARU enables my life." We take pride in our reputation for being different and want to establish a unique presence in the minds of customers.

2. Engage in business activities that resonate with customers by putting them center-stage.

At SUBARU, we always put customers center-stage and sincerely engage with each individual customer. SUBARU cars reflect not only an automaker's passion for cars, but also our commitment to remain a company that engages with customers, makes cars that people want to buy, and engages in business activities that resonate with people.

3. Fulfill corporate social responsibilities by contributing to diversifying social needs.

Having reflected on the fact that, at a time of rapid corporate growth, we have been insufficiently mindful of the social responsibilities of a company of SUBARU's size, we will squarely face up to and fulfill our social responsibilities, including in the area of governance.

Corporate Culture Reforms and Three Key Pillars of Initiatives

We have made corporate culture reforms the centerpiece of specific initiatives. We will strengthen efforts to enhance corporate quality with the aim of becoming a company that can respond swiftly and flexibly to change by being more sensitive to the times and the outside world while preserving SUBARU's DNA.

First of all, we will strengthen compliance by undertaking a comprehensive compliance check covering all operations and internal regulations and correcting issues and by bolstering internal compliance education. We will also work to further reinforce groupwide governance systems and their operation. By changing our management to administer these governance systems, we will then accelerate reinforcement of the corporate structure.

Next, we will create a culture that enables employees to work with greater energy. To accomplish this, individual employees must raise their own awareness and cultivate the ability to think and act autonomously, and I want top management to take the lead in developing policies and systems to support this effort. These corporate culture reforms cannot be accomplished overnight, and we will take our time and continuously

implement reform efforts. On the basis of this new culture, we will aim to realize our corporate vision. Three key pillars of initiatives are described below.

Initiatives overview (9 Boxes + 1)				
0	"Change the Culture" Corporate culture reforms	Accelerate efforts to become "a company that does the right thing in the right way." Continuous efforts aimed at corporate culture reforms.		
		"Monozukuri" (Car-making)	Sales and service	New mobility domain
1	Enhance corporate quality	Quality reforms	Enhance quality at customer contact points	Alliance enhancement
2	Build a strong brand	More enjoyment, more peace of mind	From "A car you can love" to "A car, a brand, and people you can love"	Generate new value through connected car technologies
3	Sustainable growth based on a focus strategy	Launch "Make-a-Subaru" project	- Target 5% share in the U.S. - Steady growth in each region	Initiatives to create new technologies and businesses

1. Enhance corporate quality

We have made quality the centerpiece of this mid-term management vision. In addition to the recent final vehicle inspection and airbag problems, other market quality issues have arisen, and we are keenly aware that fundamentally improving quality, which is the foundation of customer trust, is an urgent priority. We consider quality something customers expect of SUBARU, and believe that it is essential to transform SUBARU into a company that makes quality the highest priority, from senior management right down to the workplace level, and we will work to achieve this transformation.

2. Build a strong brand

SUBARU defines "Enjoyment and Peace of Mind" as the core value we deliver to customers through all processes from product development to sales and service. Reliable automobile manufacturing based on functionality, safety, and reliability is indelibly encoded in SUBARU's DNA, and we will redouble our efforts in pursuit of automobile safety performance. We are committed to the uncompromising pursuit of protecting people's lives and aim to eliminate fatal traffic accidents* by 2030. We will not settle for ordinary automation, but rather think in terms of ensuring safety of mobility by assisting with tasks people find difficult while respecting tasks at which people excel. At first, we will place the highest priority on enhancing Level 2 driving assist technologies. At the same time, we will accelerate efforts to enable drivers and passengers to feel peace of mind by adding connected car technologies and intelligent technologies.

SUBARU places importance on connections between people, and SUBARU, dealers, customers, and communities will join together in activities unique to SUBARU at every touch point to make SUBARU a brand that is trusted and loved by customers.

SUBARU, like other automakers, tends to be car-centric in its thinking. Going forward, we will create new added value by collaborating with external partners from different industries, utilizing connectivity services, and deepening communication with individual customers. We want to develop SUBARU into an inimitable brand that is slightly different from other brands.

*Elimination of accidents resulting in the death of drivers or passengers in SUBARU vehicles and accidents resulting in the death of pedestrians, cyclists, or other persons due to collision with SUBARU vehicles

3. Sustainable growth based on a focus strategy

To SUBARU, a small automaker with global sales share of 1%, an important management challenge is to overcome the current period of transformation in the automotive industry and somehow maintain our earning power. We realize that the most important thing for accomplishing this is for customers to recognize value unique to SUBARU. We will reinforce efforts to enhance the customer value SUBARU delivers through high quality, high added value, and low cost, not only in manufacturing, but in all aspects of the products and service we provide. These days, enormous costs and investments are necessary for environmental initiatives and regulatory response as well as for meeting customer needs for advanced safety technologies and connected car technologies. However, at present it is no simple matter to convince customers to pay prices that fully cover these outlays. We will review our conventional ways of doing things and, making quality the cornerstone, steadily enhance value by coherently tying together all of our technology, product,

Message from the CEO

and cost strategies from a medium- to long-term perspective and ensuring mutual collaboration among the divisions.

With regard to market strategy, we will aim for steady overall growth, centered on a higher level of growth in the U.S., and plan to achieve sales of more than 1.3 million units worldwide in 2025. In the U.S. market, we will aim for market share of 5%. If, for instance, total demand in the U.S. is 17 million units, this means we will aim for U.S. sales of 850,000 units. Although Japan remains an extremely difficult market, we want to reliably maintain the current level of sales of 10,000 passenger cars per month in our home market. In Asia, we will begin knockdown production (local assembly) of an all-new Forester at a complete knockdown (CKD) plant in Thailand in 2019 and aim to take advantage of this capacity to further increase sales. Although trends in Russia are highly uncertain, we consider it a market with high affinity for SUBARU products and want to grow our sales there. In Europe and China, we aim to maintain our current business scale and will review our strategies while closely observing changes in markets and government policies. As we execute our sales strategies, a major issue is how to deal with local environmental regulations. There is currently a gap between markets and environmental regulatory trends, and the future direction is uncertain. We intend to take appropriate measures while ascertaining the balance between the market formation process and the progress of environmental regulations.

Sales plans (FYE 2019 vs FYE 2026) (10 thousand units)

	Japan	North America	Other	Total
FYE 2019 (plan)	15	77	18	110
FYE 2026 (plan)	15	92	23	130
Change	±0%	+20%	+27%	+18%

Production capacity (FYE 2021) (10 thousand units)

	Japan	Overseas		Global Total
	Gunma	SIA	Asia CKD	
Standard operations	69.6	43.6	1.4	115
At full capacity	77.9	49.7		129

Sales Strategy for the U.S.

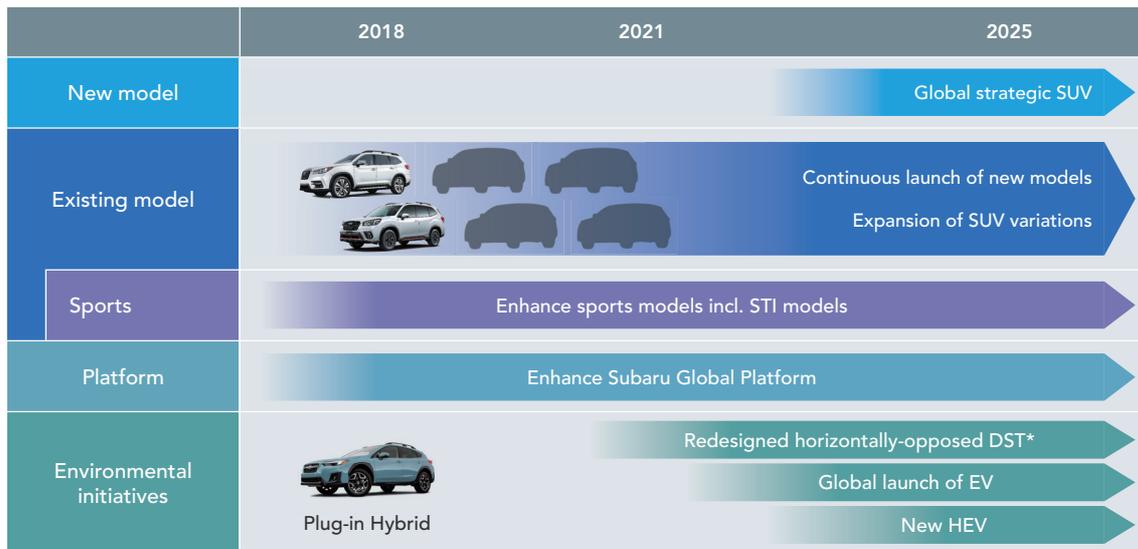
We expect total automobile demand in the U.S. market to remain at about 17 million vehicles and aim to achieve a higher level of growth by increasing competitiveness, with a strategic focus on our products, marketing, and sales network. We believe that there is room for sales growth in the Sun Belt (the southern U.S.) in particular. With regard to products, we introduced the Ascent, a 3-row SUV for North America, this summer and plan to introduce an all-new Forester in the second half of the fiscal year. We will continue to engage in product development with the U.S. market in mind and enhance the product appeal of existing models to the maximum extent possible. In sales network development, we plan to appoint dealers to fill open points (areas with no dealers), mainly in the Sun Belt, and increase the number of dealers from the current 631 to about 650. In the Sun Belt, we have finally achieved market share of 2% (up 0.2 points year on year) and reached the point where we can expect income from service in addition to new vehicle sales. To ensure customer satisfaction, we intend to work together with dealers to increase the number of service facilities and parking lots, enhance facilities such as customer lounges, and upskill dealer sales and service representatives.

Product Strategy

Our product strategy is in principle to release a fully redesigned version of a key model every year. In addition, we aim to enhance the lineup of distinctive SUV and sports models and model variations. We will also evolve SUBARU's "Dynamic x Solid" design identity toward a bolder direction.

With the automotive industry having entered a period of transformation, responding to technological innovations in the areas of electrification, automated driving, connected car technology, and car sharing is a matter of urgent importance. However, since the outlook for the future is uncertain and our management resources are limited, we cannot adopt an omnidirectional business strategy. We realize that it is essential to chart a course forward while carefully ascertaining market trends. We will meet high customer expectations with vehicles that only SUBARU can offer, such as electrified vehicles that go beyond conventional with features like go-anywhere packages in addition to driving stability and safety performance.

Product Strategy



*DST: Downsized turbo engine

Strategy for the Aerospace Business

In FYE March 2018, SUBARU completed withdrawal from the industrial products business and established a corporate structure focused on two businesses: automotive and aerospace. In the aerospace business, as in the automotive business, we are at the stage of enhancing the SUBARU brand. However, aerospace is a business with a very long timescale, and the outlook until 2025 has to some extent taken shape. We do not anticipate dramatic change or evolution and will continue efforts to shift from independence to stable growth. We will also press ahead with verification of technologies as a part of the development of next-generation products and implement a partnering strategy focusing on broad-based collaboration with other companies. In addition, the automotive and aerospace businesses will utilize each other's strengths and work to compensate for their weaknesses and generate new synergies.

CSR Initiatives

We have organized CSR activities identified in light of our business domains into the following six priority areas from the perspective of what society requires from SUBARU: 1) People-oriented Car Culture, 2) Resonance and Coexistence, 3) Peace of Mind, 4) Diversity, 5) Environment, and 6) Compliance.

Our environmental policy is to make environmental contributions throughout the entire value chain and across the entire business in addition to improving the environmental performance of our products by means such as boosting fuel economy and reducing CO₂ emissions.

Since SUBARU is an automaker, of course our products have outsized influence on environmental impacts across the full range of business activities in the areas of purchasing, production, logistics, sales, products, and management. We will work to reduce total waste in society through product attributes such as reliability, longevity, safety, and utility. Specifically, in addition to proceeding as planned with introductions of plug-in hybrid vehicle (PHEV) and electric vehicle (EV), we will improve the fuel economy of our models through measures such as further expansion of the electric vehicle lineup and introduction of a downsized turbo engine and weight-reduction technologies.

To comply with local regulations in each market, we will utilize available development resources to maximum effect, including collaboration through alliances, to develop an optimal product lineup for each market that is adapted to market needs and customer preference.

*Please refer to the SUBARU corporate website for details on the STEP mid-term management vision.



STEP: the Mid-term Management Vision

<https://www.subaru.co.jp/en/ir/management/plan/>

Message from the Chairman



Director of the Board, Chairman
Yasuyuki Yoshinaga

We will resolutely implement a corporate culture transformation to ensure the rebirth of SUBARU as “a company that does the right thing in the right way.”

Summary of My Tenure as President

I retired as President and CEO at the General Meeting of Shareholders held in June 2018.

Ever since becoming president in June 2011, I have thought that SUBARU, which has only a 1% global share in the automotive industry, will be unable to survive in this harsh competitive environment if it doesn't compete as only a small company can. As president, I believed that the only path to growing in a sustained manner is to create added value that customers will find appealing and pursue uncompromising differentiation. Rather than offering a full model lineup and doing business in all markets, we specialized and focused our limited management resources on categories and markets in which we can leverage our strengths. We worked to build a strong business structure by focusing on SUVs and sports models and doing business mainly in the U.S. and other developed countries in mature stages of motorization. As a result, many customers in North America and other markets purchased our products, global unit sales grew, financial performance improved substantially, and we were able to increase corporate value.

On the other hand, I feel that SUBARU's corporate strengths failed to keep up with the Company's dramatic growth, as indicated by the recent inappropriate incidents and an increase in quality issues.

Objectives of Changes in the Management Structure

Four objectives prompted the complete change of management structure, including the change of CEO:

1) Rejuvenation of the management team and boosting of organizational vitality, and strengthening of a can-do attitude; 2) Qualitative improvement of the management structure; 3) Enhancement of market responsiveness; and 4) Enhancement of technologies and technology management.

President Nakamura has served in a succession of important posts involving groupwide management strategy, most recently serving as chairmen and CEO of the U.S. sales and marketing subsidiary Subaru of America for four years. He has thorough knowledge of the U.S. market, SUBARU's most important market, has gained the full trust of U.S. dealers, and has a stellar reputation. Since President Nakamura and I are of one mind with regard to SUBARU's management strategy and business model to date, I will entrust practical management of the Company to him and devote myself to corporate culture reforms and compliance.

I made sure that my successor was elected through a deliberately open and fair process. At a session of the Executive Nomination Meeting held in February 2018, the participants, including the outside directors, discussed the matter and agreed to elect Tomomi Nakamura as SUBARU's next president. The decision was announced in March 2018.

To be “a Company that does the Right Thing in the Right Way”

I sincerely apologize for the significant trouble and inconvenience we have caused our customers and other stakeholders due to the repeated improprieties in final vehicle inspections at the SUBARU Gunma Manufacturing Division.

In April 2018, SUBARU established the “Tadashii-Kaisha” Promotion Department and Compliance Office as organizations to reform the corporate culture, one cause of the repeated improprieties. The “Tadashii-Kaisha” Promotion Department will plan and thoroughly implement companywide activities to earn the trust of customers and society and make SUBARU “a company that does the right thing in the right way,” execute measures to prevent any reoccurrence of the improprieties, and work toward solving fundamental problems. The Compliance Office will plan and implement activities that will lead to further strengthening of companywide compliance efforts and transformation of the compliance awareness of all employees.

Toward Sustained Corporate Value Enhancement

I think that sustained corporate value enhancement at SUBARU depends on increasing added value. This is a question of how to increase the appeal of the SUBARU brand over time. SUBARU's brand power has increased substantially in recent years. However, additional effort is required to enhance corporate strengths and further develop SUBARU into a trusted brand. Under the new management structure, everyone at SUBARU will engage in steady, diligent activities to put the Company on a solid footing. I ask your continued support for SUBARU in the coming years.

Reference information on improprieties relating to final vehicle inspections and fuel economy and emissions measurements

Investigative reports about the repeated improprieties that SUBARU has published to date are as follows. For details, please see the individual news releases and reports.

- 1) December 19, 2017
Investigation Report and Countermeasures to Prevent Recurrence of Nonconforming Final Vehicle Inspection Works at Gunma Manufacturing Division
https://www.subaru.co.jp/press/news-en/2017_12_19_5237/
- 2) April 27, 2018
Investigation Report on Measurement of Fuel Economy and Emissions During Final Vehicle Inspections at Gunma Manufacturing Division
https://www.subaru.co.jp/press/news-en/2018_04_27_5714/
- 3) September 28, 2018
Results of Investigation into Improper Conduct during Final Vehicle Inspections at Gunma Manufacturing Division
https://www.subaru.co.jp/press/news-en/2018_09_28_6349/



Director of the Board,
Executive Vice President and CFO

Toshiaki Okada

We will increase strategic investments and R&D expenses to boost competitiveness for the future, maintain an industry-leading profit margin, and aim for sustained growth.

A Look Back at My First Year as CFO

During the past year since I became Chief Financial Officer (CFO), at a time when the entire automotive industry has entered a period of transformation, I have always made sure to appropriately disseminate corporate information on matters such as SUBARU's current position and thinking, as well as our growth opportunities and potential. I also consider it my role to serve as a point of contact between external and internal stakeholders by appropriately feeding back to SUBARU information and opinions from outside the Company and communicating the needs of external stakeholders.

For SUBARU, which is by no means a large automaker, to achieve sustained growth, it is essential to build the business by focusing on a differentiation strategy and value-added strategy based on making original, distinctive cars. To prepare for sustained growth, I will consider matters such as how SUBARU uses funds and capital and how we allocate management resources.

Business Performance in FYE March 2018

Consolidated unit sales in FYE March 2018 increased by some 2,000 units year on year and reached a record high of 1,067,000 units, with North America, a key market, continuing to drive global sales. Consolidated net sales increased by 2.4% to a record high of 3,405.2 billion yen as a result of factors including currency fluctuations and the increase in unit sales. Unit sales in North America reached a record high for the ninth consecutive year, and global unit sales and consolidated net sales reached record highs for the sixth consecutive year.

Consolidated operating income decreased by 7.6% to 379.4 billion yen as a result of the impact of an increase in SG&A expenses accompanying rising interest rates in the U.S. and market conditions for raw materials coupled with an increase in R&D expenses, despite a positive impact on profits from currency fluctuations. Ordinary income decreased by 3.7% to 379.9 billion yen, and net income attributable to owners of parent decreased by 22.0% to 220.4 billion yen as a result of factors including the recording of airbag-related losses of 81.3 billion yen as an extraordinary loss.

Outlook for FYE March 2019

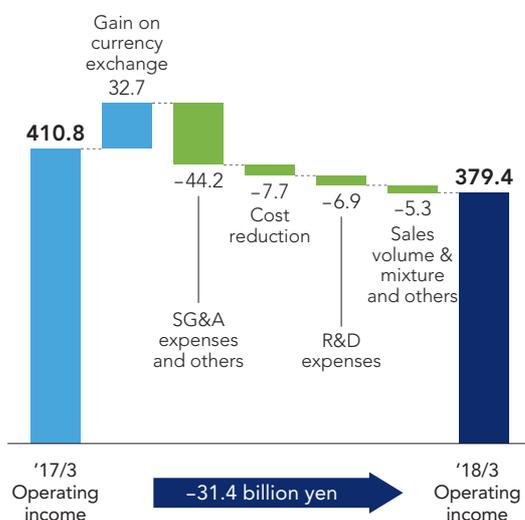
We forecast continued strong sales in North America and other markets and a 3.1% year-on-year increase in consolidated unit sales to 1.104 million units in FYE March 2019. Although we forecast an increase in unit sales, we have incorporated into our forecast a negative impact on sales from currency fluctuations and the impact of a change in accounting policy (deduction of sales incentives from net sales totaling approximately 180.0 billion yen) and have planned for a 0.5% year-on-year increase* in consolidated net sales to 3,250.0 billion yen. We forecast a 20.9% decrease in operating income to 300.0 billion yen, a 19.7% decrease in ordinary income to 305.0 billion yen, and a 0.2% decrease in net income attributable to owners of parent to 220.0 billion yen, to result from the impact of an increase in SG&A expenses accompanying rising interest rates in the U.S. and raw materials prices, despite the projected increase in unit sales.

Although we can expect improved business performance in FYE March 2019 as a result of the introduction of the Ascent, a 3-row SUV, and an all-new Forester following a full model change, we expect the full-scale contribution from these models to occur in the second half and beyond. The first half of the year will also be a lean season from a product perspective, with the new-model effect of the Impreza and Crosstrek (known as the SUBARU XV outside North America) running its course and other highly profitable models entering the second half of their model lives. Accordingly, we forecast a difficult first half in terms of business performance and have planned for operating income of 110.0 billion yen in the first half and 190.0 billion yen in the second half, for full-year operating income of 300.0 billion yen.

*Consolidated net sales for FYE March 2018 have been recalculated using the new accounting policy for comparison purposes.

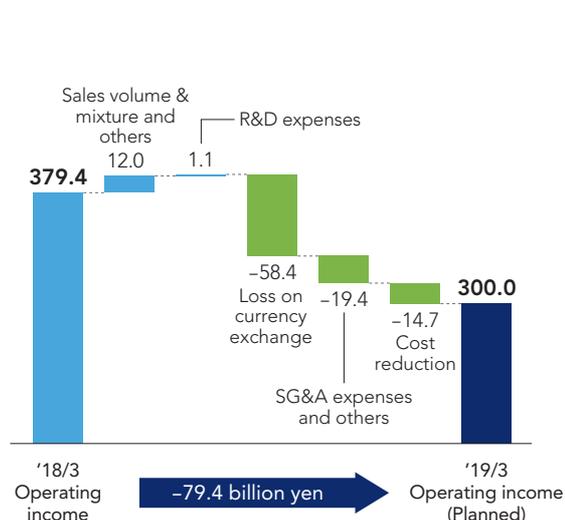
FYE March 2018: Analysis of Increase and Decrease in Operating Income Changes

(Consolidated) (Billions of yen)



FYE March 2019: Analysis of Increase and Decrease in Operating Income Changes

(Consolidated) (Billions of yen)



Message from the CFO

Although business conditions continue to recover gradually in North America, a key market for SUBARU, overall demand for automobiles has peaked, leading to intensification of sales competition. We consider incentive program management extremely important for maintaining competitiveness in such an environment. Although there has been no major change in the financing program we provide to customers, we are maintaining a lower level of incentives per vehicle than the industry average by carefully and meticulously managing interest rates, payment periods, and other financing terms and conditions for each model while carefully monitoring market conditions and the competitive environment. However, the impact of increases in the interest rate on borrowings is significant, and interest rates are currently trending up. We plan to take advantage of new model introductions to curb expenses.

STEP: the New Mid-term Management Vision

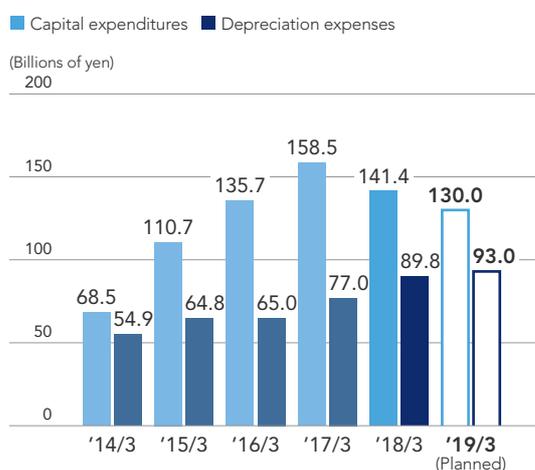
In July 2018, SUBARU announced STEP, our new mid-term management vision. Although we have achieved rapid quantitative growth during the past few years, we recognize that there are many qualitative issues.

Fundamentally improving quality, which is the foundation of customer trust, is an urgent priority, and we have made quality enhancement initiatives the centerpiece of STEP. We will review all quality-related processes from product planning to production, set a five-year investment framework of 150.0 billion yen for improvement of total quality, and to undertake improvements including upgrading the quality level of manufacturing plants, reinforcing quality management systems, and developing customer service infrastructure.

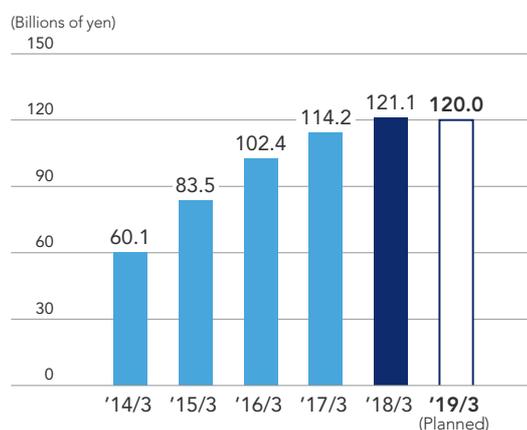
Financial and Capital Strategies

The Company engages in business management with return on capital, financial soundness, and shareholder returns as the three key indicators of capital policy. Specifically, the Company has declared a policy of providing appropriate shareholder returns while maintaining a high degree of balance between return on equity (ROE) and the equity ratio over the medium and long term, and there is no change in this basic policy. On that basis, in our capital control, I intend to emphasize cash. SUBARU's management approach is characterized by the practice of selection and concentration, and we concentrate on developed countries, mainly the U.S., offering a limited model lineup. We recognize that this approach entails aggressively taking on more risk than competitors in terms of being subject to the impact of exchange rates and business fluctuations in the market. For this reason, to prepare against sudden changes in the business environment, we have set a minimum level of cash reserves equivalent to two months' sales and a minimum equity ratio of 50% and will practice appropriate financial management, including shareholder returns, taking into consideration the business environment. We have set a target of maintaining ROE of 10% and will aim for ROE of 15% or higher.

