To Our Shareholders

Internet Disclosure for Notice of Convocation of
the 87th Ordinary General Meeting of Shareholders

Notes to the Consolidated Financial Statements
Notes to the Non-consolidated Financial Statements

(April 1, 2017 to March 31, 2018)

SUBARU CORPORATION

Notes to the consolidated financial statements and non-consolidated financial statements are provided to our shareholders by posting on the website of SUBARU CORPORATION (the “Company”) pursuant to the provisions of the laws and Article 15 of the Articles of Incorporation of the Company.

Notes to Consolidated Financial Statements

Basis of Preparing Consolidated Financial Statements

1. The scope of consolidation and application of the equity method
   (1) Consolidated subsidiaries: 75
       Domestic 53: Fuji Machinery Co., Ltd., Ichitan Co., Ltd., Tokyo Subaru Inc., and 50 others;
       Overseas 22: Subaru of Indiana Automotive, Inc., Subaru of America, Inc., and 20 others
   (2) Equity method-applied companies: 8
       Domestic 6: Nishino Machine Industries .Ltd , and 5 others
       Overseas: 2 companies Subaru of Taiwan, Ltd and 1 other.
   (3) Name of primary non-consolidated subsidiaries and non-equity method applied companies
       Subaru Technology Beijing Co. Ltd.
       As non-consolidated subsidiaries are immaterial in terms of total assets, net sales, net income and retained earnings, and do not have significant impact on the consolidated financial statements as a whole, they have been excluded from the scope of consolidation.
       In addition, non-consolidated subsidiaries and affiliates have insignificant impact on the consolidated financial statements, and have little significance overall. Consequently, cost approach is applied rather than equity method for their valuation.

2. Changes in the scope of consolidation and application of equity method
   (1) Consolidated subsidiaries
       Added: 1
       SUBARU Extended Services Company, LLC which is established in this fiscal year is included in the scope of consolidation from the fiscal year ended March 31, 2018.
       Decreased: 3
       Robin America Inc. was excluded from the scope of consolidation from the fiscal year ended March 31, 2018 due to sale of the shares in it. In addition, Robin Europe GmbH Industrial Engine and Equipment was excluded from the scope of consolidation due to its decreased materiality.
   (2) Equity method-applied companies
       Added: 6
       Nishino Machine Industries.Ltd and 5 other companies were included in the scope of the equity method from the fiscal year ended March 31, 2018 due to their increased materiality.

3. Accounting period of consolidated subsidiaries
   The consolidated financial statements as of and for the fiscal year ended March 31, 2017 included the financial information of Subaru of China Ltd. as of and for the fiscal year ended December 31, 2016, with necessary adjustments to reflect any significant transactions from January 1, 2017 to March 31, 2017, because the difference between the reporting period end of the consolidated financial statements and Subaru of China Ltd. is within three months.
   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 balance sheet.

4. Accounting policies

(1) Valuation standards and valuation method for significant assets

(i) Securities

Held-to-maturity debt: the amortized cost method (straight-line method).

Available-for-sale securities for which fair values are available

Fair value method based on the market price etc. at the end of the accounting period

(Unrealized holding gains and losses included as a separate component of net assets until realized; and the cost of sold securities is determined by the moving-average method).

Non-marketable securities:

Mainly moving-average cost method.

(ii) Derivatives: fair value method.

(iii) Inventory

Inventories for regular sales are stated at cost, determined mainly by the moving-average cost method.

(Book value on the consolidated balance sheet is measured based on the lower of cost or market value)

(2) Methods of depreciation and amortization of significant depreciable assets

(i) Property, plant and equipment (excluding leased assets)

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:

Building and structures: 7 to 50 years

Machinery, equipment and vehicles: 2 to 20 years

(ii) 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.

(iii) 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.

(3) Standards for significant provisions

(i) 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. Specific allowances are provided for the estimated amounts considered to be unrecoverable after reviewing individual recoverability of certain doubtful accounts such as claims provable in bankruptcy.

(ii) Provision for bonuses: Employees' bonuses are recognized as expenses for the period in which those are incurred.

