



Report for the Fiscal Year Ended 2018

SUBARU CORPORATION

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**Business Report for the Fiscal Year Ended 2018
(April 1, 2017 to March 31, 2018)**

1. Matters concerning the status of SUBARU GROUP

(1) Progress and Results

Status of Economy in the Period under Review

As the employment and income environment improved supported by various policies, the Japanese economy continued on a gradual recovery path in the period under review. Global economy also recovered gradually led by the United States, although attention must be paid to the economic development in China and other Asian emerging markets; the impact from political uncertainties; and trends in the financial and capital markets. Given this backdrop, the exchange rate was mostly stable, with the yen against the US dollar getting slightly stronger in the fourth quarter.

Overview of Business

Through initiatives set out in the Prominence 2020 mid-term management vision drawn up in 2014, which aims for SUBARU to have a prominent presence in the minds of its customers, the Subaru Group has made sustained effort for reliable automobile development and manufacturing and keep offering its customers “Enjoyment and Peace of Mind.”

The key North American market continued to drive global sales, and our initiatives brought steady results over the same period, including the achievement of record automobile unit sales.

Consequently, net sales increased by ¥79.2 billion (2.4%) from the previous fiscal year to a record ¥3,405.2 billion, owing to increased net sales from favorable foreign exchange rate and higher automobile unit sales.

Operating income decreased by ¥31.4 billion (7.6%) year-on-year to ¥379.4 billion, due to increases in selling expenses associated with rising interest rates in US, the effect of raw materials market, and higher R&D expenses, despite positive effect from the foreign exchange rate. Ordinary income decreased by ¥14.4 billion (3.7%) from the previous fiscal year to ¥379.9 billion. Net income attributable to owners of the parent decreased ¥62.0 billion (22.0%) year-on-year to ¥220.4 billion partly owing to airbag related extraordinary loss of ¥81.3 billion.

	Amount of money (Million yen)	Change from end of previous fiscal year (%)
Net Sales	3,405,221	2.4
Operating Income	379,447	(7.6)
Ordinary Income	379,934	(3.7)
Net Income Attributable to Owners of the Parent	220,354	(22.0)

During the period, the Company carried out an internal investigation in accordance with the document issued by the Ministry of Land, Infrastructure and Transportation (“MLIT”) dated September 29, 2017 on conducting confirmation in light of the final vehicle inspection incident involving Nissan Motor. The investigation found nonconforming practices in connection with the final vehicle inspection process at the Gunma Plant where personnel who were not qualified as final vehicle inspector performed final vehicle inspection. In response to this finding, the Company retained an external law firm (Nagashima Ohno & Tsunematsu) to investigate nonconforming practices including those related to final vehicle inspection and reported the investigation findings to MLIT on December 19, 2017 together with recurrence prevention measures. In addition, the Company reported the progress status of recurrence prevention measures to MLIT on April 27, 2018.

In the process of the investigation, it was confirmed that certain measurements and data for a sample test of fuel consumption rate (fuel efficiency) which formed part of final vehicle inspection might have been altered. The Company therefore organized an internal investigation team led by members with extensive technical knowledge and experience. The team investigated relevant facts with assistance from outside experts (Nagashima Ohno & Tsunematsu), who were enlisted to help in the investigation to ensure its objectivity. The investigation concluded that certain measurements and data were inappropriately altered in a sample test of fuel efficiency and gas emissions. The Company reported its findings together with recurrence prevention measures to MLIT and released an investigation report on April 27, 2018.

The Company is keenly aware of the needs to fully disclose the details of these findings, sincerely reflect on these incidents, nurture strong compliance awareness in all business operations, and reform our corporate culture from its core. The Company’s management team will lead the collective efforts by all officers and employees to thoroughly implement these recurrence prevention measures and to restore the trust we have lost.

[Translation for Reference and Convenience Purposes Only]

(Automobile Division)

As to industry total automobile demand in Japan, compared with the previous fiscal year, passenger cars remained steady year-on-year while minicars increased to 5.197 million units (an increase of 2.3% from the previous fiscal year). Also, total automobile demand in the United States, which is a priority market for us, was 17.308 million units (decrease on 1.0% year-on-year), moving further from passenger vehicle to light trucks including SUVs.

Domestic sales of minicars decreased from the previous fiscal year, but passenger cars remained strong amid led by all-new SUBARU XV, resulting in sales increasing by 5 thousand units (2.8%) from the previous fiscal year to 163 thousand units.

Overseas, which is a priority market for us, unit sales stayed strong in the United States, reaching a record high for the ninth consecutive fiscal year, although total unit sales decreased by 2 thousand units (0.2%) year-on-year to 903 thousand units, due to the decrease in unit sales in China owing to fierce competition.

Combined domestic and overseas unit sales thus increased by 2 thousand units (0.2%) from the previous fiscal year to 1,067 thousand units, and net sales increased by ¥82.9 billion (2.6%) to ¥3,234.9 billion. Segment income decreased by ¥36.2 billion (9.1%) from the previous fiscal year to ¥361.5 billion.