Capital Expenditures / Depreciation Expenses



R&D Expenses



With a view to future growth, we will increase strategic investment and R&D investment for the purpose of boosting future competitiveness. We will invest in areas including improvement of our management foundation centered on quality and responding to transformation of the automotive industry, which is an urgent priority. For the three-year period from FYE 2019 to FYE 2021, we plan total capital expenditures of 450.0 billion yen and R&D expenses of 400.0 billion yen. On that basis, we plan to achieve an industry-leading profit margin of 9.5% and will aim for an operating income ratio of 10% or higher.

Our basic policy is to ensure balanced distribution of profits to all stakeholders and to provide continuous, stable shareholder returns, with dividend payments as the primary component of returns. The annual dividend payment for FYE March 2018 was 144 yen per share (half-year dividend of 72 yen and year-end dividend of 72 yen), the same as for FYE March 2017. We plan to maintain a dividend of 144 yen per share (half-year dividend of 72 yen and year-end dividend of 72 yen) again in FYE March 2019. For this three-year period, our policy is to make a dividend payment of 144 yen the basis of shareholder returns and flexibly purchase treasury stock in accordance with cash flow.

STEP, the new mid-term management vision, embodies our desire to improve our ability to respond to changes in the external environment, correct distortions that have accompanied rapid growth, and cultivate fundamental corporate strengths. We realize that a change of employee awareness is a matter of urgent importance for SUBARU to become a company that is trusted by, and resonates with, customers. In speedily implementing various initiatives, in my role as CFO I will observe laws and regulations and dedicate myself to creating systems that enable SUBARU to ensure quality. This is a crucial time for SUBARU to solidify its footing in preparation for the next leap forward. We will achieve sustained growth and meet the expectations of our shareholders and other stakeholders by accelerating initiatives to create “a company that does the right thing in the right way” and cultivating fundamental corporate strengths as quickly as possible. I request your further understanding and support in the coming years.

Profit Plan for FYE 2019–2021 (3 years)

(105 yen/USD)

Net sales	10 trillion yen
Operating income	950 billion yen
Operating margin	9.5%
R&D expenses	400 billion yen (+18%)
Capital expenditures	450 billion yen (+3%)
Depreciation and amortization	300 billion yen (+29%)

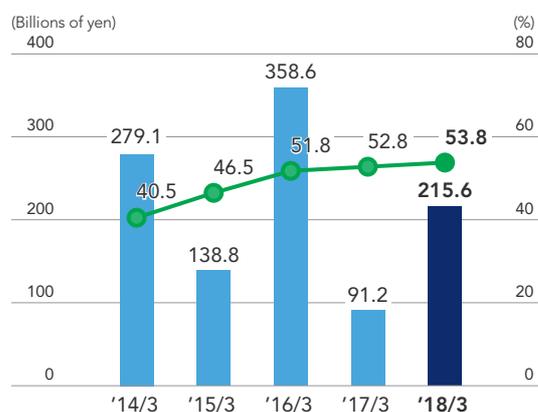
(): Percent change from previous 3-year period (FYE 2016–2018)

Capital Policy

Net cash	Two months' worth of net sales at minimum	
Equity ratio	50% at minimum	
ROE	Minimum	10%
	Target	15%
Shareholder returns	Yearly dividend per share	144 yen
	Share repurchases	To conduct flexibly

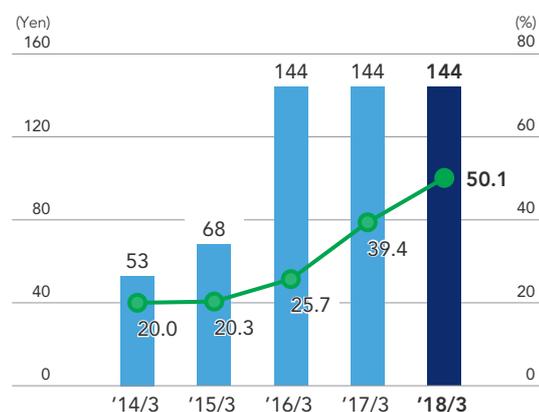
Free Cash Flow / Ratio of Shareholders' Equity to Total Assets

■ Free cash flow (Left) ● Ratio of shareholders' equity to total assets (Right)



Dividend per Share / Dividend Payout Ratio

■ Dividend per share (Left) ● Dividend payout ratio (Right)



Messages from the CQO, CTO, and CIO

CQO (Chief Quality Officer)



Senior Vice President

Atsushi Osaki

SUBARU defines “Enjoyment and Peace of Mind” as the value we deliver to customers. The foundation of this core value is quality, and we consider quality to be one of our most fundamental responsibilities to our customers. Quality can be broadly defined to include everything from product quality to customer service quality, the quality of the day-to-day work of individual employees, and the quality of corporate activities, and I realize that it’s important to steadily improve these dimensions of quality. I am determined to play a leading role in creating a quality standard by which all Group employees make quality the highest priority above all else.

Airbag defects and other problems that lead to recalls and service campaigns have continued to occur, and I deeply regret that we have caused concern and inconvenience to customers and many other stakeholders. Although we have seen steady improvement in the results of third-party quality assessments for the U.S. market, our relative quality ratings in competition with other automakers have regrettably declined, and I consider this a critical issue.

In response to these problems and issues, in new vehicle development we aim to eliminate recalls and service campaigns by further reinforcing milestone management at each stage of development and systematically working to prevent any reoccurrence of past defects. Taking into account customer usage conditions, we will make high-quality products that are easy for customers to understand and use, and simultaneously work to minimize vehicle downtime and increase customer satisfaction by undertaking call center expansion, building a system for the smooth provision of replacement parts and repair parts, and improving efficiency in service operations.

We acknowledge that quality reforms are the top-priority issue in the new mid-term management vision. To achieve reforms, we will review all existing processes for achieving quality, from product planning to production. In conducting this review, to ensure that the business units involved in these processes do not waver in the philosophy that quality is key, we will strengthen the authority of the CQO and rigorously reinforce quality management systems across all product development and manufacturing functions.

We will also invest in facilities for quality-related technology development, in simulators and other control-related evaluation facilities, and in facilities with modifiable temperature and atmospheric pressure control for environmental and durability evaluation. In manufacturing, whereas until now we have made capital expenditures mainly for the purpose of increasing capacity, from now on we will invest heavily in renewal of aging facilities and traceability enhancement to raise the level of quality. We will actively invest in areas that contribute to quality improvement, including human resources investment, and aim to be No. 1 in the kind of quality that makes our products suitable for long-term use with peace of mind.

CTO (Chief Technology Officer)



Director of the Board
Executive Vice President

Tetsuo Onuki

Even in a time of industry transformation, when what people value in cars is said to be changing, SUBARU intends to place the utmost importance on delivering “Enjoyment and Peace of Mind.” I want to be able to provide support for the enjoyment of driving, the enjoyment of freely traveling by car whether in youth or old age, and the enjoyment of a car lifestyle—in other words, the enrichment of people’s lives—with SUBARU cars and related services. As we continue to evolve the Subaru Global Platform over time, major challenges are safety and environmental response. We will further enhance all-around safety technologies and aim to eliminate fatal accidents involving SUBARU cars by adding connected car technologies. To comply with local environmental regulations, we will introduce electric vehicles and hybrids and engage in tireless technological development. We want to create and propose products that combine environmental consideration with “Enjoyment and Peace of Mind.”

In April 2018, SUBARU established the Engineering Management Division. For an automaker the size of SUBARU to maintain a presence in the global market even at a time when automobiles are undergoing transformation, I want to give the Engineering Management Division the capability to increase the mobility of the resources of our engineering departments so that we can speedily create and propose products and services that are unique to SUBARU and different from those of other automakers.

CIO (Chief Information Officer)



Representative Director of the Board
Executive Vice President

Masaki Okawara

Information (and IT) connects individuals to each other and one division to another, and I want to support improvement of management quality from an IT perspective by activating those connections. These days, this is called digital transformation (DX), which we define as 1) business process transformation and 2) new business creation. To realize DX at a high level, we are examining from various perspectives matters such as the use and application of scattered data and the suitability of services for the specific needs of SUBARU’s customers. The development of our IT infrastructure going forward must rest on a foundation of information security enhancement and the creation of an IT-conscious culture with the participation of all employees. To establish a firm footing, beginning this year we will gradually realize initiatives in which we have engaged since last year.

Although there are probably various contributing factors behind the inappropriate incidents that have occurred since last year, I consider improvement of poor communication and insufficient mutual understanding a matter of urgent importance. Creation of workplaces where people are considerate of one another is essential for this, and we will deploy IT tools as a means of compensating for deficiencies in communication and mutual understanding. I intend to continue to play a part in activities to deepen connections with customers, enhance the SUBARU brand, and bring smiles to the faces of customers.

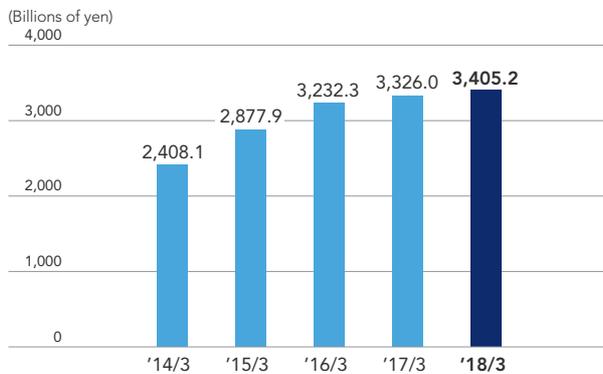
Financial and Non-Financial Highlights

Years ended March 31

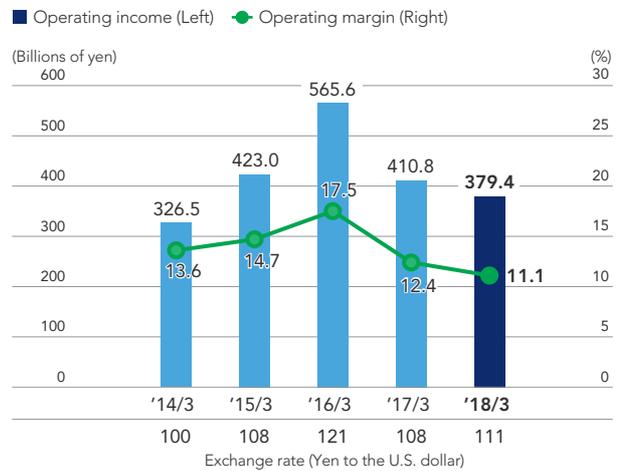
Financial Highlights

SUBARU CORPORATION and its consolidated subsidiaries

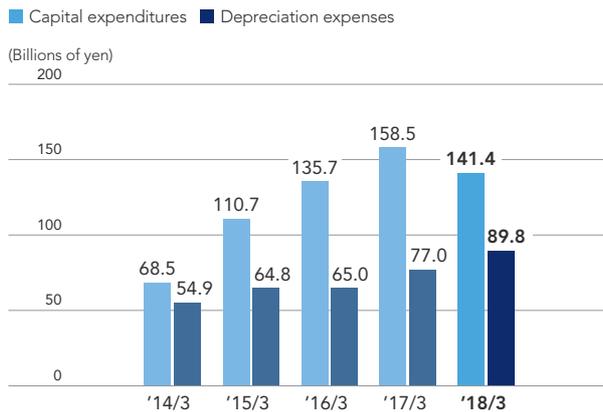
Net Sales



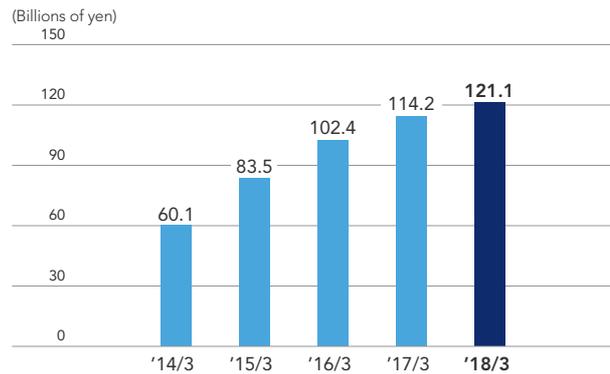
Operating Income / Operating Margin



Capital Expenditures / Depreciation Expenses

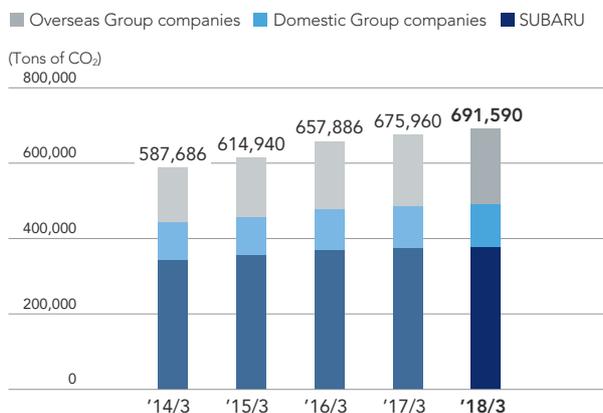


R&D Expenses

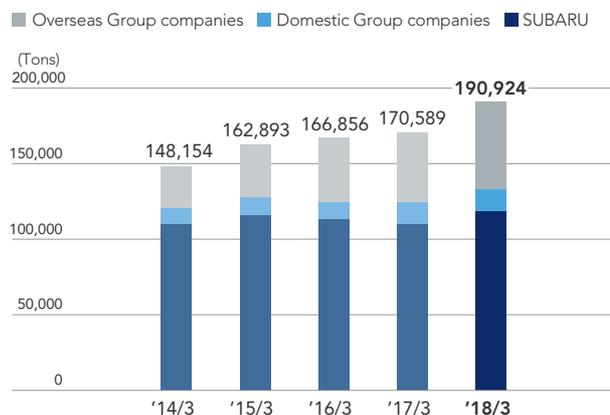


Non-Financial Highlights

CO₂ Emissions

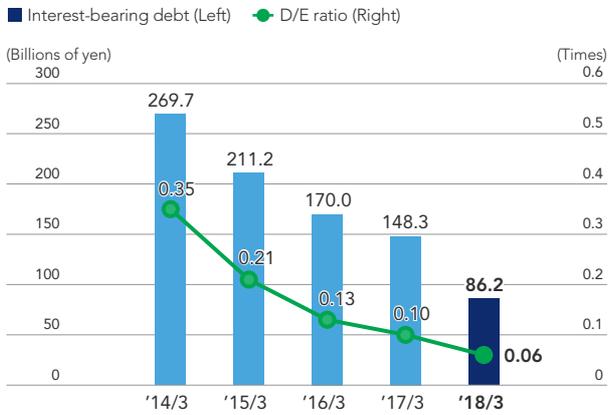


Waste Generation

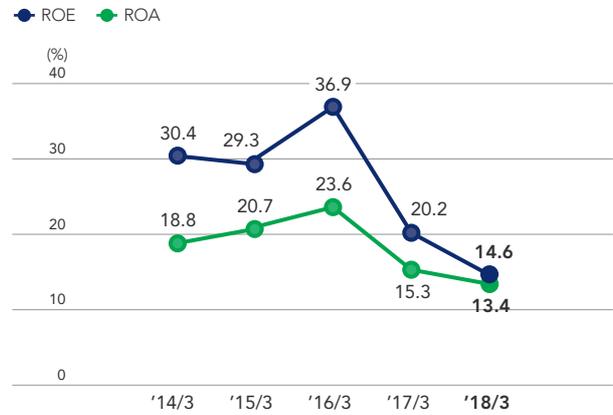


*Includes scrap metal sold

Interest-Bearing Debt/D/E Ratio

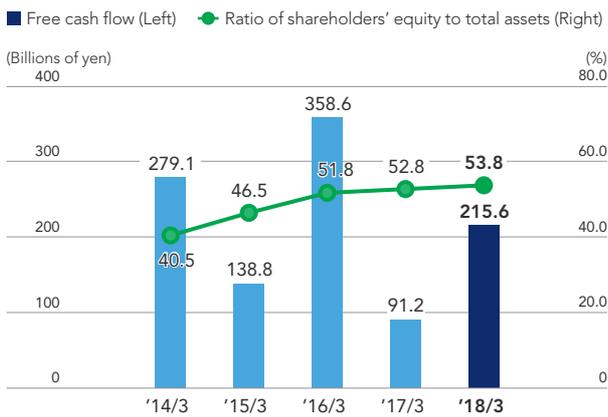


ROE/ROA

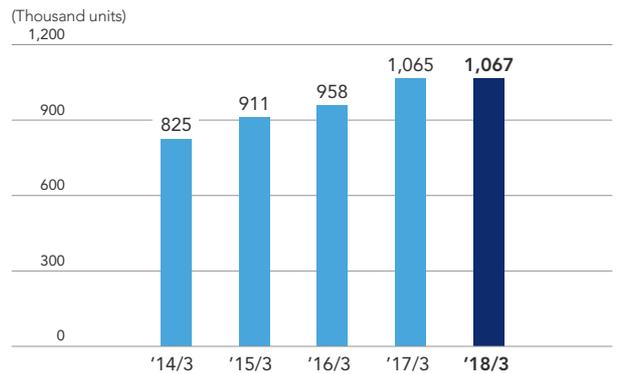


*ROA = Operating income / Total assets (average at the beginning and end of the term)

Free Cash Flow/ Ratio of Shareholders' Equity to Total Assets

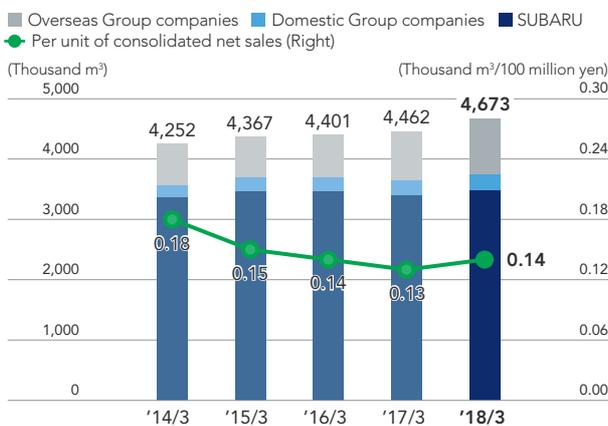


Consolidated Unit Sales

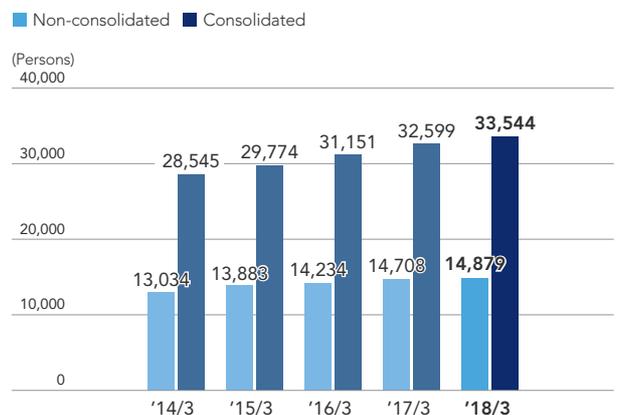


*Automobile unit sales of SUBARU CORPORATION and its consolidated subsidiaries

Water Consumption



Number of Employees



*Excluding executive officers, advisors and dispatches

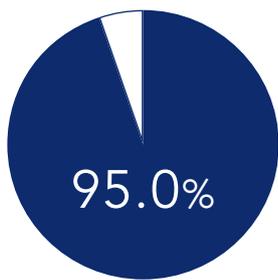


Automotive Business Unit

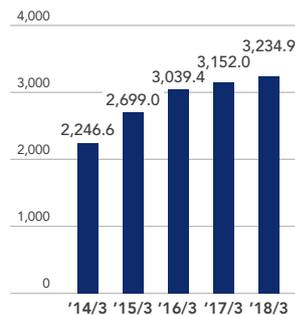
SUBARU continues to develop cars that promise total driving enjoyment and safety for all passengers.

The launch of the SUBARU 360 in 1958 marked SUBARU's start as an automaker. Ever since, we have contributed to the development of Japan's automotive industry by creating a succession of distinctive cars equipped with creative technologies such as the horizontally opposed engine and Symmetrical All-Wheel Drive. We continue to take on new challenges in order to provide all of our customers with "Enjoyment and Peace of Mind." For example, we continue to evolve the EyeSight driver assist system, have improved safety performance and driving performance by adopting the Subaru Global Platform, our next-generation vehicle platform, and were the first Japanese automaker to use a pedestrian protection airbag.

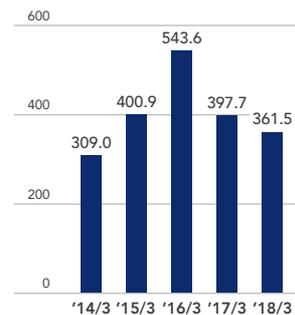
Consolidated Net Sales Contribution Ratio of the Automotive Business Unit



Net Sales (Billions of yen)



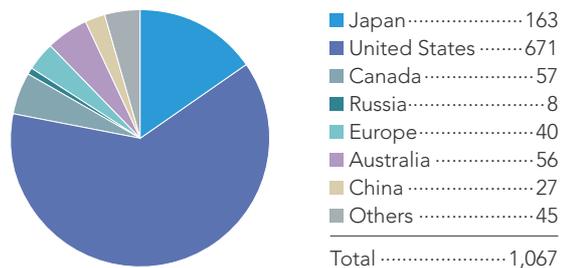
Operating Income (Billions of yen)



Overview of FYE March 2018

- Consolidated global unit sales increased by 0.2% year on year to 1,067,000 vehicles, reaching a record high for the sixth consecutive year.
- Sales in Japan were 163,000 units. Overseas sales were 903,000 units, and unit sales in North America reached a record high for the ninth consecutive year.

Consolidated Automobile Sales by Region (Thousand units)



Product Lineup

Legacy Series

LEGACY



OUTBACK



Consolidated unit sales: 291,000 units
Sales regions: Japan, North America, Russia, Europe, Australia, China, and other

FORESTER



Consolidated unit sales: 279,000 units
Sales regions: Japan, North America, Russia, Europe, Australia, China, and other

WRX



Consolidated unit sales: 51,000 units
Sales regions: Japan, North America, Russia, Europe, Australia, and other

Impreza Series

IMPREZA



(SEDAN)



(5 Door)

SUBARU XV

(North America: CROSSTREK)



Consolidated unit sales: 373,000 units
Sales regions: Japan, North America, Russia, Europe, Australia, China, and other

LEVORG



Consolidated unit sales: 25,000 units
Sales regions: Japan, Europe, Australia, and other

SUBARU BRZ



Consolidated unit sales: 9,000 units
Sales regions: Japan, North America, Europe, Australia, China, and other

EXIGA



Consolidated unit sales: 3,000 units
Sales region: Japan

OEM Models

JUSTY



CHIFFON



STELLA



PLEO



DIAS WAGON



SAMBAR



Consolidated unit sales: 34,000 units
Sales region: Japan
(OEM supply from Daihatsu Motor Co., Ltd.)

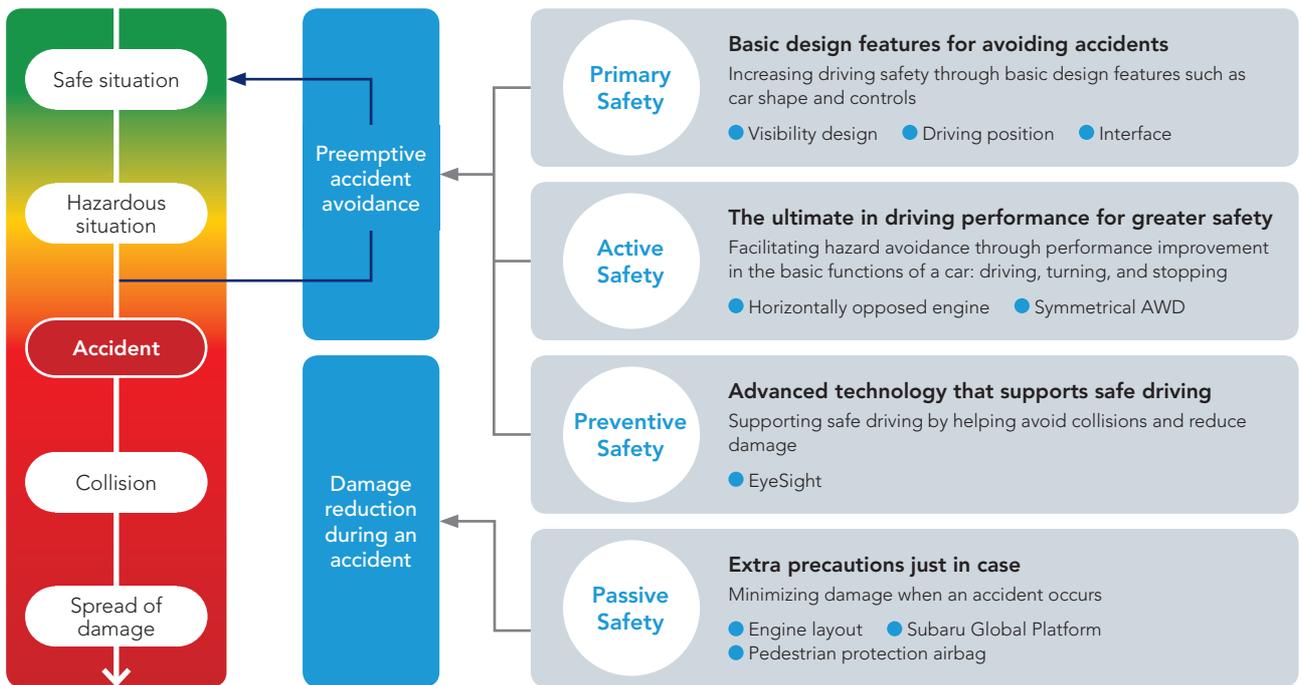
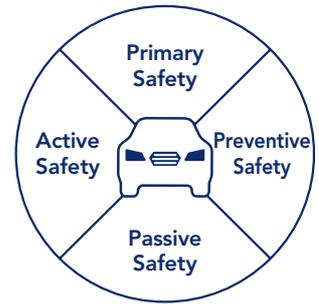
*For the period from April 1, 2017 to March 31, 2018
*Automobile sales of SUBARU CORPORATION and its consolidated subsidiaries

Automotive Business Unit

The SUBARU Concept of All-Around Safety

Aiming for the highest level of peace of mind and safety for all passengers

SUBARU pursues automobile safety performance from every perspective and is refining and perfecting core technologies on the basis of four safety criteria: primary safety, active safety, preventive safety, and passive safety.