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

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

(v) Provision for loss on business liquidation: The provision for losses on business liquidation is provided due to important business liquidation.

(vi) Provision for loss relating to airbags: The provision for losses relating to airbags is provided due to quality-assurance expenses to occur in the future concerning the market measure.

(vii) Provision for directors' retirement benefits: For some domestic consolidated subsidiaries, to prepare for payment of directors' retirement benefits, the necessary payment amount as of end of the consolidated fiscal year in accordance with internal rules is provided.

(4) Method for accounting 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.

(5) Standard for Revenue Recognition

(i) 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.

(ii) 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.

(6) Standard for Japanese yen conversion for significant foreign currency-denominated assets or liabilities

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.

(7) Method and period for amortization of goodwill

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

(8) Other significant matters for preparing consolidated financial statements

(i) Treatment of consumption taxes

Accounting treatment for consumption tax and regional consumption tax uses tax-excluded method.

(ii) Unit of amount

Unit of amount is displayed by rounded off.

(iii) Application of consolidated tax payment

Consolidated taxation system is applied.

(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.

(Consolidated Balance Sheet)

1. Accumulated depreciation of property, plant and equipment 968,876 million yen

2. Advanced depreciation of 6,799 million yen from state subsidy, etc. has been directly deducted from the amount of property, plant and equipment reported on the consolidated balance sheet.

3. Assets pledged as collateral and collateralized loans

(1) Assets pledged as collateral

Building and structures:	10,369 million yen
Machinery, equipment and vehicles:	118 million yen
Land:	18,265 million yen
Total	28,752 million yen

(2) Collateralized loans

Short-term loans payable:	8,728 million yen
Other current liabilities:	35 million yen
Current portion of long-term loans payable:	1,388 million yen
Long-term loans payable:	11,454 million yen
Other non-current liabilities:	1,717 million yen
Total	23,322 million yen

4. Contingent liability

1. Guarantor of third-party indebtedness from financial institutions

SUBARU Canada Inc. client:	22,207 million yen
Employees:	7,407 million yen
Other:	181 million yen
Total	29,795 million yen

2. Other contingent liabilities

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

5. The amount of discount of export bill 1,891 million yen

6. Transfer of financial assets to special purpose company comprised of 4,251 million yen accounts receivable-trade in aerospace business.

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

Total overdraft facilities and lending commitments:	4,800 million yen
Less amounts currently executed:	1,637 million yen
Difference	3,163 million yen

8. Inventory and provision for loss on construction contracts with expected losses have not been offset. Of the inventory related to construction contracts with expected losses, the amount corresponding to provision for loss on construction is 160 million yen (all work in process).

(Consolidated Income Statement)

1. Cost of Goods Sold
"Provision for loss on construction contracts" includes in "Cost of sales" 95 million yen.

2. Extraordinary losses
Loss 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.

(Consolidated Statement of Changes in Net Assets)

1. Matters related to the type and total issued and outstanding stocks, and type and number of treasury stocks

Type of Stock	Number of stocks as at beginning of the consolidated fiscal year (shares)	Number of stocks increased during the consolidated fiscal year (shares)	Number of stocks reduced during the consolidated fiscal year (shares)	Number of stocks as at end of the consolidated fiscal year (shares)
Issued shares				
Common Stock	769,175,873	-	-	769,175,873
Treasury stocks				
Common Stock (Note) 1	2,490,224	2,897	38,082	2,455,039

(Notes) 1. Increase of 2,897 shares of Treasury stocks was due to purchase of Shares less than 1 unit.
Decrease of 38,082 shares of Treasury stocks was due to retirement of treasury stocks on August 10, 2017 which were restricted transfer stocks resoluted to be introduced at the Board of Directors meeting held on April 28, 2017.