**Safety Performance
Recognized Worldwide**

SUBARU has received the highest rating in the NCAP¹ conducted by the authorities in Japan, the U.S., Australia, and other countries, as well as in the safety performance assessment conducted by the IIHS² in the U.S.³

In the IIHS safety performance assessment, the Impreza, Crosstrek, Legacy, Outback, and WRX (models equipped with EyeSight and Steering Responsive Headlights) received the 2018 Top Safety Pick Plus (TSP+) rating. The 2018 TSP/TSP+ awards only apply to the North America models.



JNCAP ASV++ rated models: Levorg and WRX (models equipped with EyeSight) in 2017
 JNCAP 5-star rated models: Impreza and SUBARU XV in 2016
 2018 IIHS TSP rated models: 2018 Forester (models equipped with EyeSight and Steering Responsive Headlights)
 2018 IIHS TSP+ rated models: 2018 Impreza, Crosstrek, Legacy, Outback, and WRX (models equipped with EyeSight and Steering Responsive Headlights)
 US-NCAP 5-star rated models: 2018 Impreza, Crosstrek, Legacy, Outback, and Forester
 Euro NCAP 5-star rated models: Impreza and SUBARU XV in 2017
 ANCAP 5-star rated model: SUBARU XV in 2017

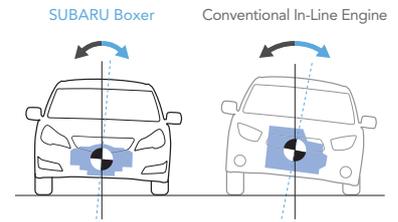
1 NCAP: New Car Assessment Program
 2 IIHS: Insurance Institute for Highway Safety
 3 For ratings details, please refer to rating agency websites.

SUBARU Core Technologies

Horizontally-Opposed Engine (Boxer engine)

Compact, low center of gravity

The horizontally opposed engine has pistons arranged symmetrically to the left and right of the crankshaft. Since the opposed pistons mutually cancel out engine vibrations, the engine can rotate smoothly, which reduces vibrations conveyed to the vehicle interior. The engine's low height and compact design contribute to low vehicle center of gravity. The stable attitude provides a high sense of security during driving.



Symmetrical All-Wheel Drive (AWD)

Superior overall weight distribution

The combination of the low center of gravity provided by the horizontally opposed engine and superior longitudinal-transverse weight balance achieved by placing the transmission near the center of the vehicle maximizes all-wheel drive capability and delivers superb driving performance in various conditions. SUBARU has been committed to Symmetrical AWD as a core technology that drivers can depend on in every situation from day-to-day town use to high-speed highway driving.



Symmetrical All-Wheel Drive (AWD)

Subaru Global Platform

A next-generation vehicle platform designed with the future in mind, looking ahead to 2025

SUBARU is sequentially introducing the Subaru Global Platform, starting with the all-new Impreza launched in October 2016. The new vehicle platform substantially increases body and chassis rigidity and further lowers vehicle center of gravity, raising the level of active safety and passive safety and delivering responsive handling performance and a comfortable ride with reduced unpleasant vibration and noise.



Subaru Global Platform

EyeSight Driver Assist System

Stereo cameras for advanced object recognition capabilities

The use of two cameras positioned to the left and right, like human eyes, contributes to preventive safety by helping avoid accidents, reduce impact, and alleviate driver burden by enabling three-dimensional recognition of cars, pedestrians, and other objects in front of the vehicle and accurate recognition of the distance, shape, and speed of movement of these objects. SUBARU began development of a driver assist system using stereo cameras in 1989. Application of research results and experience accumulated over many years since then has culminated in EyeSight, a system that anyone can use with peace of mind. In 2017, we introduced EyeSight Touring Assist, which dramatically reduces driver fatigue by automatically assisting accelerator, brake, and steering operation at a wide range of speeds from 0 to approximately 120 km/h for expressway driving.

SUBARU will continue to work to realize an accident-free future.



Stereo cameras



Stereo camera recognition image



A New 3-Row SUV Developed Exclusively
for the North American Market

Debut of the all-new ASCENT

The ASCENT is a crossover SUV newly developed for family users who require a 3-row SUV not available in the previous lineup. It forms part of the plan to achieve sustained growth in North America, SUBARU's most important market. Designed for families who want to get the most out of their active lives, the ASCENT delivers the enjoyment of being able to go anywhere with peace of mind.

- Comfortable cabin environment realized by a package design that gives all passengers a pleasant ride experience in any seat, ample interior features, and vibration noise suppression made possible by the Subaru Global Platform's increased body rigidity
- Standard EyeSight Driver Assist Technology and pursuit of top-of-class safety performance
- Powered by an all-new 2.4-liter four-cylinder Boxer direct fuel injection turbo engine, offering drivability and fuel economy equal to or better than that of six-cylinder engines
- Standard SUBARU Symmetrical All-Wheel Drive and X-Mode offer the optimal blend of drivability and SUV capability
- To be built in the U.S. with start of sales scheduled for early summer 2018

The Head of Development Discusses his Vision of the ASCENT Uncompromising Attention to Detail in a Vehicle Designed for North America

Background to the Birth of the ASCENT

SUBARU's vehicle lineup for North America consists mainly of compact to mid-size SUVs. There are no vehicles that families with more than three children can continue to drive, and some customers switch to vehicles of other automakers. Development of the ASCENT, a crossover SUV exclusively for North America, began in response to strong requests from dealers in North America who argued that a 3-row SUV is absolutely necessary for customers to continue to drive SUBARU vehicles throughout their life.

Uncompromising Attention to the Third-row Seats and Comfort

Ordinarily, the third row of seats is cramped, the air conditioning doesn't reach the passengers, visibility is poor, and it's difficult to converse with passengers in the second row. We aimed to eliminate the disadvantages of what is derisively called the "penalty box" and instead create third-row seats that would actually make children enjoy riding there. We had North American dealer employees ride in full-size mockups and went through a repeated process of trial and error based on their impressions and opinions. Our highest priority in development was to uncompromisingly create a comfortable cabin space in each row. Of course, we also included ample interior features conceived from the perspective of families and children to ensure that every member of the family enjoys the ride. In addition, in planning the interior features, we set an objective of not giving people a reason for rejection on the grounds of unavailability of a particular feature offered by other automakers.

Uncompromising Attention to Driving Performance

Although 3.5-liter six-cylinder engines are the norm in this class for other automakers, we newly developed a 2.4-liter four cylinder downsized turbocharged direct-injection boxer engine to meet recent environmental requirements and realize top-of-class fuel efficiency. To make the ASCENT suitable for daily family use, we use an engine that runs on budget-friendly regular gasoline. We dispelled the conventional image of a four-cylinder engine, giving the engine powerful driving performance in no way inferior to competitors' six-cylinder engines in freeway merging and high-speed passing situations. To the contrary, I think that the end result is a vehicle that will enable customers to personally experience the high-RPM boost and exhilarating driving performance distinctive to a turbocharged engine.

Uncompromising Attention to Safety

Passive safety for third-row passengers was a focus of uncompromising attention from the very beginning of development. The ASCENT is vastly superior to vehicles of other automakers with respect to the extent of head injuries and integrity of passenger survival space in a rear-end collision. Committed to protecting the rearmost passengers, we designed a thick rear frame and at the early stage of development created a structure capable of absorbing impact. While the ASCENT has of course successfully passed the assessments of third-party ratings organizations as proof of safety, third-row safety is not included in those assessments. Even so, we are fully committed to protecting drivers and all passengers in the real world, beyond what tests demand. That's the SUBARU safety concept.

Since the ASCENT is for family use, we focused on quiet and smooth ride comfort, and throughout development boosted our objectives in these areas several times. We upgraded our objectives and embraced the challenge of outstripping other automakers when competitors increased the performance of their vehicles during the ASCENT's prototype stage and at the latter stages of development. We have collaborated time and again with employees of dealers in North America and SIA to put the finishing touches on a car that dealers and makers would want for themselves. It was the desire of the entire development team to create a vehicle that customers will be truly glad they purchased and that others will recognize as a high-quality vehicle and wise purchase.

*As of September 30, 2018



Project General Manager
Product & Portfolio Planning Division*

Yasunori Kumagai



Aerospace Company

Leveraging tradition and innovative technologies to develop and produce a wide variety of aircraft.

SUBARU's roots trace to 1917 and Aircraft Research Laboratory, later to become Nakajima Aircraft. The Aerospace Company, which has inherited Nakajima Aircraft's manufacturing technologies and spirit, leads Japan's aerospace industry and develops and produces a wide variety of aircraft.

In the defense program, we develop, manufacture, maintain, repair, and provide technical support for products such as the UH-1J multipurpose helicopter used by the Japan Ground Self-Defense Force for disaster relief and other purposes, the T-5 Maritime Self-Defense Force trainer, unmanned aerial vehicles (more than 15 models developed over a half century), and flight simulators. In the commercial program, we participate in many international joint development projects for Boeing. We are responsible for the development and manufacturing of the center wing box as well as wing-to-body fairings and the integration of the center wing box with the main landing gear for the 777X, Boeing's newest large passenger airliner, and other Boeing aircraft. In addition, taking advantage of an alliance with Bell Helicopter Textron, we are jointly developing the SUBARU BELL 412EPX.

By further refining our technologies through involvement in a wide variety of aircraft programs, we will continue to take on additional challenges for growing into an aircraft manufacturer with a global presence.

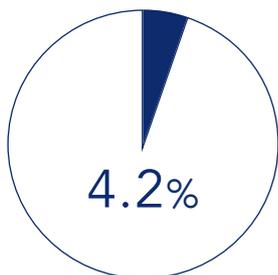


Boeing 777X

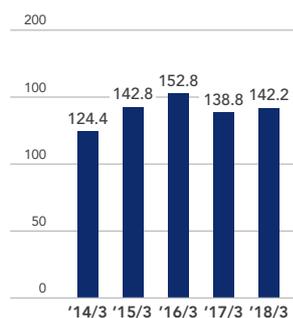


SUBARU BELL 412EPX
This will become the basis for the UH-X, which is a new multipurpose helicopter for the Japan Ground Self-Defense Force.

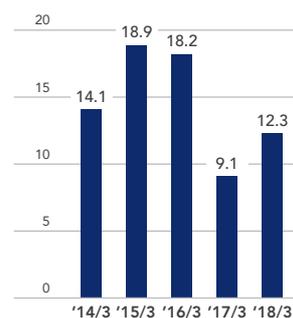
Consolidated Net Sales Contribution Ratio of the Aerospace Company



Net Sales (Billions of yen)



Operating Income (Billions of yen)

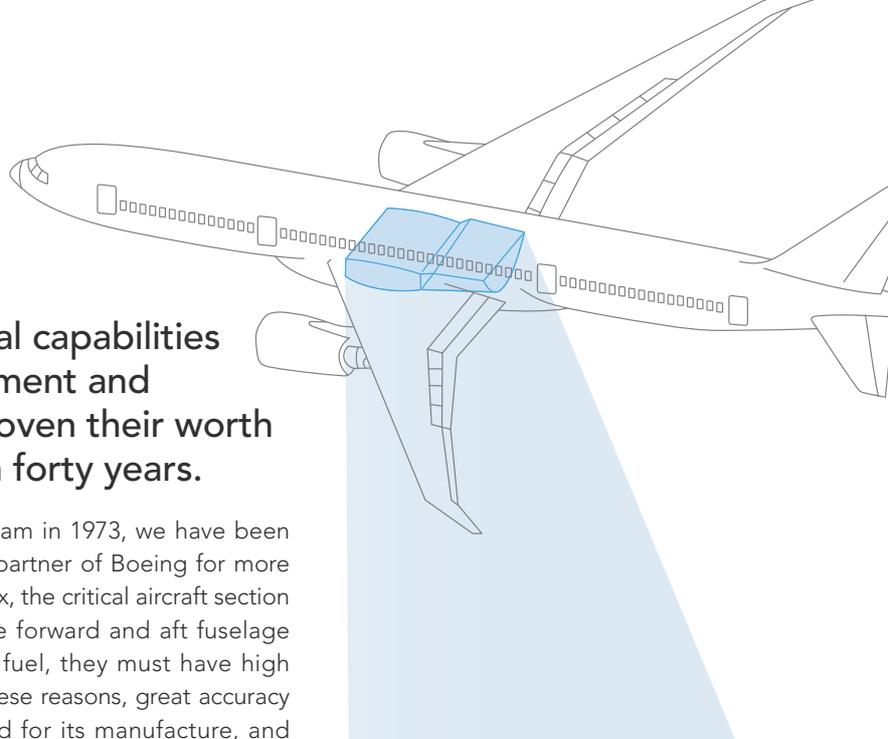


Overview of Center Wing Box and SUBARU's Technology

SUBARU's advanced technological capabilities continue to support the development and production of wings that have proven their worth in the world's skies for more than forty years.

Since first participating in Boeing passenger program in 1973, we have been involved in development and production as a key partner of Boeing for more than forty years. We manufacture the center wing box, the critical aircraft section where the right and left wings are attached to the forward and aft fuselage sections. Since the center wing box contains the fuel, they must have high mechanical strength and high fluid tightness. For these reasons, great accuracy and advanced assembly technologies are required for its manufacture, and SUBARU is one of the few companies capable of making them. The Handa Plant, where center wing boxes are manufactured, is a global-level production center that produces these parts for the new Boeing 777X as well as for the 777 large airliner, the 787 mid-size airliner, the Ministry of Defense's P-1 maritime patrol aircraft, and the C-2 transport aircraft.

SUBARU's advanced technological capabilities are recognized worldwide. For example, we also cooperate in A380 super jumbo airliner program with Airbus. We engage in development on the "Drop test for Simplified Evaluation of Non-symmetrically Distributed sonic boom" Project (D-SEND) together with Japan Aerospace Exploration Agency (JAXA).



A center wing box (Handa Plant)



President
Aerospace Company

Shoichiro Tozuka

Message from the Company President

The Aerospace Company will contribute to the enhancement of the SUBARU brand.

We are a start-to-finish aircraft builder that is capable of the complete development and manufacturing of aircraft fuselages, from materials development to quality assurance, including flight testing. Flight safety is an important factor for aircraft. And for many years we have fostered a culture in which quality and safety are recognized as inextricably linked and uncompromisingly pursued. This total safety concept applied to aircraft, from materials development to quality assurance, including flight testing, is at the core of SUBARU's DNA.

The Aerospace Company currently faces a major inflection point. A change of mainstay production models is underway at Boeing, with production of the Boeing 777 decreasing, due to development of the 777X, and the production rate of the 787 increased to 14 shipsets per month in its stead. At the same time, we have entered the design and production phase of new business activities that will support the future growth of the Aerospace Company, such as 777X center wing box, the SUBARU BELL 412EPX and other projects. So our engineering load and facilities investments have peaked. Also, although continued growth in global air passenger demand is forecast, price competition for fuselages is intensifying.

We will continue to steadily and reliably play a role in enhancing the SUBARU brand by further honing our technological strengths in areas including wing design and manufacturing.

History

History of the SUBARU Group

SUBARU, which can trace some of its roots to Aircraft Research Laboratory, has continuously nurtured highly creative technologies and increased corporate value by pursuing business alliances to respond to major changes in the times. Here we outline the history of the SUBARU Group to date.

1917	Establishment of Aircraft Research Laboratory
1931	Establishment of Nakajima Aircraft Co., Ltd.
1945	Change of company name from Nakajima Aircraft to Fuji Sangyo



1946 Production of the first Rabbit Scooter

1953	Establishment of Fuji Heavy Industries Ltd. Start of aircraft production and automobile development
1960	Opening of the Gunma Main Plant
1960	Listing of shares on the Tokyo Stock Exchange
1966	Signing of a business alliance agreement with Isuzu Motors Ltd.

1968	Establishment of Subaru of America, Inc. (SOA)
1968	Dissolution of the business alliance with Isuzu Motors Ltd.
1968	Signing of a business alliance agreement with Nissan Motor Co., Ltd.
1968	Start of exports of Robin engines for snowmobiles to Polaris (USA)
1969	Start of operation of the Yajima Plant
1972	Release of the Leone 4WD Estate Van, the world's first mass-production 4WD passenger vehicle
1978	Conclusion of a 767 business agreement with Boeing
1983	Start of full-scale operation of the Oizumi Plant
1987	Release of the Justy model equipped with the world's first electro-continuously variable transmission (ECVT)
1987	Establishment of Subaru-Isuzu Automotive, Inc. (SIA) in the U.S. in a joint venture with Isuzu Motors Ltd.

SUBARU Models through the Years



<p>1958</p>  <p>SUBARU 360 released</p>	<p>1966</p>  <p>SUBARU 1000 four-door sedan released</p>	<p>1972</p>  <p>Rex released</p>	<p>1984</p>  <p>Justy released</p>
<p>1961</p>  <p>SUBARU Sambar truck released</p>	<p>1969</p>  <p>R-2 released</p>	<p>1977</p>  <p>Brat released</p>	<p>1985</p>  <p>Alcyone released</p>
	<p>1971</p>  <p>Leone coupe released</p>	<p>1983</p>  <p>Domingo released</p>	<p>1989</p>  <p>Legacy series released</p>

Origin of the SUBARU Name and Logo



“SUBARU” is Japanese for the Pleiades star cluster in the constellation Taurus. These stars are also known as “six-star group.” The name reflects the fact that Fuji Heavy Industries was formed from capital contributions from five companies that sprang from Nakajima Aircraft.

1989	Establishment of Subaru Canada, Inc. (SCI)
1989	Completion of Subaru Research & Testing Center (SKC)
1990	Subaru of America (SOA) made a wholly owned subsidiary
1991	Participation in the Boeing 777 program
1993	Start of operation of the Handa Plant
1999	Capital and business alliance with General Motors Corporation (GM) (USA)
1999	Business alliance with Suzuki Motor Corporation
2000	Dissolution of the business alliance with Nissan Motor Co., Ltd.
2002	Dissolution of the SIA joint venture with Isuzu and formal signing of a contract production agreement
2003	The Legacy wins the 2003–2004 Car of the Year Japan award
2003	Subaru of Indiana Automotive, Inc. (SIA) made a wholly owned subsidiary
2005	Participation in the Boeing 787 program Delivery of main wings for next-generation transport aircraft and next-generation fixed-wing patrol aircraft

2005	Dissolution of the alliance with GM, agreement to enter into a business alliance with Toyota Motor Corporation
2007	Start of production of Toyota cars (Camry) at SIA
2012	Start of knockdown production of the SUBARU XV in Malaysia
2012	Termination of production of mini-vehicles and shift to marketing on an OEM basis
2014	Signing of an agreement to participate in a project to develop and mass produce the Boeing 777X
2016	Termination of contract production of the Toyota Camry at SIA Transfer of production of Impreza vehicles for North America to SIA
2016	All-new Impreza Sport/GR wins the 2016–2017 Car of the Year Japan award
2017	Change of company name to SUBARU CORPORATION
2017	Termination of production and sales of SUBARU general-purpose engines and generators

<p>1992</p>  <p>Vivio released</p>	<p>1998</p>  <p>Pleo released</p>	<p>2008</p>  <p>Exiga released</p>	<p>2014</p>  <p>Levorg released</p>
<p>1992</p>  <p>Impreza series released</p>	<p>2003</p>  <p>Outback released</p>	<p>2012</p>  <p>SUBARU BRZ released</p>	<p>2014</p>  <p>WRX released</p>
<p>1997</p>  <p>Forester released</p>	<p>2005</p>  <p>B9 Tribeca released</p>	<p>2012</p>  <p>SUBARU XV released</p>	<p>2018</p>  <p>Ascent released</p>

Directors, Auditors, and Executive Officers

(As of October 1, 2018)

Directors of the Board



Director of the Board
Chairman

Yasuyuki Yoshinaga

"Tadashii-Kaisha"
Promotion Dept.,
Compliance Office, Quality



Representative
Director of the Board
President
CEO (Chief Executive Officer)

Tomomi Nakamura

Aerospace Company



Representative
Director of the Board
Executive Vice President
CIO (Chief Information Officer)

Masaki Okawara

IT Strategy Div.,
Manufacturing



Director of the Board
Executive Vice President
CFO (Chief Financial Officer)

Toshiaki Okada

Corporate Planning Dept.,
Secretarial Office,
Finance & Accounting Dept.,
Human Resources Dept.,
"Tadashii-Kaisha" Promotion Dept.,
Compliance Office,
SUBARU Next Story Promotion Office



Director of the Board
Executive Vice President

Yoichi Kato

External Relations Dept.,
General Administration Dept.,
CSR & Environment Dept.,
Group Company Management Dept.,
Legal Dept., Internal Audit Dept.



Director of the Board
Executive Vice President
CTO (Chief Technology Officer)

Tetsuo Onuki

Engineering Management Div.,
Engineering Div. 1,
Engineering Div. 2,
Intellectual Property Dept.



Outside Director

Yoshinori Komamura



Outside Director

Shigehiro Aoyama

Auditors



Standing Corporate Auditor

Akira Mabuchi



Standing Corporate Auditor

Shuzo Haimoto



Outside Corporate Auditor

Shinichi Mita



Outside Corporate Auditor

Yasuyuki Abe

Executive Officers

Title	Name	Areas of Responsibility
Executive Vice President	Katsuyuki Mizuma	Overseas Sales & Marketing Div. 1, Overseas Sales & Marketing Div. 2
Senior Vice President	Hideaki Matsuki	Parts & Accessories Div.
Senior Vice President	Hiromi Tsutsumi	Corporate Communications Dept., Human Resources Dept.
Senior Vice President	Shoichiro Tozuka	Aerospace Company
Senior Vice President	Toshiaki Tamegai	Manufacturing Div.
Senior Vice President	Takuji Dai	Product & Portfolio Planning Div.
Senior Vice President	Fumiaki Hayata	Corporate Planning Dept.
Senior Vice President	Atsushi Osaki	CQO (Chief Quality Officer), Quality Assurance Div.
Senior Vice President	Tatsuro Kobayashi	Purchasing Div.
Vice President	Hiroki Kurihara	Customer Service Div.
Vice President	Katsuo Saito	Business Planning Dept., General Administration Dept., CSR & Environment Dept., Group Company Management Dept.
Vice President	Yasuhiro Hamanaka	Aerospace Company
Vice President	Eiji Ogino	SIA ¹
Vice President	Yasushi Nagae	Quality Assurance Div., Customer Service Div.
Vice President	Jinya Shoji	Overseas Sales & Marketing Div. 1, SCI ² , NASI ³
Vice President	Hiromi Tamo	Engineering Management Div., Technical Research Center
Vice President	Yoichi Sato	Japan Sales & Marketing Div.
Vice President	Takeshi Seiyama	SIA ¹
Vice President	Osamu Eriguchi	Engineering Div. 2
Vice President	Tomoaki Emori	Global Marketing Div.
Vice President	Tatsuya Okuno	Engineering Div. 1
Vice President	Tamotsu Inui	Cost Planning & Management Div.

¹ Subaru of Indiana Automotive, Inc.

² Subaru Canada, Inc.

³ North American Subaru, Inc.

Corporate Governance

Basic Policy on Corporate Governance

- Based on the corporate philosophy, SUBARU aspires to be a compelling company with a strong market presence. The enhancement of corporate governance is one of the management's top priorities as SUBARU works to gain the satisfaction and trust of all its stakeholders by achieving sustainable growth and improving its corporate value in the medium to long term based on the "Customer First" principle.
- SUBARU clearly separates the function of decision making and the oversight of corporate management from that of the execution of business operations and aims to realize effective corporate management by expediting decision making.
- SUBARU ensures proper decision making and the oversight of corporate management and the execution of business operations as well as enhances compliance and its risk management system through the monitoring of its management and operations and advice provided by outside officers.
- SUBARU implements proper and timely disclosure of information in order to improve the transparency of management.

Corporate Philosophy

1. We strive to create advanced technology on an ongoing basis and provide consumers with distinctive products with the highest level of quality and customer satisfaction.
2. We aim to continuously promote harmony between people, society, and the environment while contributing to the prosperity of society.
3. We look to the future with a global perspective and aim to foster a vibrant, progressive company.

SUBARU has instituted the Corporate Governance Guidelines with the objective of clearly defining its basic policy on corporate governance, governance framework, and operating policy.

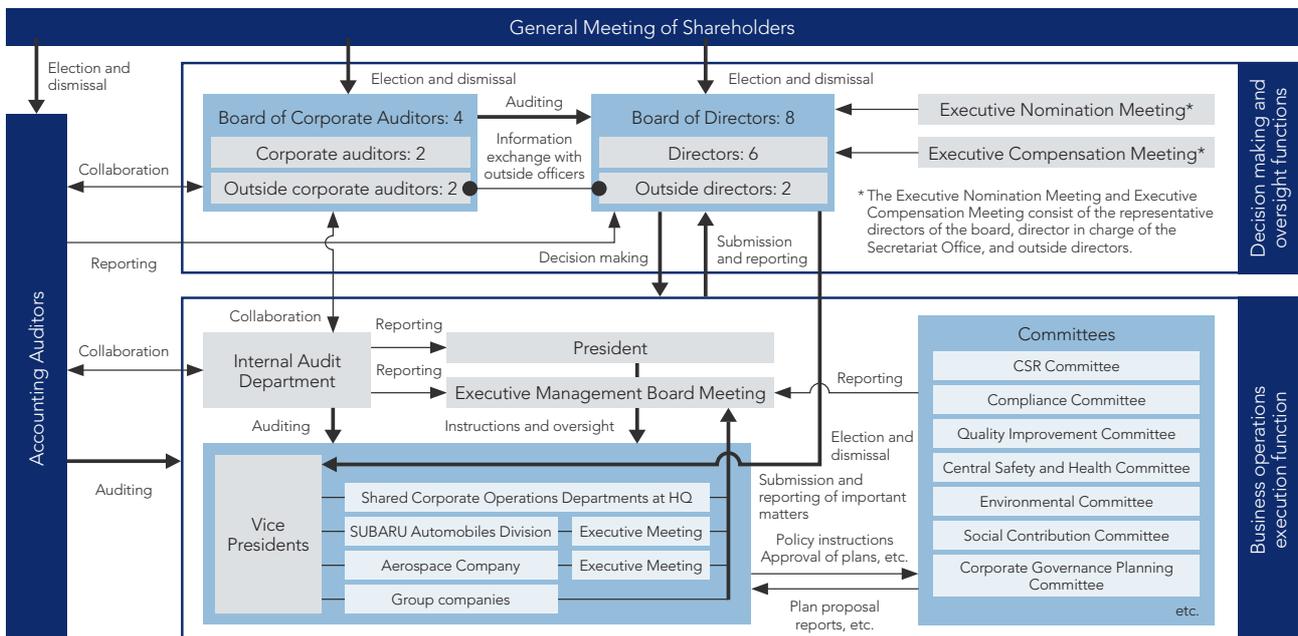
 [Corporate Governance Guidelines and Corporate Governance Report](https://www.subaru.co.jp/en/csr/governance.html)
<https://www.subaru.co.jp/en/csr/governance.html>

*We plan to revise the guidelines and report by December 31, 2018 in light of the content of the June 2018 revisions to Japan's Corporate Governance Code.

Management Organization

The Company has chosen to be a company with a board of corporate auditors as its corporate governance structure, and the Board of Directors decides and supervises, and the Board of Corporate Auditors audits, the execution of important business. The Board of Directors is composed of eight directors, two of whom are highly independent outside directors to further strengthen governance. The Board of Corporate Auditors is composed of four corporate auditors, two of whom are outside corporate auditors to provide objective oversight of management.

System of Corporate Governance



With regard to the business operation system, the Company has established the Executive Management Board Meeting as a preliminary consultation body to conduct deliberations on companywide management strategies and the execution of important business before their presentation at the Board of Directors' Meeting. In addition, the Company has adopted a vice president system and established the Executive Board Meeting as the decision-making body of each business department, and converted the Aerospace division into an internal company, in order to clarify responsibilities and accelerate the execution of business operations.

The Company currently has three special advisors, none of whom is a retired representative director of the board and president or CEO. The principle role of special advisors is to make themselves available on a regular basis to provide business advice upon request. The special advisors do not participate in meetings and are not involved in management. In principle, the term of office of special advisors is one year.

SUBARU has abolished the Senior Advisor System.

Development of Internal Control Systems

The Company has adopted by resolution of the Board of Directors a basic policy on development of a system to ensure that execution of duties by directors complies with laws and regulations and the Articles of Incorporation in accordance with the Companies Act and the Ordinance for Enforcement of the Companies Act as well as other systems stipulated by ordinance of the Ministry of Justice as necessary to ensure the properness of operations of a stock company and a corporate group consisting of the stock company and its subsidiaries. SUBARU occasionally plans, develops, and applies revisions to this basic policy.

Internal Audits and Auditing by Corporate Auditors

SUBARU has established the Audit Department as an internal auditing organization and conducts internal audits of business execution at SUBARU and its domestic and overseas Group companies. At the beginning of the fiscal year, the Audit Department prepares an internal audit plan for the fiscal year that takes into consideration the internal control status of the Group as a whole and systematically implements the plan. The Department prepares and distributes to the directors, corporate auditors, and concerned parties audit reports on the results of internal audits and reports quarterly at the Executive Management Board Meeting.

SUBARU's corporate auditors attend meetings of the Board of Directors and other important meetings, inspect business sites and subsidiaries, interview members of the Audit Department, and audit the execution of duties by the directors and others in accordance with the audit policy and audit plan established by the Board of Corporate Auditors.

The Audit Department and corporate auditors work to deepen collaboration and strengthen the auditing function through monthly internal audit report meetings held by the Audit Department and quarterly dialogues about internal control. The Audit Department and corporate auditors endeavor to strengthen the auditing function through quarterly information sharing with the accounting auditors.

Evaluation of Internal Control System for Financial Reporting

An evaluation of the internal control system related to financial reporting in connection with the internal control reporting system based on Japan's Financial Instruments and Exchange Act is conducted using the final date of the fiscal year of the consolidated financial statements as the reference date. The evaluation conforms to the standards for evaluation of internal control related to financial reporting that are generally accepted to be fair and reasonable.

The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) evaluated the status of the development of the internal control system related to financial reporting as of March 31, 2018 and affirmed that it has been established properly and functions effectively and issued an internal control report audited by the Accounting Auditors to that effect.

Policy on Appointing Senior Management and Nominating Candidates for Director and Corporate Auditor

The Board of Directors, when nominating candidates for directors and corporate auditors and appointing vice presidents, nominates persons with extensive experience, high levels of ability and insight, and advanced expertise commensurate with a position as a director, corporate auditor, or vice president within the Company in order to contribute to achieving the Company's corporate philosophy and effective corporate governance, as well as sustainable growth and improvement in corporate value in the medium and long term.

The Board of Directors appoints two or more independent outside directors from the viewpoint of giving consideration to diversity, etc., within the Board of Directors, and improving the transparency of management and shareholder value through independent oversight of management.

Reasons for Appointing the Outside Officers and Status of Principal Activities

Outside Directors	Independent Officer Status ¹	Reasons for Appointing	Meeting Attendance		Significant Concurrent Positions ²
			Board of Directors		
Yoshinori Komamura	○	Mr. Yoshinori Komamura has served three years as an independent outside director of the Company as of the conclusion of the 87th Ordinary General Meeting of Shareholders. He has drawn on his career in management as a representative director of Komatsu Ltd. to provide valuable advice on the management of the Company based on his abundant experience and extensive knowledge as a business manager and his deep insight into corporate social responsibility. Therefore, the Company has appointed Mr. Komamura with the expectation that he will contribute to maintaining and improving management transparency and soundness and strengthening corporate governance by continuing to provide advice on all aspects of the Company's management from an independent standpoint as an outside director.	Attended 17 of 17 meetings		Adviser, Komatsu Ltd. Member of the Board, Institute for Strategic Leadership (ISL)
Shigehiro Aoyama	○	Mr. Shigehiro Aoyama has served two years as an independent outside director of the Company as of the conclusion of the 87th Ordinary General Meeting of Shareholders. He has drawn on his career in management as a representative director of Suntory Holdings Limited to provide valuable advice on the management of the Company based on his abundant experience and extensive knowledge as a business manager and his deep insight into corporate social responsibility. Therefore, the Company has appointed Mr. Aoyama with the expectation that he will contribute to maintaining and improving management transparency and soundness and strengthening corporate governance by continuing to provide advice on all aspects of the Company's management from an independent standpoint as an outside director.	Attended 17 of 17 meetings		Supreme Advisor, Suntory Holdings Limited External Director, Takamatsu Construction Group Co., Ltd. President, The Distribution Economics Institute of Japan Director, Japan Marketing Association

Outside Corporate Auditors	Independent Officer Status ¹	Reasons for Appointing	Meeting Attendance		Significant Concurrent Positions ²
			Board of Directors	Board of Corporate Auditors	
Shinichi Mita	○	Mr. Shinichi Mita has served three years as an independent outside corporate auditor of the Company as of the conclusion of the 87th Ordinary General Meeting of Shareholders. The Company has appointed him in the belief that he is well qualified as an outside corporate auditor since he has management experience and knowledge in both oversight and business execution, and particularly extensive experience and insight into accounting and finance in corporate activities, gained as a director and executive officer of Kao Corporation.	Attended 17 of 17 meetings	Attended 12 of 12 meetings	Adviser, Mizuho Capital Partners Co., Ltd. Member of the Board, Japan Association for Chief Financial Officers (JACFO)
Yasuyuki Abe	○	Mr. Yasuyuki Abe has served two years as an independent outside corporate auditor of the Company as of the conclusion of the 87th Ordinary General Meeting of Shareholders. The Company has appointed him in the belief that he is well qualified as an outside corporate auditor since he has a management career in both oversight and business execution and abundant experience and extensive knowledge as a business manager gained as a senior managing executive officer and member of the board of Sumitomo Corporation.	Attended 15 of 17 meetings	Attended 11 of 12 meetings	Adviser, Sumitomo Corporation Director of the Board (External), Chairman of the Board, JVC KENWOOD Corporation Adviser, ORANGE AND PARTNERS CO., LTD.

Inappropriate practices, such as the performance of final vehicle inspections by persons not certified as final inspectors, inappropriate conduct in the form of alteration of measurement data at the time of fuel economy and emissions sampling in the final vehicle inspection process, and inappropriate measurement procedures by which vehicle fuel economy and emissions measurements were treated as valid measurements despite trace errors and humidity errors have been identified at the SUBARU Gunma Manufacturing Division. Although the outside directors and outside corporate auditors were not aware of these facts before they came to light, they regularly offer opinions about the importance of compliance and internal control based on their extensive experience and keen insights and, since the time these facts came to light, have discharged their official responsibilities by receiving reports on and ascertaining the status of progress with investigations into the facts, responding to demands from the Ministry of Land, Infrastructure, Transport and Tourism in a timely and appropriate manner, striving to further strengthen and inculcate compliance, and calling for appropriate measures to prevent any reoccurrence of such issues.

1 Outside directors and outside corporate auditors unlikely to have conflicts of interest with general shareholders as stipulated by the Tokyo Stock Exchange

2 As of March 31, 2018

Executive Nomination Meeting

To ensure fairness and transparency of decisions on executive appointments, the Executive Nomination Meeting deliberates nominations of candidates for director and corporate auditor and appointments of vice presidents and submits reports to the Board of Directors on nomination proposals unanimously approved by its members. Nominations are decided by resolution of the Board of Directors. Explanations of matters such as the candidate's background, the status of concurrent positions, insight, and expected roles at the Company are provided for each nomination and appointment. Approval of the Board of Corporate Auditors is obtained for nominations of candidates for corporate auditor.

The Executive Nomination Meeting consists of the representative directors, the director in charge of the Secretariat Office, and outside directors and is chaired by the representative director of the Board and chairman (the representative director of the Board and President if the position of representative director of the Board and chairman is vacant or an accident has occurred).

The Executive Nomination Meeting was convened twice in FYE 2018 and submitted reports mainly on the executive structure and appointments, the division of duties of executives, and the appointment of representatives of major subsidiaries.

Policy for Determining the Amount of Compensation for Directors and the Calculation Method

Compensation, etc., of directors is determined in view of the following items.

- Compensation, etc., is at a level commensurate with the roles and responsibilities of directors and is appropriate, fair, and balanced.
- The compensation structure is determined by giving consideration to providing motivation for sustained improvement in corporate performance and corporate value and securing talented personnel.

By a resolution passed at the 85th Ordinary General Meeting of Shareholders, held on June 28, 2016, the maximum total amount of annual compensation, etc., for directors is 1.2 billion yen (including 200 million yen for outside directors), and the Executive Compensation Meeting determines compensation within that limit by delegation of the Board of Directors. The specific composition of compensation, etc., is as described below. The total amount of compensation and level of each compensation type is set according to job responsibilities and status as inside or outside director utilizing survey data from specialized outside agencies, etc. The maximum total amount of monetary compensation related to long-term incentives is 200 million yen per year.

- 1) Basic compensation: a fixed portion, with the specific amount determined based on job position, taking into consideration the business environment and other factors
- 2) Short-term performance-linked compensation: a performance-linked portion, with the specific amount determined based on consolidated ordinary income for the current fiscal year, taking into consideration improvement in ROE and the shareholders' equity ratio, personnel development, and the business environment
- 3) Long-term incentives: compensation to grant restricted stock for the purpose of providing an incentive for sustained improvement of the Company's corporate value and further value sharing with the shareholders

In view of the role of outside directors in management monitoring and oversight from an independent standpoint, the Company does not provide short-term performance-linked compensation or long-term incentives to outside directors.

By a resolution passed at the 75th Ordinary General Meeting of Shareholders, held on June 27, 2006, the maximum total amount of annual compensation, etc., for corporate auditors is 100 million yen. An amount determined through discussion among the corporate auditors based on position, taking into consideration the business environment and other factors, is paid as basic compensation for corporate auditors.

Total Amount of Compensation for Directors and Corporate Auditors by Type

Classification	Number	Total compensation (millions of yen)			
		Basic compensation (paid in fixed monthly installments)	Performance-linked compensation		
			Short-term performance-linked compensation	Long-term incentives	
Directors (excluding outside directors)	8	298	151	37	486
Corporate auditors (excluding outside corporate auditors)	2	56	—	—	56
Outside executive officers	4	46	—	—	46
Total	14	400	151	37	588

Note: The above table includes two directors who resigned before the last day of the fiscal year under review. At the end of the fiscal year under review, there were 8 directors (including 2 outside directors) and 4 corporate auditors (including 2 outside corporate auditors).

Executive Compensation Meeting

The Executive Compensation Meeting determines the compensation of directors and vice presidents, while taking into consideration factors such as the compensation levels of appropriately comparable other companies, the compensation of the Company's employees, the social situation, and the performance evaluation of vice presidents. The Executive Compensation Meeting consists of the representative directors of the board, the director in charge of the Secretariat Office, and outside directors and is chaired by the representative director of the board and chairman (the representative director of the board and president if the position of representative director of the board and chairman is vacant or an accident has occurred).

The Executive Compensation Meeting was convened twice in FYE 2018, engaged in discussion of the compensation structure, and determined matters such as performance-linked compensation for directors (excluding outside directors) and vice presidents in accordance with performance evaluation and the amount of monetary compensation claims in respect of restricted stock compensation for each individual recipient.

Policy on Cross-Shareholdings

Regarding major listed stocks held by the Company as cross-shareholdings, the Board of Directors ascertains whether the holding of these shares will contribute to management of the Company in the medium to long term, after a comprehensive consideration of factors such as medium- to long-term corporate value enhancement, importance to business strategy, and business relationships with business partners and an assessment of economic rationality in view of risks and returns. As of March 31, 2018, the number of issues of investment securities held for purposes other than pure investment and the total amount reported on the balance sheet were 49 issues and 9,371 million yen, respectively.

Number of Issues of Investment Securities Held for Purposes Other than Pure Investment and Total Amount Reported on the Balance Sheet

Category	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Number of issues	91	63	62	49
Amount reported on the balance sheet (millions of yen)	39,055	28,764	13,339	9,371

Board of Directors' Meeting Participation Rate (Most Recent Five Years)

Category	FYE 2014	FYE 2015	FYE 2016	FYE 2017	FYE 2018
Number of meetings held	17 times	14 times	15 times	15 times	17 times
Attendance rate	82.4%	100%	96.3%	96.3%	99.0%

*Attendance rates for newly elected directors and corporate officers are calculated based on the number of Board of Directors' meetings held after they assumed office.

So that the directors and corporate auditors fully discharge their duties, the Company holds study meetings to continuously provide them with information and knowledge related to business activities necessary for management oversight. In addition, to continuously provide the outside officers with information about SUBARU's management philosophy, corporate culture, and business environment, etc., the Company provides business reports from the operating divisions and opportunities for plant tours and has prepared an environment that encourages sharing of information and exchange of ideas among executives.

Analysis and Evaluation of the Effectiveness of the Board of Directors

In accordance with the Corporate Governance Guidelines, the Company's Board of Directors analyzes and evaluates the effectiveness of the Board, then considers and implements measures to improve any issues identified. In FYE 2018, the Board confirmed measures to address issues identified in previous evaluations and, in response to the occurrence of improprieties relating to final vehicle inspections, performed analysis and evaluation after changing the implementation procedure and questionnaire items in the interest of performing a detailed evaluation of the effectiveness of the Board of Directors' oversight function. A report on the analysis results follows.

Evaluation and Analysis Methods

Timing of implementation: March 2018

Respondents: All directors and auditors (12 in total, including outside officers)

Implementation procedure: Self-evaluation using a questionnaire prepared by a third-party organization

(An anonymous questionnaire format has been adopted beginning in FYE 2018.)

- 1) A third-party organization conducted a self-evaluation questionnaire survey of all directors and corporate auditors using an anonymous questionnaire.
- 2) The third-party organization aggregated and analyzed the questionnaire data.
- 3) A report received from the third-party organization was verified and discussed by the Board of Directors.

Questionnaire items: 1) Board of Directors' management structure 2) Board of Directors' oversight function 3) Shareholder dialogue

Evaluation Results

- As was the case with the evaluation results up to FYE 2017, it was confirmed that open and frank discussion is conducted from a Company-wide perspective at meetings of the Board of Directors on the basis of the chairperson's leadership and mutual understanding among the members.
- There was a consensus on the appropriateness of the size of the Board of Directors and proportion of outside directors, directors comprising the Executive Nomination Meeting and Executive Compensation Meeting, and on matters such as the appropriateness of sharing of feedback from shareholders and investors was confirmed.

- Further strengthening of the Board of Directors' risk identification and management system and enhancement of discussion of medium- to long-term business strategy were identified as areas in which future improvement and functional enhancement can be expected.

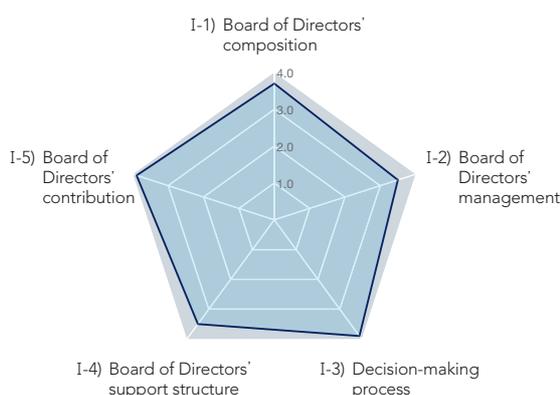
Future Initiatives

- The Board of Directors confirmed that it will discuss medium- to long-term management strategy and take action to ensure rigorous implementation of measures to prevent any reoccurrence of improprieties, focusing on further strengthening of the risk identification and management system.
- On April 1, 2018, the Company established the "Tadashii-Kaisha" Promotion Department and the Compliance Office to reinforce efforts to address issues the Company faces with respect to legal compliance and corporate culture reforms, and the Board of Directors confirmed that it will carefully watch Group-wide activities spearheaded by these organizations and work to restore stakeholder trust.

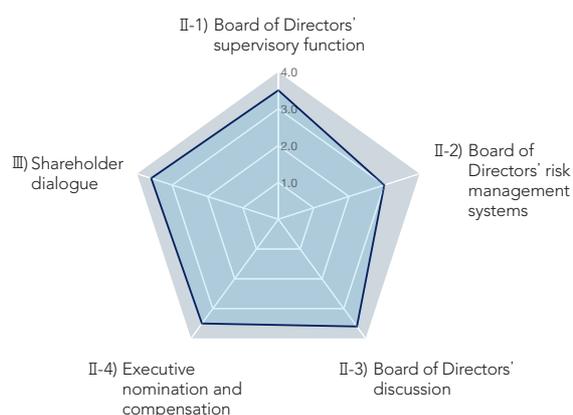
The Board of Directors will improve Board functions, strengthen corporate governance, and promote continuous enhancement of corporate value by continuing to evaluate the effectiveness of the Board of Directors.

Aggregated Questionnaire Responses

Board of Directors' Management Structure



Board of Directors' Oversight Function and Shareholder Dialogue



Questions

Category	Matters Examined		
I. Board of Directors' management structure			
1) Board of Directors' composition	Board of Directors' size	Board of Directors' composition (proportion of inside and outside directors)	Board of Directors' composition (diversity and specialty)
2) Board of Directors' management	Frequency, duration, and distribution of meetings	Appropriateness of agenda	Quality and quantity of documents
	Timing of document distribution	Pre-meeting explanation	Content of explanations and reports
3) Decision-making process	Chair's leadership	Adequate discussion	
4) Board of Directors' support structure	Environment and systems for providing information	Provision of information to outside directors	Training of outside directors
	Training of inside directors		
5) Board of Directors' contribution	Stance toward initiatives	Company-wide perspective	Mutual respect
	Diverse values	Stakeholder perspective	
II. Board of Directors' oversight function			
1) Board of Directors' supervisory function	Reporting systems	Supervision of management	
2) Board of Directors' risk management systems	Risk management systems	Subsidiary management systems	Information-sharing on risks and risk response
	Systems for managing progress of response measures	Thorough awareness of compliance issues	
3) Board of Directors' discussion	Discussion of management strategy	Discussion of capital policy	Discussion of cross holdings
	Discussion on strengthening governance	Responses to social and environmental issues	
4) Executive nomination and compensation	Composition of Executive Nomination Meeting and Executive Compensation Meeting	Successor development	Incentive-based compensation
III. Shareholder dialogue			
Shareholder dialogue	Sharing shareholder and investor views	Enhancement of shareholder and investor dialogue	

Messages from the Outside Directors



Outside Director

Yoshinori Komamura

My Role as an Outside Director

I think that the role of outside directors is to actively speak out and participate in decisions at Board of Directors' meetings from an outside, independent position unconstrained by internal company logic, implicit knowledge, or personal relationships. I base my thinking as an outside director on maximization of the interests and value of all SUBARU stakeholders (customers, employees, partner companies, dealers, shareholders and investors, and local communities). Furthermore, the outside and inside directors are not in an oppositional relationship. Rather, although our approach differs due to differences in position, experience, and knowledge, we share the same goal of enhancing SUBARU's corporate value and aiming for sustained growth.

Thoughts as an Outside Director on what is Necessary to be "a Company that does the Right Thing in the Right Way"

I think that SUBARU deserves praise for having rapidly increased sales from the one-trillion yen to the three-trillion yen level in the short period of the past few years. On the other hand, to maintain continuity as a three-trillion yen company, SUBARU must not only be able to sustain business performance but also to think and act in a way appropriate to its social position. A high level of awareness of safety, the environment, compliance, and governance will increasingly be necessary in addition to maximization of sales and profits.

I think that as SUBARU aims to achieve further quantitative and qualitative growth into the future, it must meet and exceed higher standards of responsibility.

How Discussion and Advice Take Place at Board of Directors' Meetings

I am convinced that SUBARU's Board of Directors must rank near the top among Japan companies in the number of comments by outside directors at Board meetings. That SUBARU's top management has the flexibility to listen to outside opinions and the strength to heed them is cause for great pride, and I have deep respect for the executive team.

It is only natural that SUBARU, a company with an overseas sales ratio exceeding 85% and a foreign shareholding percentage exceeding 30%, pursues globally high standards of value. I hope to engage in more in-depth discussion at Board meetings going forward.

What is Required for Sustained Corporate Value Enhancement

From the viewpoint of all stakeholders, including customers, the SUBARU brand consists of trust and confidence in SUBARU. I think that from SUBARU's perspective, the brand may consist of a promise from SUBARU to its stakeholders. It is often said that although it takes decades to win trust and confidence, they can be lost overnight. For SUBARU to continue to win the trust and confidence of stakeholders, I think it is necessary to draw a sharper distinction between what to preserve and what to change in step with changes in the world and business scale expansion. Personally, I think what should be preserved is an insatiable spirit of inquiry with respect to advanced technology development and the earnestness to face customers sincerely, and what should be changed is to undertake a transformation of awareness as a company that has grown from one trillion yen to three trillion yen.

In my role as an outside director, I want to contribute to the best of my ability to SUBARU's evolution to the next operational level together with the inside directors, executive officers, and employees.



Outside Director

Shigehiro Aoyama

My Role as an Outside Director

The outside directors are expected to engage in management oversight, provide multifaceted advice on improving business performance, and express their views on scandal prevention and risk avoidance. We must also make judgments from the perspective of customers, shareholders, and other external stakeholders and perform the role of reforming a corporate culture that has become entrenched in internal logic. The recent repeated improprieties indicate the necessity of transforming a corporate culture that was incapable of restraining internal logic that had been repeated over many years. In my role as an outside director, I will strive to ensure that such incidents never happen again.

Thoughts as an Outside Director on what is Necessary to be “a Company that does the Right Thing in the Right Way”

I consider high quality to be the key factor influencing the value of SUBARU’s corporate brand. However, there is risk of confidence in quality leading to over-confidence. Times change, and to continue to create the quality that is SUBARU’s core competence, the Company must constantly refine and perfect that quality and also add transformation of manufacturing processes. Of particular importance, a compliance perspective is essential in business management today. Work-style innovation isn’t only a matter of working hours and work-life balance. It also involves inculcating ways of working imbued with the spirit of compliance required in this day and age. That is a necessary condition for SUBARU to be “a company that does the right thing in the right way.”