2. Dividends

1. Dividends paid

Resolution	Types of Stocks	Total Dividends (Millions of yen)	Dividends per share (yen)	Criteria Date	Effective Date
The 86th Ordinary Meeting of General Shareholders, June 23, 2017	Common Stock	55,230	72.00	March 31, 2017	June 26, 2017
Board of Directors Meeting, November 6, 2017	Common Stock	55,233	72.00	September 30, 2017	December 7, 2017

2. Of dividends whose criteria date belongs to the current consolidated fiscal year, those in which the effective date of the dividend is the following consolidated fiscal year

Resolution	Types of Share	Total Dividends (Millions of yen)	Sources of Dividend	Dividend Per Share(yen)	Criteria Date	Effective Date
The 87th Ordinary Meeting of General Shareholders, June 22, 2018	Common Stock	55,233	Retained earning	72.00	March 31, 2018	June 25, 2018

(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 are mainly short-term investment financial instruments and investment securities are mainly stocks associated with business and capital alliances with principal business partners, and are subject to risk of market price fluctuation.

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

(i) 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.

(ii) 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.

(iii) 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

(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 were as follows:

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

(Unit: Millions of yen)

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

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

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

(Note 1) The calculation methods of financial instrument fair value together with securities

Assets

(1) Cash and deposits, and (2) 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.

(3) Lease investment assets and (4) 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.

(5) 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

(6) Notes and accounts payable-trade, (7) Electronically recorded obligations-operating, (8) short-term loans payable, and (10) Accrued income taxes and (11) 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.

(9) Current portion of long-term loans payable, and (12) 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.

(Note 2) Financial instruments which fair value is extremely difficult to measure

(Unit: Millions of yen)

	Consolidated balance sheet amount
Stocks of non-consolidated subsidiary and affiliated companies	6,501
Other securities	
Certificate of deposit	55,000
Commercial paper	17,499
Money management fund	116,270
Unlisted stocks (excluding over-the-counter stocks)	874
Medium Term Note	20,000
Trust beneficiary right	10,000
Other	3
Investments and other assets	
Investments in equity of affiliated companies and others	1,090

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

(Note 3) Scheduled redemption of monetary assets and securities with maturity

(Unit: 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

(Note 4) Amount of repayment for long-term debt and other interest-bearing debt

(Unit: 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	-

(Fair Value of Investment and Rental Property)

1. Summary of investment and rental properties
   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.
2. The consolidated balance sheet amounts, principal changes during fiscal year, fair value at the end of fiscal year and market value calculation method

(Unit: Millions of yen)

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

(Note)

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

2) Among changes in the amount of investment and rental property and properties that include portions used as investment and rental property during the fiscal year, principal increases were 1,539 million yen of properties acquisitions, 720 million yen of other increase and principal decreases were 1,001 million yen of depreciation, 1,469 million yen of loss on sales and retirement, and 543 million yen of other decreases.

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

3. Profit and loss from investment and rental property

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

(Unit: Millions of yen)

	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental properties	3,825	2,043	1,782	15
Properties that include portions used as investment and rental properties	780	1,198	(418)	-

(Note)

1) Rental income (from the properties that include portions used as investment and rental property) does not include the portion that the Company or certain subsidiaries use as the provision of services and business administration purposes. Rental expenses, however, include all portions of the expenses (costs related to depreciation, repairs, insurance and taxes).
2) Other profit and loss include in gain on sale and impairment loss.

(Per Share Information)

1. Net assets per share ¥2,025.31
2. Net income per share ¥287.40

(Important Subsequent Events)

No items to be reported.

Notes to Non-consolidated Financial Statements

Significant accounting policies

1. Evaluation standards and methods for securities
   (1) Held-to-maturity debt securities are stated using the amortized cost method. (straight-line method).
   (2) Shares of subsidiaries and associates are stated at cost, as determined by the moving-average method.
   (3) Available-for-sale securities for which fair values are available:
      Fair value method based on the market price etc. at the end of the accounting period
      (Unrealized holding gains and losses included as a separate component of net assets until realized; and the cost of sold securities is determined by the moving-average method).
   Non-marketable securities: Mainly moving-average cost method.

2. Evaluation standards and methods for derivatives transactions: Fair value method

3. Evaluation standards and methods for inventory
   (1) Merchandise and finished goods: Mainly with moving-average cost method.
   (Book value on the balance sheet is measured based on the lower of cost or market value.)
   (2) Work in process, raw materials and supplies: Mainly with FIFO cost method.
   (Book value on the balance sheet is measured based on the lower of cost or market value.)