How Discussion and Advice Take Place at Board of Directors’ Meetings

Frank discussion takes place. The outside directors are provided many opportunities to speak, and the meeting management of the chairman of the Board of Directors is excellent. The outside directors actively express their opinions to promote a governance system aligned with current global standards.

However, I think further effort is required to ensure that our opinions fully mesh with those of the directors in charge of business execution. That is to say, since there is a tendency for discussion at SUBARU to disproportionately emphasize individual optimization, I would like discussion to extend to total optimization of business.

What is Required for Sustained Corporate Value Enhancement

For corporations today, there can be no growth without consideration of sustained value enhancement. Although enhancement of financial value is essential, companies must also consider non-financial value from an environmental, social and governance (ESG) perspective. SUBARU must implement environmental measures including a response to emissions regulations, must respond to social needs such as automobile safety and security, and, in the area of governance, must develop an organizational structure to implement these initiatives. This will contribute to enhancing the value of the SUBARU brand. A sense of urgency and alacrity is necessary for accomplishing this, and I hope to see a higher level of innovation from a management structure capable of pursuing sustained growth for SUBARU.

CSR in the SUBARU Group

CSR

The SUBARU Group contributes to society through our businesses and engages in CSR activities to help create a sustainable society.

Corporate Philosophy

1. We strive to create advanced technology on an ongoing basis and provide consumers with distinctive products with the highest level of quality and customer satisfaction.
2. We aim to continuously promote harmony between people, society, and the environment while contributing to the prosperity of society.
3. We look to the future with a global perspective and aim to foster a vibrant, progressive company.

Corporate Code of Conduct

SUBARU CORPORATION sets down the Corporate Code of Conduct to comply with laws and regulations and to fulfill its social responsibilities based on its corporate philosophy. We will continue to strive to become a company loved by all and contribute to making society more affluent by respecting individuals and the Corporate Code of Conduct and acting on the same sense of values.

1. We develop and provide creative products and services while paying sufficient attention to the environment and safety.
2. We respect the rights and characteristics of individuals.
3. We promote harmony with society and contribute to the prosperity of society.
4. We meet social norms and act honestly and fairly.
5. We maintain global perspective and aim to be in harmony with international society.

Management Philosophy

Aiming to be a compelling company with a strong market presence built upon its customer-first principle.

CSR Policy (Revised in June 2009)

1. We respect the laws and regulations, human rights, international standards of behavior and the rights and morals of stakeholders under the Corporate Code of Conduct of SUBARU CORPORATION.
2. We become involved as a corporate citizen in addressing social issues facing society today.

CSR Promotion System

SUBARU has set up the CSR Committee as a forum for discussing CSR initiatives. The Committee confirms the status of the PDCA cycle of each specialized committee and department.

The CSR Committee, which is chaired by SUBARU's director of the board and chairman and includes all executives as members, will consider and discuss the social aspects of SUBARU's businesses and work to strengthen CSR initiatives.



Our Approach to CSR

Challenges for society abound in Japan and overseas, such as global warming, human rights issues, and an aging and declining population, and there are rising expectations that corporations will help resolve them. The SUBARU Group's business domain also requires initiatives on diverse themes such as reducing environmental impact, preventing traffic accidents, and alleviating traffic congestion.

Therefore, naturally we develop, manufacture, and sell products with outstanding safety and environmental performance and quality, but as a corporate citizen we also work on CSR activities to meet the needs of society and address social challenges in good faith. The automotive industry has entered a once-in-a-century transition period, and the social environment is constantly changing. SUBARU considers it necessary to promote and ensure the penetration of CSR initiatives on a group-wide, global scale to contribute to society through our businesses and meet stakeholder expectations and demands. To that end, we have reviewed the Eight CSR Action Items and newly defined Six Priority Areas for CSR.

By applying the thought process behind the Six Priority Areas for CSR to how we conduct business, we will fulfill our social responsibilities as a corporation and continue to provide "Enjoyment and Peace of Mind" to our customers and other stakeholders. In so doing, the SUBARU Group will become a corporate group trusted by society and contribute to the creation of a more affluent, sustainable society as a truly global company.



Six Priority Areas for CSR

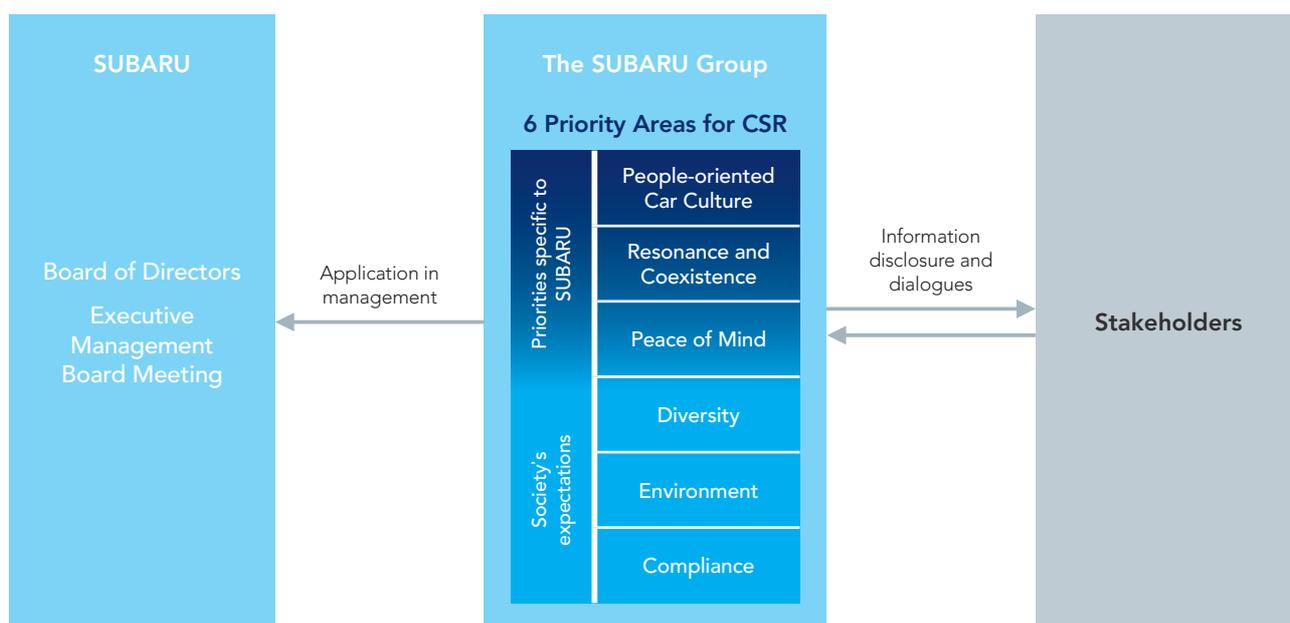
In conjunction with STEP, the new mid-term management vision, the SUBARU Group has reviewed the previous Eight CSR Action Items and newly selected Six Priority Areas for CSR: people-oriented car culture, resonance and coexistence, peace of mind, diversity, environment, and compliance.

In selecting the priority areas, we first identified forty-one societal requirements and expectations as CSR priority items and conducted a questionnaire survey of experts and investors in North America and Japan. Finally, we considered CSR from two perspectives: areas for contributing to society by taking advantage of business strengths, and areas for meeting the expectations of society. As a result, we selected people-oriented car culture, resonance and coexistence, peace of mind, and diversity as areas for contributing to society by taking advantage of business strengths. Although peace of mind and diversity overlap, we selected peace of mind because it is an area in which the requirements of society and the SUBARU Group's business strengths coincide and selected diversity because we broadly define it as including not only the diversity required by society but also diversity in the products we provide to our customers.

Since information disclosure and dialogue with stakeholders and reflection of stakeholder feedback in management are essential for recovering trust, we will implement what we call "6M+1E" initiatives: the six priority areas ("6M," with "M" standing for materiality) plus information disclosure and dialogue with stakeholders and reflection of feedback in management ("1E," with "E" standing for engagement).

CSR in the SUBARU Group

Application of the Six Priority Areas for CSR in Management



Our Six Priority Areas for CSR and Basic Approach

People-oriented Car Culture	SUBARU believes that cars are more than a mere means of transportation. SUBARU places importance on how people feel "Enjoyment and Peace of Mind," delivers high-added-value products and services to customers as a partner that enriches people's hearts and lives, and fosters a sustainable mobility culture.
Resonance and Coexistence	SUBARU will become a company that is trusted by, resonates with, and coexists with people by expanding personal communication and sincerely listening to the views and opinions of each customer and society as a whole.
Peace of Mind	SUBARU will become a company that allows all stakeholders to feel ultimate peace of mind.
Diversity	The SUBARU Group promotes diversity, which we define as providing products that reflect respect for diverse market value and respecting and reflecting the diverse values of everyone who works in the SUBARU Group.
Environment	"The earth, the sky and nature" form our fields of business. In order to bequeath these to future generations, SUBARU will consider its effect on the environment across the entire spectrum of corporate activities.
Compliance	SUBARU will become a company where business operations conform to laws, regulations, and social norms and where a mindset of respecting and prioritizing compliance permeates everything and everyone in the SUBARU Group.

SDGs Initiatives

The SUBARU Group recognizes the importance of responding to the Sustainable Development Goals (SDGs), which are aimed at achieving a more sustainable future by 2030. To respond to climate change, we aim to reduce the SUBARU Group's direct CO₂ emissions (Scope 1 and 2) to 30% below FYE 2017 levels (on a total emissions volume basis) by FYE 2031. To reduce traffic accident fatalities and injuries, we have set a target of eliminating fatal accidents involving SUBARU vehicles* by 2030. Through these initiatives, we are contributing to the creation of a sustainable society.

*Elimination of accidents resulting in the death of drivers or passengers in SUBARU vehicles and accidents resulting in the death of pedestrians, cyclists, or other persons due to collision with SUBARU vehicles

SUBARU Environmental Policies

SUBARU Sustainability Principles

“The earth, the sky and nature” are SUBARU’s fields of business.

With the automotive and aerospace businesses as the pillars of SUBARU’s operations, our fields of business are the earth, the sky and nature. Preservation of the ecosystem of our planet, the earth, the sky and nature, is of utmost importance to ensure the future sustainability of both society and our organization. We align our business strategy to enhance these global goals in all of our operations.

- 1. We develop and deliver products to meet societal needs and contribute to the environment through advanced technologies.**
By striving to create advanced technologies that put the environment and safety first, we will develop and deliver products that can contribute to protecting the earth’s environment.
- 2. We focus on efforts aimed at coexistence with nature.**
Together with efforts to reduce carbon-dioxide emissions in all of our operations, we will promote active engagement with nature by stressing forest conservation.
- 3. We take on challenges as one through an all-SUBARU approach.**
Utilizing our unique organizational character that allows us to oversee the entire supply chain, all of us together will take on the challenges of environmental protection of our planet through an all-SUBARU approach.

Environmental Principles

SUBARU’s fields of business are the earth, the sky and nature. SUBARU understands that the health and preservation of biodiversity and controlling climate change are critical to ensuring a sustainable future for our planet earth, nature, communities and businesses.

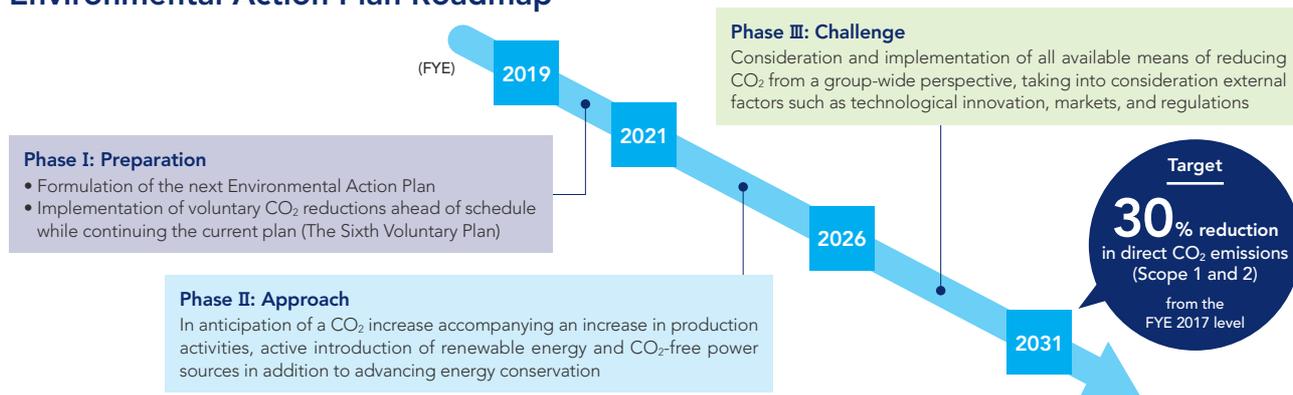
- Products:** We develop our products and conduct R&D in light of the lifecycle environmental impacts of our products.
- Purchasing:** Our purchasing activities reflect consideration for biodiversity and other aspects of environmental protection.
- Production:** We strive to minimize our environmental impact through improving energy efficiency and waste management.
- Logistics:** We strive to minimize our environmental impact through enhancing energy efficiency and promoting pollution prevention.
- Sales:** We endeavor to recycle resources efficiently and reduce waste.
- Management:** We will strive to improve our sustainability program through contributions that meet societal needs and by publicizing our activities as Team SUBARU.

[Established: April 1998, Revised: April 2017]

Aiming for Significant Reduction in CO₂ Emissions

SUBARU has set a new target of reducing the SUBARU Group’s direct CO₂ emissions (Scope 1 and 2) to 30% below FYE 2017 levels (on a total emissions volume basis) by FYE 2031. We have also begun formulating an Environmental Action Plan. The opening initiative under the plan is partial adoption (approximately 11,500 MWh/year) at the Aerospace Company’s Utsunomiya Plant of the “Tochigi Furusato Denki Program,” Japan’s first program for locally produced and consumed CO₂-free electricity, with the aim of achieving emissions reduction of approximately 5,400 t-CO₂. Furthermore, we plan to expand introduction of renewable energy facilities.

Environmental Action Plan Roadmap



Message from the General Manager of the Human Resources Department



Senior Vice President
General Manager,
Human Resources Department

Hiromi Tsutsumi

Making the most of human resources

Profile of the Ideal SUBARU Employee

I consider the role of the general manager of the Human Resources Department to be to design policies and programs for making the most of human resources and to make continuous improvements to these policies and programs while confirming their status of operation, industry trends, and other matters. The following is a profile of the ideal SUBARU employee.

- Always a challenger and an explorer
- One who tenaciously strives to achieve objectives
- One who thinks through to address challenges
- One who thinks of others

When the Company name was changed to SUBARU CORPORATION in April 2017, after careful consideration we selected these expressions to indicate what we consider important and what we will continue to consider important in SUBARU employees. We believe that cultivation of human resources that emphasizes these four items will become the foundation for gaining the trust of customers and enhancing SUBARU's corporate value.

Human Resources Development

The basis of human resources development at SUBARU is on-the-job training, and we are developing an education and training system with a curriculum adapted to employee rank and field of specialization. Priority areas targeted for further reinforcement are 1) thoroughly train employees while they are young, 2) cultivate specialists who will open the way to the future, and 3) nurture many strong leaders. These are essential areas targeted for reinforcement to ensure that SUBARU continues to provide added value to customers during a period of transformation for the automotive industry. For example, we are planning and implementing education programs adapted to the individual characteristics of employees and management training enhancements. Also, the introduction of multifaceted assessment of managers, employee surveys, and stress checks in recent years has enabled us to identify HR management issues in the workplace, and we are reinforcing linkage of the results obtained from these measures to solutions on the basis of data analysis.

Advancing Diversity Activities

SUBARU has made implementing “Change the Culture” corporate culture reforms a key priority in the STEP mid-term management vision. We have designated increasing diversity as a priority area of CSR activities for achieving these reforms and aim to make SUBARU a company capable of contributing to diverse values, both inside and outside the Company.

For the products and services that SUBARU provides to be accepted by people with wide-ranging values, with “Enjoyment and Peace of Mind” as the cornerstone of the value proposition, SUBARU must realize diversity in the organizations and human resources that create value. In that sense, diversity is the foundation of organizational vitalization. Our employees have diverse personalities, and to enable all employees to demonstrate their individual capabilities to the utmost, SUBARU values differences in gender, nationality, culture, and lifestyles and strives to create workplace environments in which everyone finds it easy to work. Our vision of diversity is “a profusion of flowers all abloom.”

The Diversity Promotion Office, established in January 2015, engages in activities under four priority themes: 1) promoting active roles for female employees, 2) employing people with disabilities, 3) planning and promoting employment of non-Japanese nationals, and 4) promoting employment of the elderly. We are currently placing particular emphasis on efforts to promote active roles for female employees.

Although the automotive industry is a male-centered world and most of the technicians and line workers at automakers are men, more than a few buyers and drivers are women. To be accepted by greater numbers of customers, SUBARU needs products and services that incorporate a woman’s perspective. However, as at other automakers, men make up an overwhelmingly large proportion of SUBARU’s workforce, and we must increase opportunities for women to play active roles.

Two challenges in promoting active roles for female employees are retention and effective utilization of employees. To retain female employees, we have programs such as a flexible working hours system for the purpose of helping employees balance work and parenting. In efforts to effectively utilize female employees, with the objective of increasing the number of female managers, we have introduced an initiative to increase the number of managers skilled at cultivating female subordinates and instituted a mentor system for female manager candidates. Through such initiatives, we aim to create an environment in which women can work with vitality and motivation and produce results.

Promoting Work-Life Balance

Balancing work time and free time and leading a fulfilling private life has the added benefit of creating a virtuous cycle at work. As a concrete initiative to support work-life balance, SUBARU is creating an environment that will help employees control their own working hours and curb long working hours by bolstering the no-overtime day system and increasing the flexibility of the flex-time system.

TOPICS

Initiatives to Promote Active Roles for Women

SUBARU has formulated an employer action plan aimed at promoting active roles for women in accordance with the Act on Promotion of Women’s Participation and Advancement in the Workplace. In our action plan, which is based on the SUBARU policy of promotion through merit, based on demonstrated ability, we set a goal of increasing the number of female managers in 2020 by at least five times the number in 2014 (from four to twenty), and we are working to achieve this goal. We will expand the pool of female candidates for executive officer, department general manager, and section manager as we approach 2020 and move beyond it.

Compliance

Basic Approach and Policy

In view of the causes and background of the occurrence of improprieties relating to final vehicle inspection work at SUBARU discovered in FYE 2018, SUBARU considers the practice of compliance the most important management priority for SUBARU's rebirth as "a company that does the right thing in the right way." We are keenly aware that rigorous group-wide compliance forms the foundation for the Group's management, and we will instill in each employee not only compliance with all laws, ordinances, and internal regulations required in business activities, but also rigorous pursuit of open and fair business activities that conform to the ethical principles, common practices, and norms of society at large. From there, we will strive to recover the trust of SUBARU's customers and other concerned parties and stakeholders.

Corporate Code of Conduct and Conduct Guidelines

SUBARU has established the Corporate Code of Conduct (see page 39) and Conduct Guidelines as compliance standards for the practice of compliance-oriented corporate activities. In FYE 2018, we revised the content of the Conduct Guidelines to further promote Group compliance. We explain the Code and Guidelines in detail in the Compliance Manual, which is carried by all employees of SUBARU and Group companies in Japan and overseas, and strive to ensure compliance in their day-to-day actions.

<What is the Corporate Code of Conduct?>

The Corporate Code of Conduct stipulates the basic policies that all officers and employees should follow in relation to customers, business partners, shareholders, local communities, and other stakeholders in accordance with SUBARU's corporate philosophy (see page 39).

<What is the Conduct Guidelines?>

The Conduct Guidelines stipulate specific standards of conduct to ensure that all officers and employees put into practice the basic policies indicated in the Corporate Code of Conduct (see page 39) in the course of their daily business activities.

Compliance Regulations

SUBARU instituted the Compliance Regulations in 2001 with the approval of the Board of Directors as basic regulations that stipulate the system, organization, and methods of operation related to compliance. In FYE 2018, following discussion by the Compliance Committee and with the approval of the Board of Directors, we revised the regulations by ascertaining and reviewing the status of operation of the regulations since their institution, confirming discrepancies between the regulations and the actual situation, and reflecting the results in the revisions.

Compliance System, Organization, and Operation

SUBARU established the Compliance Committee as a group-wide committee to promote compliance. The Committee deliberates, discusses, decides, and exchanges information on important compliance matters. Each department institutes its own compliance action plan (compliance program) to promote compliance and engages in continuous and systematic autonomous activities. Following the discovery of improprieties relating to final vehicle inspection work at SUBARU, in FYE 2019 Director of the Board and Chairman Yasuyuki Yoshinaga (Representative Director of the Board and President until June 22) became chairman of the Compliance Committee, which is fundamentally reviewing and implementing compliance-related initiatives.

<Establishment of the Compliance Office>

Following the improprieties relating to final vehicle inspection work at SUBARU, in FYE 2019 we established the Compliance Office as an independent organization to strengthen group-wide compliance-oriented initiatives with the aim of preventing any repetition of similar mistakes. The Compliance Office, as the Compliance Committee's secretarial office, mainly engages in the following work as a hands-on organization for compliance promotion in the SUBARU Group.

- Planning, devising, and implementing compliance promotion activities for the entire SUBARU Group
- Conducting compliance training, education, and internal awareness activities and operating the SUBARU Group's internal reporting system (Compliance Hotline), which is foundational to an open and transparent workplace

Compliance Hotline System

In addition to seeking solutions through their superiors, regular and temporary employees who work at SUBARU and Group companies have the option of using the Compliance Hotline to seek consultation about any compliance-related problems they have discovered within the Group.

The Hotline Desk has been set up within the Company, and employees assigned to the Hotline Desk in accordance with internal rules directly accept reports by post, telephone, and e-mail, engage in fact-finding investigations, and respond to reports. The names and departments of persons making reports are kept strictly confidential and are not disclosed without their consent, and due consideration is given to ensuring that they suffer no disadvantage due to the consultation. Since April 2008, we have added an external specialist organization as a point of contact and worked to make the system easier to use by extending its hours and reinforcing the mechanisms that ensure the confidentiality of the names and departments of persons seeking consultation. The Compliance Hotline received 163 consultation requests in FYE 2018, and the general manager of the Legal Department played a central role in expeditiously solving problems following fact-finding investigations (following a change of the organization responsible for the system in FYE 2019, this responsibility now falls to the general manager of the Compliance Office). Matters reported to the Compliance Hotline are reported to management or the Compliance Committee as necessary, and measures are taken to prevent any reoccurrence of problems.

To publicize the Compliance Hotline System, we have distributed cards that provide information on how the hotline system works and contact details to employees of SUBARU and Group companies and put up posters in workplaces. We have included an explanation of the service provided by the external specialist in the posters and posted it on the Company intranet.

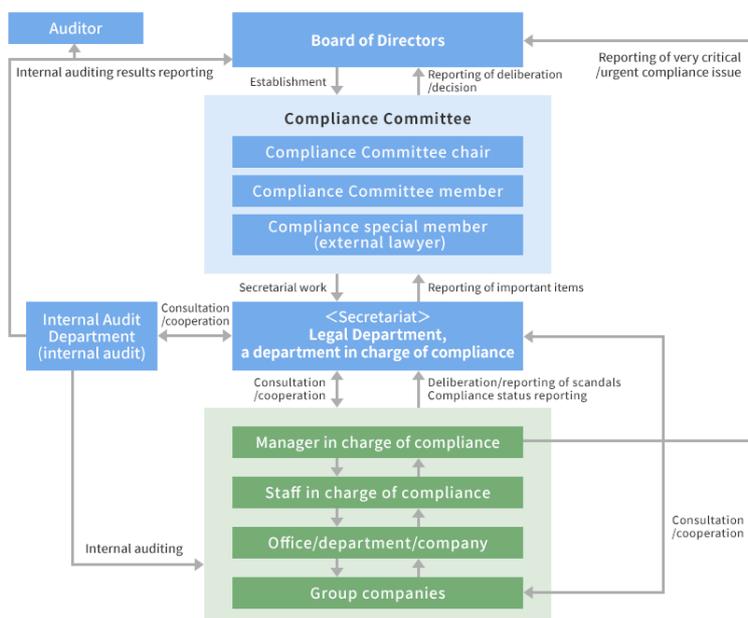
Compliance Activity Achievements

<Compliance Training>

In the belief that the entire SUBARU Group must work in harmony to achieve rigorous compliance, we provide compliance training and practical legal training to the employees of all Group companies. This training is organized by the Legal Department, Compliance Office (established in April 2018), and the human resource and education sections. Each department and Group company incorporates its own education program into its action program (compliance program) and complements this training by holding study meetings on important work-related laws and ordinances as well as holding compliance awareness training conducted by SUBARU Legal Department employees and others. In FYE 2018, some 4,500 persons participated in training organized or supported by the Legal Department.

We prepare and provide various support tools to promote the day-to-day practice of compliance, including tools specifically intended for Group companies and SUBARU distributors in Japan. In addition, we distribute urgent information on a timely basis in our Compliance Information and work to raise compliance awareness group-wide. In FYE 2019, we are providing Normative Consciousness Enhancement Education for SUBARU and Group company managers and sharing information on the causes and background of the occurrence of improprieties relating to final vehicle inspection work at SUBARU and promoting measures in each department to prevent the occurrence of similar improprieties. Also, we are redeveloping work regulations group-wide and plan to expand the scope of persons who receive compliance training and continuously provide compliance education. We will also distribute an essential edition of the Compliance Manual to all employees.

System of Compliance



Consolidated Ten-Year Financial Summary

SUBARU Corporation and its consolidated subsidiaries
Years ended March 31

		'09/3	'10/3	'11/3	'12/3
Operating results (for the year)					
Net sales	Millions of yen	¥1,445,790	¥1,428,690	¥1,580,563	¥1,517,105
Cost of sales	Millions of yen	1,164,564	1,152,763	1,241,427	1,222,419
Gross profit	Millions of yen	281,226	275,927	339,136	294,686
Selling, general and administrative expenses	Millions of yen	287,029	248,577	255,001	250,727
Operating income (loss)	Millions of yen	(5,803)	27,350	84,135	43,959
Income (loss) before income taxes	Millions of yen	(21,517)	(443)	63,214	52,879
Net income (loss) attributable to owners of parent	Millions of yen	(69,933)	(16,450)	50,326	38,453
Depreciation/amortization	Millions of yen	74,036	65,785	56,062	58,611
Capital expenditures ²	Millions of yen	95,153	89,077	67,378	67,035
R&D expenses	Millions of yen	42,831	37,175	42,907	48,115

Financial position (at year-end)

Net assets	Millions of yen	394,719	381,893	413,963	451,607
Shareholders' equity	Millions of yen	393,946	380,587	412,661	450,302
Total assets	Millions of yen	1,165,431	1,231,367	1,188,324	1,352,532
Ratio of shareholders' equity to total assets	%	33.8	30.9	34.7	33.3

Cash flows

Net cash provided by (used in) operating activities	Millions of yen	(26,892)	176,734	138,208	54,865
Net cash provided by (used in) investing activities	Millions of yen	(72,385)	(62,656)	(51,109)	(26,602)
Free cash flow	Millions of yen	(99,277)	114,078	87,099	28,263
Net cash provided by (used in) financing activities	Millions of yen	80,449	(18,560)	(39,408)	2,586

Per share

Net income (loss) (EPS)	Yen	(91.97)	(21.11)	64.56	49.27
Net assets (BPS)	Yen	505.59	488.58	528.88	576.97
Dividends	Yen	4.5	0	9	9

Other information

Non-consolidated exchange rate	Yen to the U.S. dollar	102	93	86	79
Number of shares issued	Thousands of shares	782,865	782,865	782,865	782,865
Number of shareholders ³	Persons	40,839	39,223	34,240	33,139
Number of employees (parent only)	Persons	12,137	12,483	12,429	12,359
Number of employees (consolidated)	Persons	27,659	27,586	27,296	27,123

Number of units

Consolidated automobile unit sales ⁴	Thousand units	555	563	657	640
SUBARU vehicle unit production	Thousand units	566	557	624	635
Domestic	Thousand units	474	453	459	465
U.S.A. (SIA) ⁵	Thousand units	92	104	165	171

1. U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥106.27 to US\$1.00, the approximate rate of exchange at March 31, 2018.

2. Increase in property, plant and equipment and intangible assets

3. Number of shares per trading unit: 100 shares

4. Automobile unit sales of SUBARU CORPORATION and its consolidated subsidiaries

5. U.S. production base Subaru of Indiana Automotive, Inc.

(Thousands of U.S. dollars)¹

	'13/3	'14/3	'15/3	'16/3	'17/3	'18/3	'18/3
	¥1,912,968	¥2,408,129	¥2,877,913	¥3,232,258	¥3,325,992	¥3,405,221	\$32,043,107
	1,501,809	1,728,271	2,017,490	2,187,136	2,386,266	2,442,706	22,985,847
	411,159	679,858	860,423	1,045,122	939,726	962,515	9,057,260
	290,748	353,369	437,378	479,533	528,916	583,068	5,486,666
	120,411	326,489	423,045	565,589	410,810	379,447	3,570,594
	93,082	328,865	392,206	619,003	394,695	297,340	2,797,967
	119,588	206,616	261,873	436,654	282,354	220,354	2,073,530
	61,544	61,486	71,821	72,938	85,653	102,102	960,779
	94,986	98,537	135,346	168,338	196,616	193,789	1,823,553
	49,141	60,092	83,535	102,373	114,215	121,084	1,139,400
	596,813	770,071	1,030,719	1,349,411	1,464,888	1,561,023	14,689,216
	595,365	765,544	1,022,417	1,343,732	1,458,664	1,552,844	14,612,252
	1,577,454	1,888,363	2,199,714	2,592,410	2,762,321	2,884,313	27,141,366
	37.7	40.5	46.5	51.8	52.8	53.8	—
	166,715	313,024	311,543	614,256	345,442	366,298	3,446,862
	(71,370)	(33,903)	(172,780)	(255,676)	(254,252)	(150,711)	(1,418,190)
	95,345	279,121	138,763	358,580	91,190	215,587	2,028,672
	(60,766)	(63,011)	(110,546)	(126,190)	(189,044)	(170,937)	(1,608,516)
	153.23	264.76	335.57	559.54	365.77	287.40	2.70
	762.87	980.98	1,310.15	1,721.90	1,902.56	2,025.31	19.06
	15	53	68	144	144	144	1.36
	82	100	108	121	108	111	—
	782,865	782,865	782,865	782,865	769,175	769,175	—
	28,890	51,386	70,942	79,594	76,471	132,570	—
	12,717	13,034	13,883	14,234	14,708	14,879	—
	27,509	28,545	29,774	31,151	32,599	33,544	—
	724	825	911	958	1,065	1,067	—
	692	772	887	929	1,033	1,036	—
	511	609	681	693	698	687	—
	181	164	207	236	335	349	—

(U.S. dollars)

Five-Year Unit Sales

Years ended March 31

Consolidated Automobile Sales

(Number of units)

	'14/3	'15/3	'16/3	'17/3	'18/3
Domestic units					
Legacy	18,961	13,845	11,358	11,065	9,328
Impreza	61,071	39,462	39,794	51,592	66,748
Forester	36,572	21,103	22,044	24,239	18,139
Levorg	0	40,559	23,555	23,775	21,342
WRX	0	7,514	6,956	6,552	8,252
Exiga	3,853	1,937	4,498	4,284	3,498
SUBARU BRZ	3,380	1,890	1,995	2,253	1,879
OEM	1,857	1,127	884	2,066	2,889
Others	453	439	502	567	480
Passenger cars	126,147	127,876	111,586	126,393	132,555
Minicars	55,454	34,876	33,702	32,542	30,889
Domestic total	181,601	162,752	145,288	158,935	163,444

Overseas units by region

U.S.	441,799	527,630	582,674	667,613	670,931
Canada	36,013	42,439	47,579	53,061	56,820
Russia	15,314	11,559	5,723	5,338	7,729
Europe	31,756	35,730	41,778	40,915	40,228
Australia	39,515	38,889	44,611	49,106	55,674
China	44,807	53,821	44,388	44,000	26,872
Others	34,293	37,875	45,824	45,574	45,231
Overseas total	643,497	747,943	812,577	905,607	903,485

Overseas units by model

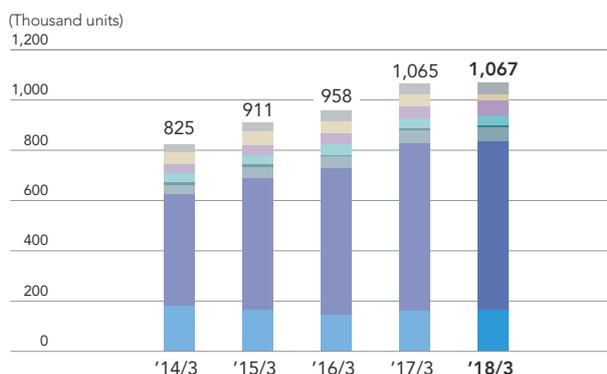
Legacy	182,712	235,791	286,979	333,339	281,846
Impreza	210,828	196,403	217,272	238,858	306,673
Forester	231,173	269,649	250,072	272,768	260,853
Levorg	0	0	7,713	6,823	3,913
WRX	0	37,982	43,120	47,185	42,739
Tribeca	2,561	64	34	7	1
SUBARU BRZ	15,822	7,914	7,387	6,627	7,460
OEM	256	135	0	0	0
Others	145	5	0	0	0
Overseas total	643,497	747,943	812,577	905,607	903,485

Grand total	825,098	910,695	957,865	1,064,542	1,066,929
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*Automobile sales of SUBARU CORPORATION and its consolidated subsidiaries

Consolidated Automobile Sales by Region

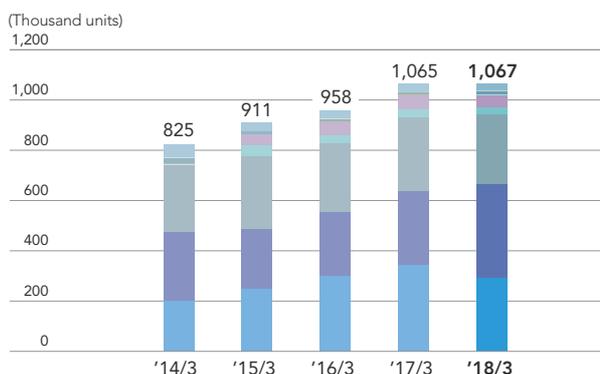
Japan United States Canada Russia
Europe Australia China Others



*Automobile sales of SUBARU CORPORATION and its consolidated subsidiaries

Consolidated Automobile Sales by Model

Legacy Impreza Forester Levorg
WRX Tribeca Exiga SUBARU BRZ
OEM Others Minicars



*Automobile sales of SUBARU CORPORATION and its consolidated subsidiaries

Non-Consolidated Automobile Sales

(Number of units)

	'14/3	'15/3	'16/3	'17/3	'18/3
Domestic units					
Legacy	19,272	14,734	11,665	11,529	9,753
Impreza	62,519	40,277	41,137	53,136	68,937
Forester	37,124	21,569	22,631	24,231	19,000
Levorg	0	41,832	24,014	24,626	22,525
WRX	0	7,991	7,181	6,724	8,284
Exiga	3,869	2,016	4,797	4,356	3,833
SUBARU BRZ	3,334	1,941	2,070	2,394	1,999
OEM	1,944	1,224	904	2,575	2,862
Passenger cars	128,062	131,584	114,399	129,571	137,193
Minicars	57,779	35,563	35,642	34,124	31,717
Domestic total	185,841	167,147	150,041	163,695	168,910
Export units					
Legacy	22,817	34,344	50,353	39,719	32,122
Impreza	206,022	199,770	218,866	191,873	214,631
Forester	247,362	265,072	249,202	278,963	254,397
Levorg	0	0	7,880	6,805	3,813
WRX	7,644	37,865	43,177	46,730	44,053
Exiga	145	5	0	0	0
SUBARU BRZ	15,118	8,418	7,005	6,653	7,451
OEM	86	135	0	0	0
Export total	499,194	545,609	576,483	570,743	556,467
Complete knockdown (CKD) overseas					
Total	165,554	222,513	242,424	353,770	348,144
Grand total	850,589	935,269	968,948	1,088,208	1,073,521

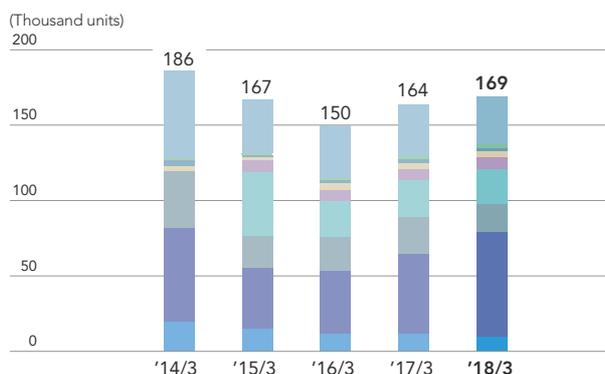
U.S. retail sales (Calendar year: January to December)

(Number of units)

	'13	'14	'15	'16	'17
Legacy	160,340	191,060	212,741	248,204	238,723
Impreza	130,567	128,952	155,712	150,915	196,181
Forester	123,591	159,953	175,192	178,593	177,563
WRX	0	25,492	33,734	33,279	31,358
Tribeca	1,598	732	0	0	0
SUBARU BRZ	8,587	7,504	5,296	4,141	4,131
U.S. total	424,683	513,693	582,675	615,132	647,956

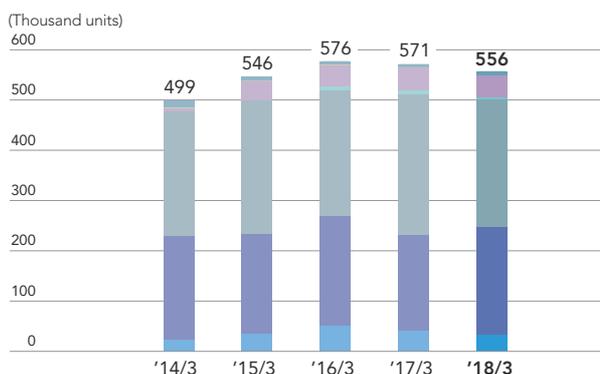
Non-Consolidated Domestic Automobile Sales by Model

Legend: Legacy (Blue), Impreza (Dark Blue), Forester (Light Blue), Levorg (Teal), WRX (Purple), Exiga (Orange), SUBARU BRZ (Dark Teal), OEM (Green), Minicars (Light Teal)



Non-Consolidated Automobile Export Units by Model

Legend: Legacy (Blue), Impreza (Dark Blue), Forester (Light Blue), Levorg (Teal), WRX (Purple), Exiga (Orange), SUBARU BRZ (Dark Teal), OEM (Green)



Financial Review

Business Segments and Scope of Consolidation

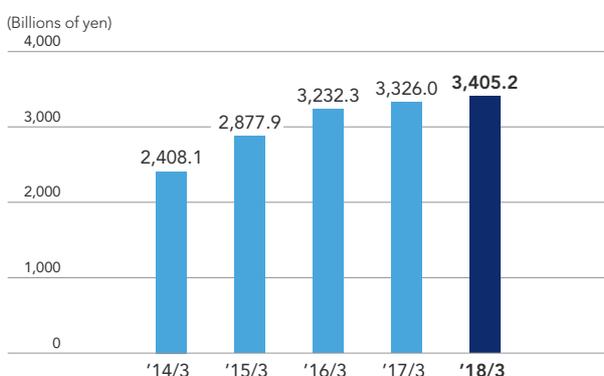
The SUBARU Group (“the Group”) consists of three business segments: the core Automotive Business Unit, which accounts for approximately 95% of consolidated net sales; the Aerospace Company; and Other Businesses, consisting of businesses that do not belong to either of the other two segments. In the fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018; the “fiscal year under review”), SUBARU CORPORATION (“the Company”), 75 subsidiaries, and 8 equity-method affiliated companies were included in the scope of consolidation.

Overview of Business Performance

As the employment and income environment improved supported by various policies, the Japanese economy continued on a gradual recovery path in the fiscal year under review. Although the economic development in China and other Asian emerging markets, the impact from political uncertainties, and trends in the financial and capital markets were of note, the global economy, especially the United States, steadily recovered. Given this backdrop, the exchange rate was mostly stable, with the yen against the U.S. dollar getting slightly stronger in the fourth quarter.

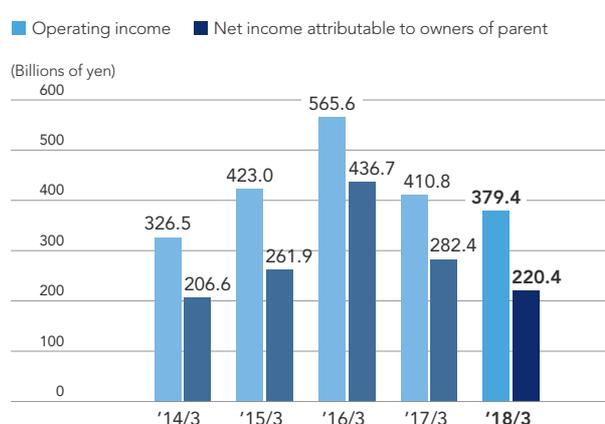
The North American market, our key market, continued to drive global sales, and we had steady results over the fiscal year under review, including the achievement of record-high automobile unit sales. Consolidated net sales increased by 79.2 billion yen (2.4%) from the previous fiscal year to a record 3,405.2 billion yen, owing to net sales pushed up by the favorable foreign exchange rates and higher automobile unit sales. Consolidated operating income decreased by 31.4 billion yen (7.6%) year on year to 379.4 billion yen, due to the increase in selling expenses associated with rising interest rates in the U.S., the effect of raw materials market, and higher R&D expenses, despite the positive effect from the foreign exchange rates. Net income attributable to owners of parent decreased by 62.0 billion yen (22.0%) year on year to 220.4 billion yen partly owing to airbag related extraordinary loss of 81.3 billion yen.

Net Sales

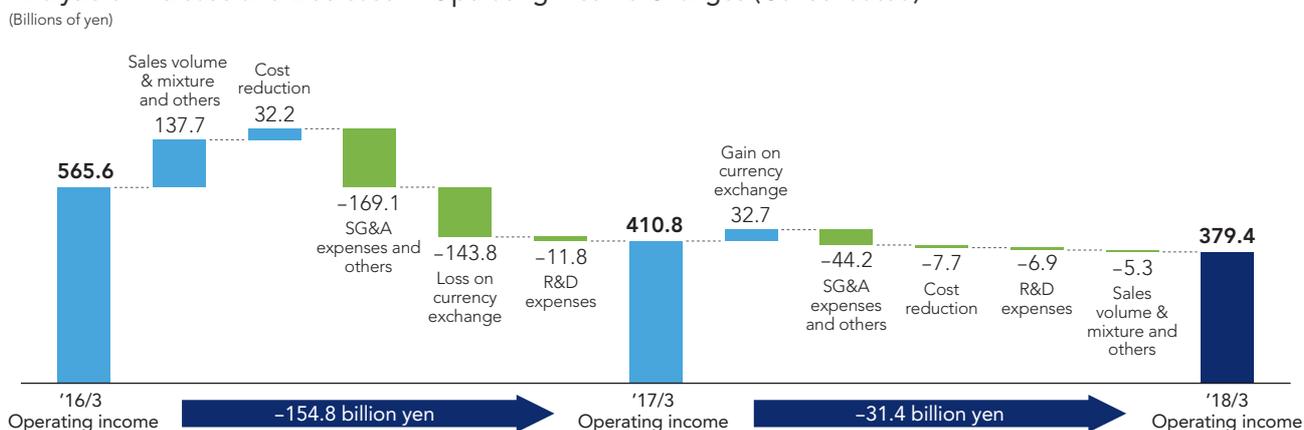


Operating Income

Net Income Attributable to Owners of Parent



Analysis of Increase and Decrease in Operating Income Changes (Consolidated)



Segment Information

Automotive Business Unit

Net sales from the Automotive Business Unit were 3,234.9 billion yen, up by 82.9 billion yen (2.6%), and segment income was 361.5 billion yen, down by 36.2 billion yen (9.1%), compared with the previous fiscal year. Consolidated global unit sales reached a record high for the sixth consecutive year, increasing by 2,000 vehicles (0.2%) year on year to 1,067,000 units.

<Domestic Market>

Total automobile demand in Japan, in the fiscal year under review, increased 2.3% year on year to 5,197,000 units due to factors including continued steady sales of passenger cars and increased minicar sales compared with the previous fiscal year.

The Group's unit sales in Japan increased by 5,000 units (2.8%) year on year to 163,000 units. Although minicar unit sales reached no further than 31,000 units, down by 2,000 units (5.1%) from the previous fiscal year, passenger car sales remained strong, led mainly by the all-new SUBARU XV, resulting in a sales increase of 6,000 units (4.9%) to 133,000 units.

<Overseas Market>

The total automobile demand in the United States, which is our key market, was 17,308,000 units, a 1.0% decrease year on year, shifting further from passenger vehicles to light trucks, including SUVs.

The Group's overseas unit sales marked a slight decrease of 2,000 units (0.2%) to 903,000 units. While the unit sales in the U.S. stayed strong, reaching a record-high for the ninth consecutive fiscal year, the unit sales in China decreased owing to fierce competition. By region, sales volume increased by 7,000 units (1.0%) year on year to 728,000 units in North America, increased by 2,000 units (3.7%) to 48,000 units in Europe and Russia, increased by 7,000 units (13.4%) to 56,000 units in Australia, decreased by 17,000 units (38.9%) to 27,000 units in China, and decreased by less than 1,000 units (0.8%) to 45,000 units in other regions.

Aerospace Company

Net sales from the Aerospace Company were 142.2 billion yen, up by 3.4 billion yen (2.5%), and segment income was 12.3 billion yen, up by 3.2 billion yen (34.7%), compared with the previous fiscal year. Sales of products for the Japan Ministry of Defense saw an increase from the previous fiscal year, mainly due to current development under a contract for the new UH-X multi-purpose helicopter. Sales of products for the commercial sector also grew year on year with the increase in production of the Boeing 787, covering the decline in production of the Boeing 777.

Other Businesses

Net sales from Other Businesses were 28.2 billion yen, down by 7.1 billion yen (20.1%), and segment income was 5.1 billion yen, up by 1.6 billion yen (44.2%), compared with the previous fiscal year.

Net Sales by Segment

(Billions of yen)

	'14/3	'15/3	'16/3	'17/3	'18/3
Automotive	2,246.6	2,699.0	3,039.4	3,152.0	3,234.9
Aerospace	124.4	142.8	152.8	138.8	142.2
Industrial products	29.8	29.0	—	—	—
Other	7.3	7.1	40.0	35.3	28.2
Total	2,408.1	2,877.9	3,232.3	3,326.0	3,405.2

Operating Income by Segment

(Billions of yen)

	'14/3	'15/3	'16/3	'17/3	'18/3
Automotive	309.0	400.9	543.6	397.7	361.5
Aerospace	14.1	18.9	18.2	9.1	12.3
Industrial products	0.6	0.8	—	—	—
Other	2.1	1.9	3.0	3.5	5.1
Corporate and elimination	0.6	0.6	0.8	0.5	0.7
Total	326.5	423.0	565.6	410.8	379.4

*Following the decision in November 2016 to terminate the Industrial Products business, the said business has been included in the Other Businesses segment since FYE March 2017. Figures for FYE March 2016 in the tables above have been restated to comply with the new segment classification.

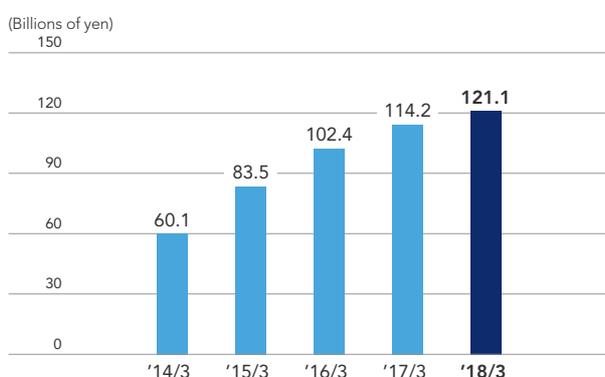
R&D Expenses

In the fiscal year under review, R&D expenses increased by 6.9 billion yen (6.0%) compared with the previous fiscal year to 121.1 billion yen. Of that amount, 117.6 billion yen was related to the Automotive Business Unit. In FYE March 2019, the Group plans to reduce R&D spending by 1.1 billion yen (1.0%) year on year to 120.0 billion yen.

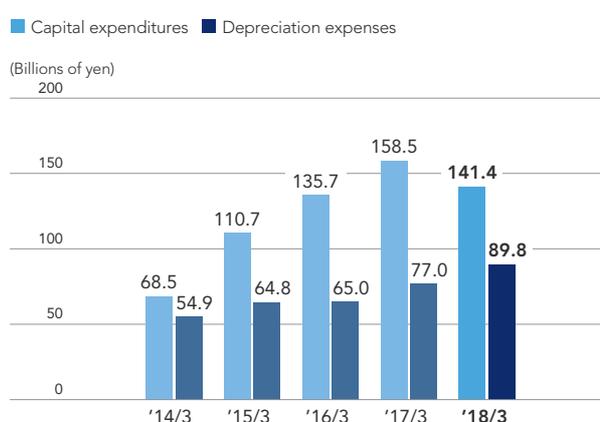
Capital Expenditures and Depreciation

In the fiscal year under review, the Group made capital expenditures of 141.4 billion yen, a decrease of 17.1 billion yen (10.8%) compared with the previous fiscal year. Among the total capital expenditures, 133.4 billion yen has been spent in relation to the Automotive Business Unit. The Company made investments of 63.0 billion yen in the automotive business, primarily for augmenting production capacity accompanying the increase in unit sales and for developing and expanding production facilities for new products, R&D facilities, and sales networks. Subaru of Indiana Automotive, Inc. (SIA), our production base in the U.S., made investments of 39.5 billion yen, mainly for new products and production facilities to boost production capacity. Subaru of America, Inc. (SOA), a sales subsidiary in the U.S., also spent 9.0 billion yen mainly for the relocation of its head office. Depreciation expenses in the fiscal year under review increased by 12.8 billion yen (16.6%) year on year to 89.8 billion yen. Capital expenditures in FYE March 2019 are projected to decrease by 11.4 billion yen (8.1%) year on year to 130.0 billion yen, and depreciation expenses to increase by 3.2 billion yen (3.6%) to 93.0 billion yen.