4. Depreciation Method of Fixed Assets
   (1) Property, plant and equipment (excluding lease assets): Declining-balance method is applied.
   However 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.
   Primary period of depreciation are as follows:

Buildings:	8 to 50 years
Structures:	7 to 50 years
Machinery and equipment:	2 to 10 years
Vehicles:	3 to 7 years
Tools, furniture, and fixtures:	2 to 10 years

   (2) Intangible assets (excluding leased assets): Straight-line method is applied.
   Computer software used internally by the Company is amortized by the straight-line method over the relevant economic useful lives of 3 or 5 years.

   (3) 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.

5. Standards for provisions
   - (i) 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. Specific allowances are provided for the estimated amounts considered to be unrecoverable after reviewing individual recoverability of certain doubtful accounts such as claims provable in bankruptcy.
   - (ii) Provision for bonuses: Employees' bonuses are recognized as expenses for the period in which those are incurred.
   - (iii) Provision for product warranties: The Company provide for accrued warranty claims on products sold based on their past experiences of warranty services and estimated future warranty costs, which are included in "Accrued expenses" in the accompanying balance sheets.
   - (iv) Provision for loss on construction contracts: The provision for losses on uncompleted construction of contracts in the Aerospace segment is provided when substantial losses on the contracts are anticipated at the fiscal year-end for the next fiscal year and beyond and such losses can be reasonably estimated.
   - (v) Provision for loss on business liquidation: The provision for losses on business liquidation is provided due to important business liquidation.
   - (vi) Provision for loss relating to airbags: The provision for losses relating to airbags is provided due to quality-assurance expenses to occur in the future concerning the market measure.
   - (vii) Provision for retirement benefits: Net defined benefit liability (assets) for employees is provided based on the estimated amounts of projected pension and severance obligation and 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 (16 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 (16 years) that is shorter than the average remaining service period of the eligible employees.

6. 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.

7. Standard for Japanese yen conversion for significant foreign currency-denominated assets or liabilities

   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.

8. Other principle matters for preparation of the statements
   - (1) Method for accounting for retirement benefits

     Accounting method for unrecognized actuarial differences and unrecognized prior service costs are different from accounting methods used for these items in the consolidated financial statements.
   - (2) Treatment of consumption taxes

     Accounting treatment for consumption tax and regional consumption tax uses tax-excluded method.
   - (3) Unit of amount

     Unit of amount is displayed by rounded off.
   - (4) Application of consolidated tax payment

     Consolidated taxation system is applied.

(Changes in Accounting estimates)

(Provision for product warranties)

In the current 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 fiscal year is immaterial.

(Balance Sheet)

1. Accumulated depreciation of property, plant and equipment 587,264 million yen

2. Advanced depreciation of 6,530 million yen from state subsidy, etc. has been directly deducted from the amount of property, plant and equipment reported on the balance sheet.

3. Assets pledged as collateral and secured obligations

(1) Assets pledged as collateral

Buildings	629 million yen
Land	521 million yen
Total	1,150 million yen

(2) Collateralized loans

Long-term loans-payable 9,020 million yen

In addition, 33 million yen of land has been pledged as collateral for 3,804 million yen of long-term loans payable and received-guarantee deposited, etc. of affiliates.

4. Monetary claims and obligations to affiliates

Short-term monetary claims to affiliates	272,782 million yen
Short-term monetary obligations to affiliates	27,700 million yen
Long-term monetary claims to affiliates	72,555 million yen

5. Contingent liability

(1) Guarantee obligation for loans from financial institutions

Subaru of America, Inc.	20,068 million yen
Employees	7,403 million yen
Subaru Auto Accessories Ltd.	933 million yen
Subaru Kohsan Co., Ltd.	920 million yen
3 other companies	352 million yen
Total	29,676 million yen

(2) Other contingent liabilities

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

6. The amount of discount of export bill 1,891 million yen

7. Transfer of financial assets to special purpose company comprised of 4,251 million yen accounts receivable-trade in aerospace business.