R&D Expenses



Capital Expenditures / Depreciation Expenses

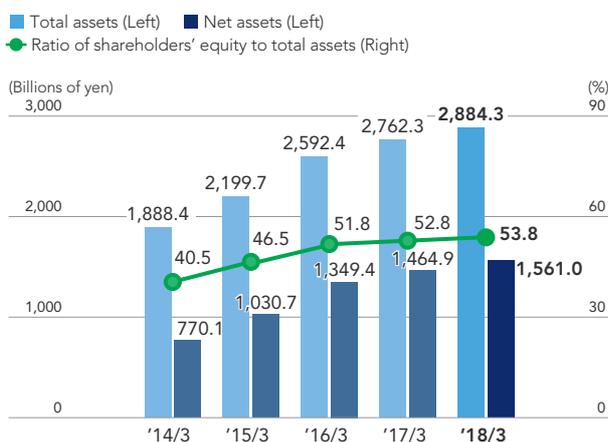


Liquidity and Source of Funds

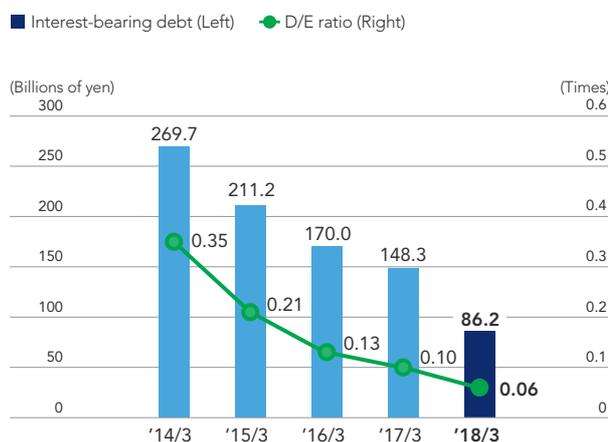
Financial Position

Total assets as of March 31, 2018 were 2,884.3 billion yen, an increase of 122.0 billion yen compared with the previous fiscal year-end. Property, plant and equipment, funds in hand (the sum of cash and deposits and short-term investment securities), and deferred tax assets increased by 45.8 billion yen, 28.6 billion yen, and 26.5 billion yen, respectively. Total liabilities amounted to 1,323.3 billion yen, up by 25.9 billion yen from the previous fiscal year-end. While the total of short-term loans payable and both current and noncurrent long-term loans payable decreased by 62.1 billion yen, provision for loss related to airbags and accrued expenses increased by 64.7 billion yen and 34.6 billion yen, respectively. The fiscal

Total Assets / Net Assets / Ratio of Shareholders' Equity to Total Assets



Interest-Bearing Debt / D/E Ratio

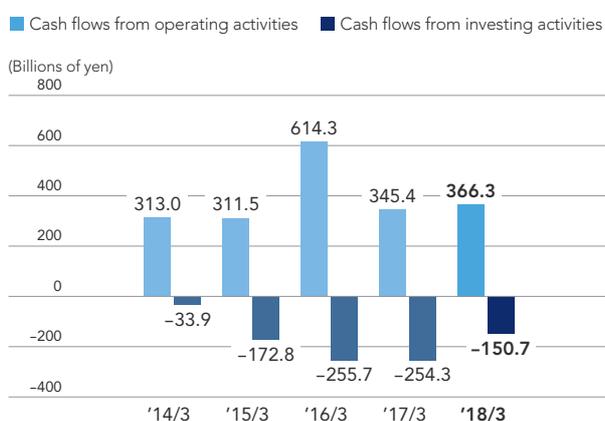


year-end balance of interest-bearing debt decreased by 62.1 billion yen from the previous fiscal year-end to 86.2 billion yen. The debt/equity ratio (interest-bearing debt over shareholders' equity) was 0.06, remaining at a safe level. Net assets stood at 1,561.0 billion yen, an increase of 96.1 billion yen compared with the previous fiscal year-end, mainly due to an increase in retained earnings of 110.3 billion yen. The shareholders' equity ratio resulted in 53.8%.

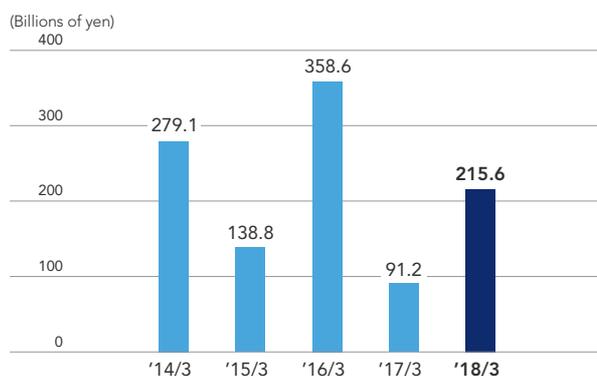
Cash Flows

In the fiscal year under review, net cash provided by operating activities was 366.3 billion yen. Major cash in-flow items were income before income taxes of 297.3 billion yen, and provision for loss related to airbags of 64.7 billion yen. Net cash used in investing activities was 150.7 billion yen. Major cash out-flow items included purchase of non-current assets (net of proceeds from sales) of 146.5 billion yen. As a result, free cash flow for the fiscal year under review was 215.6 billion yen. Net cash used in financing activities totaled 170.9 billion yen. Major cash out-flow items were cash dividends paid of 110.3 billion yen, repayments of long-term loans payable (net of proceeds) of 40.9 billion yen, and net decrease in short-term loans payable of 18.4 billion yen. As a result of the above cash flows, including the effect of translation adjustments, cash and cash equivalents at the end of the fiscal year under review amounted to 765.6 billion yen.

Cash Flows from Operating Activities and Investing Activities



Free Cash Flow



Basic Policy on Profit Distribution and Dividends

The Company regards shareholder interests as an important management priority and applies a performance-linked approach to shareholder returns by considering the business performance of each fiscal year, investment plans, and the business environment, while maintaining a basic policy of paying continuous dividends. The Company determines dividend payments for each fiscal year based on a consolidated dividend payout ratio range of 30–50%, taking a variety of conditions into consideration. In light of these considerations, the Company paid an annual dividend of 144 yen per share for the fiscal year under review, the same as the previous fiscal year. Internal reserves are allocated to investments for future growth, such as strengthening production and sales systems as well as research and development activities for the purpose of offering appealing products, while bolstering the financial position.

In July 2018, the Company announced its future capital policy in the new mid-term management vision "STEP," the details of which are explained on pages 13–14. For FYE March 2019, the Company plans to pay a dividend of 144 yen per share (interim and year-end dividends of 72 yen each), the same as for the fiscal year under review.

Business Performance in FYE March 2019

The Company forecasts the consolidated automobile sales volume in FYE March 2019 will continue to increase, mainly in the North America market, to 1,100,000 units. Consolidated net sales are forecasted to mark 3,250.0 billion yen, due to the negative effect of foreign exchange rate fluctuations and changes in accounting policies. In terms of income, despite the expected increase in automobile unit sales, the Company forecasts consolidated operating income of 300.0 billion yen, consolidated ordinary income of 305.0 billion yen, and net income attributable to owners of parent of 220.0 billion yen, due to the increase in selling expenses from higher interest rates in the U.S., and higher raw material costs. The exchange rate assumptions used for the full-year forecast of consolidated business performance are 105 yen/1 U.S. dollar (actual rate of 111 yen in FYE 2018) and 130 yen/1 euro (actual rate of 130 yen in FYE 2018).

Business Risks

Operational and other risks that could significantly influence the decisions of investors and impact the Company's financial status are set out below.

Based on information available to the Group as of the end of the consolidated fiscal year under review, the enumerated risks include forward-looking statements, but do not encompass every possible risk posed to the Group. As such, there are other risk factors which could influence investors and their decisions.

(1) Economic Trends

Economic trends in countries and regions that comprise important markets for the Group could potentially impact the Group's business performance. In Japan and North America, key markets for the Group, economic recession, decreasing demand or increasing price competition could undermine the sales and profitability of the Group's products and services.

(2) Currency Exchange Rate Fluctuations

The Group's ratio of overseas net sales stood at 80.4%. The Group's consolidated financial statements, which are presented in Japanese yen, are affected by translation of overseas net sales, operating income and assets from local currencies, particularly U.S. dollars, into yen. Accordingly, in the event that discrepancies arise between projected exchange rates in full-year forecasts and actual rates at the time of account settlement, the Group's business performance and financial position may be adversely affected when the yen appreciates or positively affected when the yen depreciates.

The Company uses forward exchange rate contracts and other circumstance-appropriate risk hedges to minimize the Group's sensitivity to such currency exchange risks. However, the effect of severe fluctuations in currency exchange rates at the end of the fiscal year could result in a loss on valuation of derivatives and have a major impact on non-operating expenses.

(3) Dependence on Certain Businesses

The Group is mainly comprised of the Automobiles and Aerospace business segments. However, the Automobiles business segment accounts for the overwhelming majority of the Group's business operations. Accordingly, in the event that automobile-related demand, market conditions, price competition with other automakers, or other factors exceed projected levels, the entire Group's overall business performance and financial position could be significantly affected.

(4) Changes in Market Appraisal

The Group develops, manufactures and releases new products based on appropriate timing and pricing in line with product planning that reflects market demand and customer needs. Such actions are the most important factors in maintaining stable increases in Group business performance. In the event that market appraisals of new model vehicles and other new products do not meet sales plan expectations or that the obsolescence rate of current products exceeds forecasts, the Group's business performance and financial position could be significantly affected.

(5) Dependence on Specific Suppliers, Raw Materials, and Components

The Group procures raw materials, components and other items from numerous suppliers. However, there are cases in which the Group relies on certain items and/or a limited number of suppliers. Due to tightening supply and demand or other factors, the inability to procure supplies in a manner that ensures stable costs, delivery dates and quality could seriously impact the Group's business performance and financial position.

(6) Protection of intellectual property

The Group is strongly committed to protecting its intellectual property in areas, such as technologies and expertise, that ensure product differentiation. However, in cases where a third party makes unauthorized use of the Group's intellectual property to manufacture similar products and in cases where a dispute relating to intellectual property arises and a decision disadvantageous to the Company is made, the Group's business results and financial condition may be significantly affected.

(7) Product Defects

The Group places the highest priority on the safety of the products it develops, manufactures and sells. However, completely avoiding defects and recalls, etc. regarding all products and services is impossible. The substantial cost, damage to our brand image, etc. associated with a major recall could significantly affect the Group's business performance and financial position.

(8) Retirement Benefits and Retirement Benefit Obligations

The Group's employee retirement benefit costs and obligations are calculated based on the following assumptions: retirement benefit obligation discount rates and the expected long-term rate of return on pension assets, both of which are established based on mathematical calculations. However, in the event that actual performance differs from the assumptions, the Group's business performance and financial position could be affected over the long term.

(9) Environmental and Other Legal Regulations

The Group is subject to various domestic and overseas legal regulations in relation to automobile fuel efficiency, exhaust emissions, energy conservation, noise, recycling, the level of pollutants emitted from manufacturing facilities, and the safety of automobiles and other products. The Group's business performance and financial position could be affected by cost increases due to future tightening of such regulations.

(10) Impact of Natural Disasters, War, Terror, Strikes and Other Events

The occurrence of natural disasters such as major earthquakes, typhoons, etc., and diseases, wars, terrorist attacks or other events, could impede the Group's business activities as well as delay or suspend raw material/component purchases, production, product sales/transport, and the provision of services. The Group's business performance and financial position could be affected in the event that such delays or suspensions are prolonged.

(11) International Business Activities

Though the Group focuses on the U.S., it does business in countries around the world. Business activities in overseas markets entail the following types of risk. If any of these risks materializes, the Group's business performance and financial position could be adversely affected.

- Unfavorable political or economic factors
- Difficulties arising from changes in laws or regulations
- Revisions to taxes, duties, or other taxation systems
- Difficulties in hiring and retaining personnel

(12) Impact of Information Security

The Group uses various kinds of information technology, networks, and systems in product development, production, sales, and other business activities. Although safety measures have been implemented with respect to information technology, networks, and systems, interruption of important work or services, data corruption or loss, leaks of confidential information, or other problems could occur due to cyberattacks, hacking, computer virus attacks, or the like. This could damage the brand image or adversely affect the Group's business performance and financial position.

(13) Compliance and Reputation

The Group considers rigorous compliance one of the most important management priorities and strives to avoid or minimize compliance risks through compliance with all laws, ordinances, and internal regulations required in corporate activities and the execution of fair and equitable corporate activities in conformity with social norms. Nevertheless, the occurrence of a material legal violation could have a significant impact on the Group and adversely affect the Group's business performance and financial position due to loss of customer confidence and trust, or damage to the Group's reputation in society.

Corporate Information

Domestic Facilities

Name		Location	Land Area (Thousand m ²)	Building Area (Thousand m ²)	Number of Employees (Person)	Main Products	
Head Office	Head Office (Ebisu)	Tokyo	4	14	599	—	
	SUBARU Training Facility (SUBARU Academy)		Tokyo	10	13	38	—
	Other	Parts Distribution Center, Pre Delivery Inspection Center, parking lot, Vicinity of Oizumi Plant etc.		Gunma	572 [15]	164	142
Automotive Business	Tokyo Office		Tokyo	158	76	1,664	—
	Gunma Plant	Gunma Main Plant	Gunma	585 [12]	332	4,416	LEVORG, IMPREZA, SUBARU XV, WRX and SUBARU BRZ
		Gunma Yajima Plant	Gunma	550	259	3,041	LEGACY, OUTBACK, IMPREZA, SUBARU XV and FORESTER
		Gunma Oizumi Plant	Gunma	304	229	2,637	Automobile engines and transmissions
		Gunma Ota North Plant	Gunma	44	25	0	—
		SUBARU R&E Center (Sano)	Tochigi	1,081	25	171	—
		SUBARU R&E Center (Bifuka)	Hokkaido	3,614	2	0	—
Aerospace Company	Utsunomiya Plant		Tochigi	573	232	1,849	Aircraft
	Handa Plant		Aichi	59	27	277	Aircraft
	Handa West Plant		Aichi	42	14	45	Aircraft
Subtotal (1)			7,596	1,412	14,879		
Other	The site of airport		Gunma	767	0		
	Utsunomiya airstrip		Tochigi	111	0		
	Welfare facility		—	219	100		
	Lease to affiliates		Aichi	45	7		
	Isesaki business office		Gunma	184	66		
	Eco Utsunomiya factory		Tochigi	6	1		
	Saitama Plant		Saitama	143	92		
Subtotal (2)			1,475	266			
Total (1)+(2)			9,071	1,678			

1. []: area of tenancy

2. Welfare facility includes 37 sites of dormitories and company houses.

3. Number of employees excludes executive officers, advisors and dispatches.

Main Subsidiaries (Domestic)

(As of May 1, 2018)
(Number of Employees: as of March 31, 2018)

Name	Established	Location	Representative	Capital (Millions of yen)	Equity Interest (%)	Number of Employees (Persons)	FYE 2018 Net sales (Millions of yen)	Operations
Fuji Machinery Co., Ltd.	1950. 7. 18	Gunma	Yasuhiro Arai	480	100.0	448	36,671	Manufacture and sales of automobile parts, industrial product parts and agricultural transmissions
Ichitan Co., Ltd.	1951. 2. 2	Gunma	Satoshi Maeda	480	100.0	226	18,993	Manufacture and sales of forging parts of automobile and industrial machinery
KIRYU INDUSTRY Co., Ltd.	1960.12.23	Gunma	Yukio Nakano	400	97.7	274	11,763	Manufacture of specially-equipped SUBARU automobiles, engines, sheet metal repair parts and remanufacture of transmissions
Subaru Tecnica International Inc.	1988. 4. 2	Tokyo	Yoshio Hirakawa	250	100.0	97	4,594	Management of motor sports activities, sales of motor sports parts and merchandise, technical development, R&D support, and automobile maintenance
Subaru Used cars Sales & Marketing Co., Ltd.	1988. 4. 2	Kanagawa	Masahiro Maeda	100	100.0	20	3,723	Tack-related operation of used cars, head office of SUAA Kanto, sales of supplies
Subaru Auto Accessories Ltd.	1987. 3. 9	Saitama	Toshio Masuda	70	100.0	66	14,519	Sales, research & development, licensing of technology and import-export business of automobile accessories, parts and service materials
Subaru Logistics Co., Ltd.	1986. 3.27	Gunma	Tamaki Kamogawa	96	100.0	339	21,991	Shipping, land freight, warehousing, maintenance and insurance for automobiles and their components
H. B. C. Co., Ltd.	1983. 8.29	Kanagawa	Kei Ono	490	68.0	9	712	Storing and shipping of automobiles for international sales
Subaru Finance Co., Ltd.	1988. 7. 1	Tokyo	Mitsuru Takahashi	2,000	100.0	221	19,799	Leasing and rental of SUBARU automobiles, credit, financing and sales of auto insurance
SUBARU TECHNO CORPORATION	1985. 3. 2	Tokyo	Tatsuhiko Mukawa	70	100.0	854	7,943	Design, plan, research, experiment, examination and compile technical material of automobile, aircraft, general-purpose engine and environmental tool
Subaru Intelligent Service Ltd.	2005. 3. 1	Tokyo	Kunihiko Tashiro	40	75.0	56	2,056	Development of technical service documents including service manuals and owners manuals
Yusoki Kogyo K. K.	1950. 7. 15	Aichi	Eiji Tanikawa	100	100.0	130	2,070	Manufacture and sales of aircraft parts
Fuji Aircraft Maintenance Co., Ltd.	1988.10.31	Tokyo	Takayuki Kobayashi	30	100.0	181	1,440	Inspection, service and maintenance of aircraft and onboard equipment
Fuji Aerospace Corporation.	1991. 6. 14	Tochigi	Eishi Umehara	30	100.0	132	1,388	Processing and assembly of aircraft parts
Fuji Aerospace Technology Co., Ltd.	1994. 4. 1	Tochigi	Hiroshi Wakai	20	100.0	93	2,741	Contract design, drafting, translation, calculation, analytical testing and software development for aircraft
Fuji Heavy Industries House Co., Ltd.	1999. 9. 1	Gunma	Kazuo Terauchi	200	87.2	37	2,320	Rental/lease/sales of temporary houses, transport and set up of temporary houses, deal of used houses
Industrial Products Co., Ltd.	2017.10. 1	Saitama	Kazuto Shimada	20	100.0	219	1,955	Customer support for small general-purpose engines and associated parts, including quality assurance and spare part sales
Subaru Kohsan Co., Ltd.	1977. 2. 2	Tokyo	Yasuo Kosakai	675	100.0	64	6,276	Deal/rental of real estate, administrative operation of rental hall and conference room, administrative operation/rental of parking ground, travel agency
SUBARU IT CREATIONS CORPORATION	1993. 4. 1	Saitama	Nozomu Oyama	100	100.0	261	13,535	Development, maintenance and operation of information systems and related consulting services; sales and leasing of information equipment
Subaru Living Service Co., Ltd.	1988. 4. 2	Tokyo	Masami Iida	20	100.0	351	16,118	Sales of office supplies and daily commodities, real estate services, and personal import services

Shareholdings of SUBARU Corporation

Main Subsidiaries (Overseas)

(As of April 1, 2018)
(Number of Employees: as of March 31, 2018)

Region	Name	Established	Address	Representative	Equity Interest (%)	Number of Employees (Persons)	Operations
North America	Subaru of America, Inc.	1990.9	One Subaru Drive, Camden, NJ 08013, U.S.A.	Thomas J. Doll	100	1,304	Sales of SUBARU vehicles and supplies
	Subaru of Indiana Automotive, Inc.	1987.3	5500 State Road 38 East, Lafayette, IN 47905, U.S.A.	Eiji Ogino	100	5,613	Manufacture of SUBARU vehicles, purchasing of parts, sales for Subaru of America, Inc.
	North American Subaru, Inc.	1985.9	C/O Subaru of America, Inc. Subaru Plaza, 2235 Route 70 West Cherry Hill, NJ 08002, U.S.A.	Shinichiro Sumi	100	76	Technical research on SUBARU vehicles in North American market, government relations
	Subaru Research & Development, Inc.	1986.6	3995 Research Park Drive, Ann Arbor, MI 48108, U.S.A.	Tetsuo Onuki	100	81	Compiling of technical information about automobile market of North America, research and development of SUBARU vehicles
			6431 Global Drive Cypress, CA 90630, U.S.A. 14382 Chambers Road, Tustin, CA 92780, U.S.A. 46718 Fremont Blvd, Fremont, CA 94538, U.S.A. C/O Subaru of Indiana Automotive, Inc. 5500 State Road 38 East, Lafayette, IN 47905, U.S.A.				
Subaru Canada, Inc.	1989.1	560 Suffolk Court Mississauga, Ontario, L5R 4J7, Canada	Yasushi Enami	100	148	Sales of SUBARU vehicles and supplies	
Europe	Subaru Europe N.V./S.A.	2002.3	Leuvensesteenweg 555 B/8, 1930 Zaventem, Belgium	Masamichi Kudo	100	45	Sales of SUBARU vehicles and supplies
	Subaru Italia S.p.A.	1985.7	Via Montefeltro, 6/A, 20156 Milano, Italy	Takashi Yamada	100	53	Sales of SUBARU vehicles and supplies
	N.V. Subaru Benelux	1974.3	Leuvensesteenweg 555 B/1, 1930 Zaventem, Belgium	Shunsuke Sawada	100	42	Sales of SUBARU vehicles and supplies
	Subaru Vehicle Distribution B.V.	2001.5	Merseyweg 40, 3197 KG Botlek, Netherlands	Shunsuke Sawada	50	1	Contract of discharging and transporting inland for dealers in Middle Europe, PDI operation
Asia	Subaru of China Ltd.	2006.3	Beijing Landmark Towers Office Building 2-1501, 8 North Dongsanhuan Road, Chaoyang District, Beijing 100004, China	Yasushi Nagae	60	199	Sales of SUBARU vehicles and supplies
	Subaru Technology Beijing Co., Ltd.	2013.6	Beijing Landmark Towers Office Building 1-802, 8 North Dongsanhuan Road, Chaoyang District, Beijing 100004, China	Hisato Imamura	100	31	Authentication, research and development of SUBARU vehicles in Chinese market
	SUBARU ASIA PTE. LTD.	1995.2	24 Raffles Place, #26-06B Clifford Centre, Singapore 048621	Takuma Noguchi	100	2	Launch support of SUBARU vehicle production in Asia

Sales Agents (Domestic)

(As of July 1, 2018)

Area	Group	Head	Agent	Subsidiary	Location	President	New Car Base
Hokkaido Tohoku area (9)			Kushiro Subaru Inc.		Hokkaido	Hiroshi Uehara	1
			Obihiro Subaru Inc.		Hokkaido	Takashi Ishihara	1
			Hokkaido Subaru Inc.	○	Hokkaido	Tomoo Takenaka	20
	Tohoku region	○	Miyagi Subaru Inc.	○	Miyagi	Makoto Hada	11
			Aomori Subaru Inc.	○	Aomori	Kenichi Kobayashi	6
			Iwate Subaru Inc.	○	Iwate	Yasuo Watanabe	9
			Akita Subaru Inc.	○	Akita	Takaharu Mitsui	6
			Yamagata Subaru Inc.	○	Yamagata	Toshiki Sugihara	5
			Fukushima Subaru Inc.	○	Fukushima	Ryoichi Uchida	11
Kanto Koshinetsu Hokuriku area (12)	Hoku Shinetsu region	○	Niigata Subaru Inc.	○	Niigata	Tatsuya Yamano	11
			Subaru Shinshu Inc.	○	Nagano	Kinya Abe	10
			Hokuriku Subaru Inc.	○	Ishikawa	Shiro Ohta	12
			Nanshin Subaru Inc.		Nagano	Hirotda Shibata	1
			Fuji Subaru Inc.		Gunma	Wataru Miyata	17
			Tochigi Subaru Inc.		Tochigi	Kazumasa Kodaira	12
			Ibaraki Subaru Inc.		Ibaraki	Naoki Otsuki	10
			Saitama Subaru Inc.		Saitama	Hiroshi Yoshizawa	16
			Kanagawa Subaru Inc.	○	Kanagawa	Katsuhisa Iiyama	26
			Chiba Subaru Inc.	○	Chiba	Tsuguto Nakamura	20
	Tokyo/Yamanashi		Tokyo Subaru Inc.	○	Tokyo	Kazuo Hosoya	32
			Yamanashi Subaru Inc.	○	Yamanashi	Hirohiko Kumada	3
Chubu Kinki area (11)			Shizuoka Subaru Inc.		Shizuoka	Shinichi Ishida	12
		○	Nagoya Subaru Inc.	○	Aichi	Takumi Ogasawara	22
			Gifu Subaru Inc.	○	Gifu	Koichi Numa	9
			Mie Subaru Inc.	○	Mie	Masato Yachida	7
	Kinki region		Subaru Higashi Aichi Inc.		Aichi	Yasuo Nishikawa	3
			Fukui Minami Subaru Inc.		Fukui	Satoshi Okada	1
			Nara Subaru Inc.		Nara	Yuzuru Takagi	5
		○	Osaka Subaru Inc.	○	Osaka	Motoya Yamamoto	26
			Kyoto Subaru Inc.	○	Kyoto	Tetsuo Inoue	8
			Shiga Subaru Inc.	○	Shiga	Tomio Sogou	7
			Hyogo Subaru Inc.	○	Hyogo	Syuji Sunaga	18
Chugoku Shikoku Kyushu area (12)	Chugoku/ Shikoku region	○	Hiroshima Subaru Inc.	○	Hiroshima	Ken Fukuda	9
			Sanin Subaru Inc.	○	Tottori	Nobuhiro Mori	7
			Okayama Subaru Inc.	○	Okayama	Sadayuki Hata	7
			Yamaguchi Subaru Inc.	○	Yamaguchi	Wataru Ishihara	8
			Higashi Shikoku Subaru Inc.	○	Kagawa	Hiroshi Fujita	8
			Shikoku Subaru Inc.	○	Ehime	Tsukasa Morita	7
	Kyushu region	○	Fukuoka Subaru Inc.	○	Fukuoka	Kazuto Sakamoto	16
			Nishi Kyushu Subaru Inc.	○	Nagasaki	Makoto Kimura	7
			Kumamoto Subaru Inc.	○	Kumamoto	Tetsuya Matsumoto	8
			Oita Subaru Inc.	○	Oita	Eiji Akamine	5
			Minami Kyushu Subaru Inc.	○	Kagoshima	Hiroshi Kurotani	10
			Okinawa Subaru Inc.	○	Okinawa	Masaaki Kakazu	3
Total		6	44	33	—	—	453

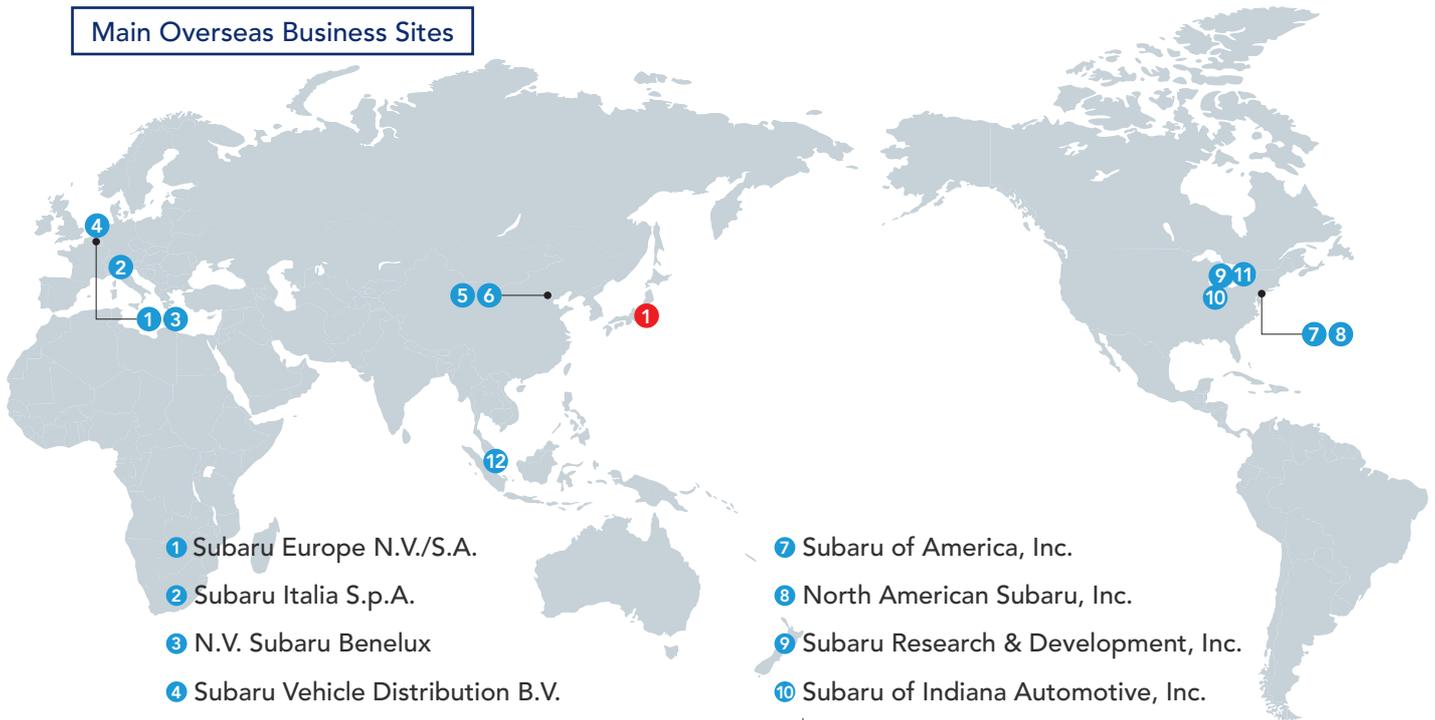
Distributors (Overseas)

(As of July 1 2018)
(Dealer numbers: as of December 31, 2017)

Region	Market	Company	Location	Number of Dealers	SUBARU Ownership
North America	U.S.	Subaru of America, Inc.	Camden, NJ, U.S.A.	630	100%
	Canada	Subaru Canada, Inc.	Mississauga, Ontario, Canada	93	100%
Total	3 countries			—	—
Europe	Germany	SUBARU DEUTSCHLAND GMBH	Friedberg, Germany	179	29%
	Switzerland	SUBARU SCHWEIZ AG	Safenwil, Switzerland	157	0%
	Sweden	Subaru Nordic AB	Arlöv, Sweden	133	0%
Total	30 countries			—	—
CIS-Middle East-Africa	Israel	Japanauto-Israel Auto Corporation Ltd.	Petah Tikva, Israel	13	0%
	Russia	SUBARU MOTOR (RUSSIA) LLC	Moscow, Russia	47	33%
	Egypt	ABOU GHALY MOTORS	Cairo, Arab Republic of Egypt	31	0%
Total	19 countries			—	—
Oceania	Australia	Subaru (Aust) Pty Ltd.	Sydney, Australia	116	8%
	New Zealand	Subaru of New Zealand	Auckland, New Zealand	16	0%
Total	8 countries			—	—
Latin America	Chile	Subaru Chile S.A.	Vitacura Santiago, Chile	24	0%
	Peru	Inchape del Perú S.A.	Lima, Peru	10	0%
	Mexico	SGM Automotoriz de México S.A. de C.V.	Mexico, D.F., Mexico	13	0%
Total	24 countries			—	—
Asia	Taiwan	Subaru of Taiwan Co.,Ltd.	Taoyuan City, Taiwan	23	35%
	Philippines	Motor Image Philipinas, Inc.	Pasig City, Metro Manila, Philippines	17	0%
	Singapore	Motor Image Enterprises Pte Ltd	Singapore	2	0%
Total	9 countries			—	—
	China	Subaru of China Ltd.	Beijing, China	208	60%
Total	1 country			—	—

Global Network

Main Overseas Business Sites



- 1 Subaru Europe N.V./S.A.
- 2 Subaru Italia S.p.A.
- 3 N.V. Subaru Benelux
- 4 Subaru Vehicle Distribution B.V.
- 5 Subaru of China Ltd.
- 6 Subaru Technology Beijing. Co.Ltd.

- 7 Subaru of America, Inc.
- 8 North American Subaru, Inc.
- 9 Subaru Research & Development, Inc.
- 10 Subaru of Indiana Automotive, Inc.

Production Models:
Legacy, Outback, Impreza, Ascent

- 11 Subaru Canada, Inc.
- 12 SUBARU ASIA PTE. LTD.

Main Domestic Business Sites

Automotive Business Unit

Gunma Plant

Plant	Production Models
Main Plant	Levorg, Impreza, SUBARU XV, WRX, SUBARU BRZ
Yajima Plant	Legacy, Outback, Impreza, SUBARU XV, Forester
Oizumi Plant	Automobile engines and transmissions

Aerospace Company

Handa Plant
Handa West Plant

Aerospace Company

Utsunomiya Plant



1 Head Office

Tokyo Office

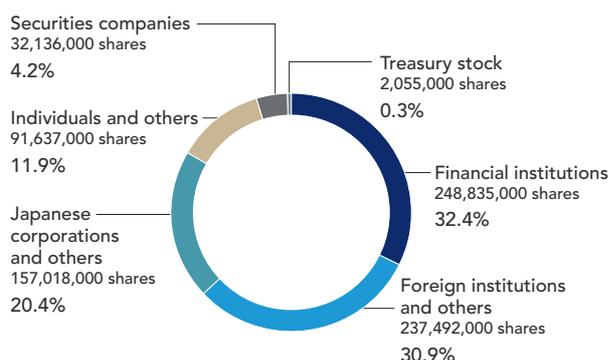
Corporate Data (As of March 31, 2018)

Company Name	SUBARU CORPORATION	Main Businesses	Automotive: The manufacture, sale, and repair of passenger cars and their components
Established	July 15, 1953		Aerospace: The manufacture, sale, and repair of airplanes, aerospace-related machinery and their components
Paid-In Capital	¥153,795 million		
Fiscal Year-End	March 31		
Accounting Auditors	KPMG AZSA LLC		
		Number of Affiliates	75 consolidated subsidiaries and 8 equity-method affiliated companies
		Number of Employees	14,879 (consolidated: 33,544) (excluding executive officers, advisors and dispatches)
		Website Addresses	Corporate website: https://www.subaru.co.jp/en/ Investor information website: https://www.subaru.co.jp/en/ir/

Stock Information (As of March 31, 2018)

Common Stock Authorized	1,500,000,000 shares
Common Stock Issued	769,175,873 shares
Number of Shareholders	138,794
Number of Shares per Trading Unit	100 shares
Stock Exchange Listing	Tokyo Stock Exchange
Securities Code	7270
Transfer Agent	Mizuho Trust & Banking Co., Ltd. 2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan Telephone: 0120-288-324 (toll-free)

Breakdown of Shareholders



Major Shareholders

Name	Number of Shares Held (in thousands)	Percentage of Total Shares Held
Toyota Motor Corporation	129,000	16.82%
The Master Trust Bank of Japan, Ltd. (Trust account)	49,904	6.51%
Japan Trustee Services Bank, Ltd. (Trust account)	44,410	5.79%
BNYM TREATY DTT 15	14,055	1.83%
Japan Trustee Services Bank, Ltd. (Trust account 5)	11,863	1.55%
STATE STREET BANK WEST CLIENT-TREATY 505234	11,048	1.44%
Japan Trustee Services Bank, Ltd. (Trust account 4)	10,433	1.36%
Mizuho Bank, Ltd.	10,078	1.31%
MIZUHO SECURITIES ASIA LIMITED-CLIENT A/C	10,002	1.30%
Sompo Japan Nipponkoa Insurance Inc.	9,726	1.27%

*The Percentage of Total Shares Held are calculated based on the number of shares excluding treasury stock.

Contact for Inquiries:

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SUBARU CORPORATION

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Tokyo 150-8554

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<http://www.subaru.co.jp/en/ir/>



Consolidated Balance Sheets

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

As of March 31, 2018 and 2017

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

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

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

Consolidated Statements of Income

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2018 and 2017

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

		Yen	U.S. dollars (Note 1)	
Per share data (Note 2) :				
Net income	—Basic	¥287.40	¥365.77	\$2.70
	—Diluted *	-	-	-
Net assets		2,025.31	1,902.56	19.06
Cash dividends (Note 13)		¥144.00	¥144.00	\$1.36

The accompanying notes are an integral part of these statements.

*For the year ended March 31, 2018 and 2017 diluted information is not presented because potentially dilutive securities do not exist.

Consolidated Statements of Comprehensive Income(loss)

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

Years ended March 31, 2018 and 2017

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

Consolidated Statements of Changes in Net Assets

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

As of March 31, 2018 and 2017

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

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

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2018 and 2017

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

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

SUBARU CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Basis of Presentation of the Financial Statements

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

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

The translations of the Japanese yen amounts into U.S. dollars in the accompanying consolidated financial statements are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥106.27 to U.S. \$1. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

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

2. Summary of Significant Accounting Policies

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

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

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

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

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

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

[2] Short-Term Investment Securities and Investment Securities

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

[3] Inventories

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

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

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

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

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

Estimated useful lives for depreciable assets are as follows:

Buildings and structures: 7–50 years

Machinery, equipment and vehicles: 2–20 years

[5] Intangible Assets (Excluding Leased Assets)

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

[6] Leased Assets

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

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

For leased assets under finance lease transactions in which the ownership is not transferred to the lessee:

The leased assets are depreciated by the straight-line method over the leased period and the residual value is zero.

[7] Allowance for Doubtful Accounts

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

[8] Provision for Bonuses

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

[9] Provision for Product Warranties

The Company and its consolidated subsidiaries provide for accrued warranty claims on products sold based on their past experiences of warranty services and estimated future warranty costs.

[10] Provision for Loss on business liquidation

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

[11] Provision for loss related to airbags

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

[12] Accounting method for Retirement Benefits

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

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

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

[13] Translation of Foreign Currency-Denominated Accounts

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

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

[14] Revenue Recognition

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

[15] Accounting for Lease Transactions

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

[16] Derivative Financial Instruments

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

[17] Goodwill

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

[18] Cash and Cash Equivalents

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

[19] Income Taxes

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

[20] Research and Development Expenses

Research and development costs are expensed as incurred and amounted to 121,084 million yen (US\$ 1,139,400 thousand) and 114,215 million yen for the fiscal years ended March 31, 2018 and 2017, respectively.

[21] Net Income per Share

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

[22] Changes in Accounting Estimates (Provision for product warranties)

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

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

[23] Changes in Presentation

(Consolidated Statements of Cash Flows)

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

“Increase (decrease) in provision for loss on business liquidation”, which was presented as a separate item in “Net cash provided by (used in) operating activities”, is included in “Other, net” in “Net cash provided by (used in) operating activities” in the current fiscal year due to its decreased financial materiality.

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

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

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

3. Other comprehensive income

Amounts reclassified to net income (loss) for the fiscal years ended March 31, 2018 and 2017, which were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

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

4. Additional Cash Flow Information

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

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

5. Financial Instruments

(1) Summary of Financial Instruments Status

[1] Action Policy with Regard to Financial Instruments

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

[2] Details of Financial Instruments and Respective Risks

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

Payables included in Notes and accounts payable-trade and electronically recorded obligations-operating are due within one year. A certain portion of such liabilities involve foreign currency denominated transactions associated with the import of raw materials and is subject to exchange rate fluctuation risk, although it is consistently less than accounts receivable balance denominated in the same foreign currency. Funds financed by bank loans and corporate bonds are primarily used for capital expenditure, whose repayment or redemption dates will come within 6 years after March 31, 2018 at the latest.

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

[3] Risk Management System with Regard to Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

The consolidated balance sheet amounts, the fair value and difference as of March 31, 2018 and 2017 were as follows:

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

As of March 31, 2018

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

As of March 31, 2018

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

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

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

As of March 31, 2017

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

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

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

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

Assets

Cash and deposits and Notes and accounts receivable-trade

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

Lease investment assets and Short-term loans receivable

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

Short-term investment securities and investment securities

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

Liabilities

Notes and accounts payable-trade, Electronically recorded obligations-operating, Short-term loans payable, Accrued income taxes and Accrued expenses

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

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

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

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

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

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

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

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

As of March 31, 2018:

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

As of March 31, 2018:

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

As of March 31, 2017:

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

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

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

As of March 31, 2018:

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

As of March 31, 2017:

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

6. Short-Term Investment Securities and Investment Securities

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

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

As of March 31, 2018:

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

As of March 31, 2018:

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

As of March 31, 2017:

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

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

The fiscal year ended March 31, 2018:

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

The fiscal year ended March 31, 2018:

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

The fiscal year ended March 31, 2017:

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

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

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

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

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

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

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

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

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

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

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

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

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Property, plant and equipment	¥28,752	¥32,520	\$270,556
Total	¥28,752	¥32,520	\$270,556

To raise working capital efficiently, the SUBARU Group has entered into the commitment-line contracts. The maximum amount that can be made available under these contracts is 237,441 million yen (US\$2,234,318 thousand) as of March 31, 2018. At the end of the fiscal year, there were no borrowings under the commitment line.

8. Derivative transactions

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

The fair value information of derivative financial instruments as of March 31, 2018 and 2017 was as follows:

Derivative transactions to which hedge accounting is not applied

(1) Foreign currency contracts:

As of March 31, 2018

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Fair value	Valuation gain (loss)	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:						
Sell-						
U.S. dollar	¥254,467	¥4,163	¥4,163	\$2,394,533	\$39,174	\$39,174
Euro	5,997	132	132	56,432	1,242	1,242
Canadian dollar	25,349	882	882	238,534	8,300	8,300
Total	¥285,813	¥5,177	¥5,177	\$2,689,499	\$48,716	\$48,716

As of March 31, 2017

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

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

Derivative transactions to which hedge accounting is applied

(1) Interest rate contracts:

Accounting treatment: Exception processing of interest rate swap

Hedge item: Long-term loans payable

As of March 31, 2017

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

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

9. Property, Plant and Equipment

Property, plant and equipment as of March 31, 2018 and 2017 are summarized as follows:

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

10. Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at a consolidated subsidiary (Subaru Finance Co., Ltd.) as of March 31, 2018 and 2017 was as follows:

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

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

11. Pension and Severance Plans

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

As of March 31, 2018, 54 companies including the Company and its consolidated domestic subsidiaries have lump-sum retirement payment plans. Within the SUBARU Group, there are also 25 defined contribution plans, and 6 defined benefits pension plans. In addition, there are 2 single-employer employees' welfare pension funds subject to the provisions of Article 33 of "Accounting Standard for Retirement Benefits."

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

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

Movement in retirement benefit obligation, except plans applied simplified method

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

Movements in plan assets, except plans applied simplified method

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

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

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

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

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

Retirement benefit costs

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

Adjustments for retirement benefit (before tax effect)

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

Accumulated adjustments for retirement benefit (before tax effect)

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

Plan assets

Plan assets comprise:

	Percentage	
	2018	2017
a. Bonds	44%	47%
b. Equity securities	16%	16%
c. Cash and deposit	29%	28%
d. Other	11%	9%
Total	100%	100%

Long-term expected rate of return

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

Actuarial assumptions

The principal actuarial assumptions

	2018	2017
a. Attribution of expected benefit obligation	Benefit formula method	Benefit formula method
b. Discount rate	Primarily 0.6%	Primarily 0.7%
c. Long-term expected rate of return	Primarily 2.1%	Primarily 2.1%
d. Amortization of actuarial gain/loss	Primarily 16 years (amortized by the straight-line method starting from the following fiscal year, over a period shorter than the average remaining service periods of the eligible employees)	Primarily 16 years (amortized by the straight-line method starting from the following fiscal year, over a period shorter than the average remaining service periods of the eligible employees)
e. Amortization of past service cost	13 to 18 years	13 to 18 years

Defined contribution pension plan

The amount required to contribute to defined contribution plans was 5,161 million yen (US\$48,565 thousand) and 4,698 million yen for the fiscal years ended March 31, 2018 and 2017, respectively, which included the multi-employer pension plan of contributory defined benefit employees' welfare pension funds settled as defined contribution plans.

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

(1) Overall funded status of the multi-employer pension plan (mainly as of March 31, 2018 and 2017)

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

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

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

12. Income Taxes

The Company and its consolidated subsidiaries were subject to a number of taxes based on income, which in the aggregate resulted in a normal statutory income tax rate of approximately 30.7% for the fiscal years ended March 31, 2018 and 2017.

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

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

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

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

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

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

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

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

13. Net Assets

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

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

Under the Act, both legal earnings reserve and additional paid-in capital used to eliminate or reduce a deficit generally require a resolution of the shareholders’ meeting.

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

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

At the annual shareholders’ meeting held on June 22, 2018, the shareholders approved cash dividends amounting to 55,233 million yen (US\$519,742 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2018. Such appropriations are recognized in the period in which they are approved by the shareholders.

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

"Provision for loss on construction contracts" included in "Cost of sales" for the fiscal years ended March 31, 2018 and 2017 is provision of 95 million yen (US\$ 894 thousand) and reversal of 579 million yen, respectively.

15. Selling, General and Administrative Expenses

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

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Freightage and packing expenses	¥28,438	¥27,813	\$267,601
Advertising expenses	82,801	80,780	779,157
Sales incentives	173,785	137,209	1,635,316
Salaries and bonuses	58,002	55,123	545,798
Research and development expenses	120,330	113,490	1,132,305
Other	119,712	114,501	1,126,489
Total	¥583,068	¥528,916	\$5,486,666

16. Extraordinary loss

(The fiscal year ended March 31, 2017)

Loss on business liquidation

The loss was recognized due to the decision to liquidate the Industrial Products business on November 2, 2016. The loss consists of 2,524 million yen of loss on fixed assets, 2,127 million yen on inventory valuation, and 471 million yen on others. The loss on fixed assets above includes impairment losses on the following assets.

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

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

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

As a result, 1,201 million yen of impairment losses were recognized and presented in Loss on business liquidation in the quarterly consolidated statements of income.

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

Impairment loss

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

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

Grouping unit for recognition and measurement of impairment loss is defined by each property for lease. Due to the declining profitability and significant decline in market value, it is expected that future cash flows would fall below book values of those properties, the book values of those properties were written down to the recoverable amounts accordingly.

As a result, 1,185 million yen of impairment losses were recognized. The recoverable amounts are

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

(The fiscal year ended March 31, 2018)

Loss on related to airbags

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

17. Finance Leases

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

Information as Lessor

(1) The details of lease investment assets as of March 31, 2018 and 2017 were as follows:

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

(2) Lease revenue related to lease investment assets

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

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

18. Operating Lease

Information as Lessee

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

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

Information as Lessor

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

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

19. Contingent Liabilities

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

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

(The fiscal year ended March 31, 2017)

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

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

(The fiscal year ended March 31, 2018)

Expenses with regard to the modified agreement contents between the U.S. subsidiary of Takata Co., Ltd. and NHTSA (The National Highway Traffic and Safety Administration of the United States) dated May 4, 2016, Notification "Extended schedule of the recalls of airbag inflators manufactured by Takata Co., Ltd." released by MLIT (The Ministry of Land, Infrastructure, Transport and Tourism of Japan) dated May 27, 2016, and recalls in the other regions including China and Australia required by the U.S. and Japanese authorities are accrued to the extent that the amount can be reasonably estimated in the consolidated financial statements for the fiscal year ended March 31, 2018.

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

20. The Amount of Discount of Export Bill

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

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

21. Transfer of Financial Assets to Special Purpose Company

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

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

22. Segment Information

(1) Outline of business segment

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

The Company recognizes Automobile as its main business, and introduces an internal company system and recognizes Aerospace, and Other divisions. This framework makes clearer the responsibility of each division and accelerates business execution. The Company manages the subsidiaries on the basis of this classification. Therefore, the business segments consist of Automobile, Aerospace, and Other which do not belong to Automobile nor Aerospace. Automobile segment manufactures and sells vehicles and related products. Aerospace segment manufactures aircrafts, parts of space-related devices.

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

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

Segment incomes are calculated based on operating income.

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

(3) Information on sales, income, assets and other items by reportable segments for the fiscal years ended March 31, 2018 and 2017 were summarized as follows

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net Sales:			
Automobiles			
Outside customers	¥3,234,866	¥3,151,961	\$30,440,068
Inter-segment	2,918	4,720	27,458
Sub-total	3,237,784	3,156,681	30,467,526
Aerospace			
Outside customers	142,163	138,759	1,337,753
Inter-segment	5	-	47
Sub-total	142,168	138,759	1,337,800
Other (*1)			
Outside customers	28,192	35,272	265,287
Inter-segment	23,852	23,785	224,447
Sub-total	52,044	59,057	489,734
Total	3,431,996	3,354,497	32,295,060
Adjustment (*2)	(26,775)	(28,505)	(251,953)
Consolidated total	¥3,405,221	¥3,325,992	\$32,043,107

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

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

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

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

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

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

Related Information

(1) Products and services information

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

(2) Information about geographic areas

[1] Sales for the fiscal years ended March 31, 2018 and 2017 was summarized as follows:

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

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

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

[2] Property, plant and equipment as of March 31, 2018 and 2017 was summarized as follows:

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

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

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

[3] Major customers Information

Information about major customers is omitted because there were no outside sales to single customer with equal to or more than 10% of Net sales on the consolidated statements of income for the fiscal years ended March 31, 2018 and 2017

Information on Impairment Loss in Fixed Assets by Reportable segments

Impairment loss in fixed assets by reportable segments for the fiscal years ended March 31, 2018 and 2017 was summarized as follows:

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

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

Information on Amortization of Goodwill and Unamortized Balance by Reportable segments

Information on amortization of goodwill and unamortized balance by reportable segments as of March 31, 2018 and 2017 was summarized as follows:

Goodwill

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

Information on Negative Goodwill by Reportable segments

No items to be reported.

23. Fair Value of Investment and Rental Property

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

The consolidated balance sheet amounts, principal changes during the fiscal years ended March 31, 2018 and 2017, and fair value as of March 31, 2018 and 2017 were as follows:

The fiscal year ended March 31, 2018

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

The fiscal year ended March 31, 2018

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

The fiscal year ended March 31, 2017

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

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

2. Among changes in the amount of investment and rental property and properties that include portions used as investment and rental property during the fiscal year ended March 31, 2018, principal increases were 1,539 million yen (US\$14,482 thousand) of properties acquisitions and 720 million yen (US\$6,775 thousand) of other, and principal decreases were 1,001 million yen (US\$9,419 thousand) of depreciation, 1,469 million yen (US\$13,823 thousand) of loss on sales and retirement.

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

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

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

The fiscal year ended March 31, 2018

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

The fiscal year ended March 31, 2018

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

The fiscal year ended March 31, 2017

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

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

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

25. Subsequent Events

No items to be reported.

26. Other

No items to be reported.



Independent Auditor's Report

To the Board of Directors of SUBARU CORPORATION:

We have audited the accompanying consolidated financial statements of SUBARU CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SUBARU CORPORATION and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 25, 2018
Tokyo, Japan