8. Inventory and provision for loss on construction contracts with expected losses have not been offset. Of the inventory related to construction contracts with expected losses, the amount corresponding to provision for loss on construction is 160 million yen (all work in process).

(Income Statement)

1. Cost of Goods Sold
   "Provision for loss on construction contracts" includes in "Cost of sales" 95 million yen.

2. Transactions with affiliates

Operating Transactions	Net sales	1,594,846 million yen
	Purchase amount	225,755 million yen
	Other transactions	39,164 million yen
Non-Operating Transactions	Income	25,637 million yen
	Expenses	471 million yen

3. Extraordinary losses
   Loss 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.

(Non-Consolidated Statement of Changes in Net Assets)

Type and number of treasury stocks at the end of the fiscal year

Common Stock ………………………………………………………………………… 2,055,039 shares

(Accounting for Deferred Tax)

1. Main sources of deferred tax assets and liabilities

	As of March 31, 2018 (Unit: Millions of yen)
Deferred tax assets	
Accrued expenses	59,245
Provision for product warranties	15,743
Valuation loss on investment securities	9,690
Amount exceeding the limit for provision for retirement benefits	7,161
Depreciation of fixed assets, etc.	6,005
Provision for bonuses	4,784
Accrued enterprise tax	2,323
Inventory	1,583
Deferred expenses	1,464
Amount exceeding the limit for allowance for doubtful accounts	1,241
Other	3,290
Subtotal Deferred Tax Assets	112,529
Valuation allowance	(13,717)
Total Deferred tax assets	98,812
Deferred tax liabilities	
Prepaid pension cost	(3,016)
Valuation difference on available-for-sale securities	(1,232)
Reserve for reduction entry	(435)
Other	(0)
Total Deferred Tax Liabilities	(4,683)
Net Deferred Tax Assets	94,129

2. Breakdown of primary items causing the difference between statutory effective tax rate and rate of income taxes after application of accounting for deferred tax

Statutory effective tax rate	30.7%
(Adjustments)	
Adjustment for prior-period income taxes	1.1%
Non-deductible entertainment expenses	0.1%
Valuation allowance	(0.7%)
Exemption of received dividends	(3.0%)
Tax credit of experiment and research expenses	(10.1%)
Other	(0.7%)
Rate of income taxes after application of accounting for deferred tax	17.4%

(Transactions with Related Parties)

(Unit: Millions of yen)

Status	Name of Company, etc.	Ratio of voting rights	Relationship with related party	Contents of transaction	Amount of transaction (Note 3)	Account titles	Balance at the end of the fiscal year (Note 3)
Subsidiary	SUBARU Finance Co., Ltd.	100% direct ownership	Credit and financing related to SUBARU vehicles and leasing and rental of SUBARU vehicles; Concurrent appointment of corporate officers	Loans receivable (Note 1) Repayment of loans (Note 1)	826,919 852,797	Loans receivable	145,995
Subsidiary	SUBARU of America Inc.	100% direct ownership	Sales of SUBARU vehicles and components; Concurrent appointment of corporate officers	Sales of products Purchase of products Guarantees (Note 2)	801,482 47,451 20,068	Accounts receivable Accounts payable	61,324 8,719
Subsidiary	SUBARU of Indiana Automotive Inc.	100% direct ownership	Purchasing of production parts for SUBARU vehicles, sales of completed vehicles to SUBARU of America Inc. (SOA) and others; Concurrent appointment of corporate officers	Sales of products Purchase of products, etc.	251,038 1,234	Accounts receivable Accounts payable	26,968 53

Transaction terms and policies for determination of transaction terms

(Note 1) Loans to SUBARU Finance Co., Ltd. are determined considering the market rate. No collaterals are received.

(Note 2) The Company guarantees loans from financial institutions, etc. of SUBARU of America, Inc.

(Note 3) Transaction amounts are exclusive of consumption taxes. Consumption taxes are included in the amount at the end of the fiscal year.

(Per Share Information)

1. Net assets per share ¥1,507.02
2. Net income per share ¥200.10

(Important Subsequent Events)

Not applicable.