(Units in thousands and percentage change from the previous period)

	FYE2018	Change	Change (%)
Total in Japan	163	5	2.8
Passenger cars	133	6	4.9
Minicars	31	(2)	(5.1)
Total Overseas	903	(2)	(0.2)
North America	728	7	1.0
Europe/Russia	48	2	3.7
Australia	56	7	13.4
China	27	(17)	(38.9)
Other regions	45	(0)	(0.8)
Total	1,067	2	0.2

With respect to product and safety, SUBARU's safety performance was highly appreciated by third party agencies.

In Japan, the Impreza and SUBARU XV earned the highest safety score ever in the Japan New Car Assessment Program (JNCAP) crash safety evaluation tests performed by the National Agency for Automotive Safety and Victim's Aid (NASVA), and in addition to the Grand Prix Award, received the first ever Special Award for Collision Safety for having a pedestrian protection airbag as standard. Our efforts to develop the EyeSight driver assist system received the President's Award from Japan Techno-Economics Society (JATES) at the society's 6th Technology Management & Innovation Awards.

In the US, Impreza, Crosstrek, Legacy, Outback, Forester, and WRX (all equipped with EyeSight) were awarded the highest standard of safety, 2018 TOP SAFETY PICK (TSP) by the Insurance Institute for Highway Safety (IIHS).

In Europe, Impreza and SUBARU XV won the highest five-star overall rating in the 2017 European New Car Assessment Programme (Euro NCAP) safety performance test performed by an independent agency composed of European governments and motoring and European consumer organizations. In addition, the two models also received the Best in Class Safety award in the Small Family Car category.

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(Aerospace Division)

Deliveries to the Japan Ministry of Defense saw sales increase from the previous fiscal year mainly with development under way in earnest based on a contract for the new multi-purpose helicopter UH-X*1.

Sales to the commercial sector also increased from the previous fiscal year with the growth in production of Boeing 787 aircraft covering for the decline in production of Boeing 777 aircraft.

As a result, overall sales increased by ¥3.4 billion (2.5%) from the previous fiscal year to ¥142.2 billion. Segment income increased by ¥3.2 billion (34.7%) from the previous fiscal year to ¥12.3 billion.

During the period under review, the maintenance facility for the next-generation utility helicopter (the Japan Ground Self-Defense Force UH-X*1) and the new commercial variant of the 412EPI*2 helicopter at the South Plant of the Aerospace Company (Utsunomiya City, Tochigi Prefecture) were completed and a ceremony was held on January 18, 2018. The production of the Center Wing Section*3 and its integration with the Main Landing Gear Wheel Wells were completed at its Handa Plant (Handa City, Aichi Prefecture) as the first Boeing 777X Center Wing Work Package*4 and commenced shipping.

*1 Successor to the UH-1J utility helicopter currently in operation. Production of approximately 150 aircraft is planned.

*2 Model based on the same platform as UH-X, to be manufactured and sold to countries worldwide.

*3 A key structure of an airplane which connects the main wings to the fuselage.

*4 A shipping format where the Center Wing Section and Main Landing Gear Wheel Wells are integrated.

(Other Businesses)

Net sales decreased by ¥7.1 billion (20.1%) from the previous fiscal year to ¥28.2 billion. Segment income also increased by ¥1.6 billion (44.2%) from the previous fiscal year to ¥5.1 billion.

(In Japanese yen in million except for profit ratio and percentage change from the previous period)

	Net Sales				Segment Income			
	86 th FYE2017	87 th FYE2018	Change	Change (%)	86 th FYE2017	87 th FYE2018	Change	Change (%)
Automobile Div.	3,151,961	3,234,866	82,905	2.6	397,657	361,454	(36,203)	(9.1)
Aerospace Div.	138,759	142,163	3,404	2.5	9,102	12,259	3,157	34.7
Other Businesses	35,272	28,192	(7,080)	(20.1)	3,512	5,066	1,554	44.2
Adjustments	—	—	—	—	539	668	129	23.9
Total	3,325,992	3,405,221	79,229	2.4	410,810	379,447	(31,363)	(7.6)

Notes: 1. Net sales are sales to outside customers.

2. Adjustment to segment income refers to the elimination of intersegment transactions.

(2) Status of Assets and Profit/Loss

Category		84 th FYE2015	85 th FYE2016	86 th FYE2017	87 th (Current) FYE2018
Net Sales	(Million yen)	2,877,913	3,232,258	3,325,992	3,405,221
Operating Income	(Million yen)	423,045	565,589	410,810	379,447
Ordinary Income	(Million yen)	393,648	576,972	394,330	379,934
Net Income Attributable to Owners of Parent	(Million yen)	261,873	436,654	282,354	220,354
Operating Margin	(%)	14.7	17.5	12.4	11.1
Net Income Per Share	(Yen)	335.57	559.54	365.77	287.40
Total Assets	(Million yen)	2,199,714	2,592,410	2,762,321	2,884,313
Net Assets	(Million yen)	1,030,719	1,349,411	1,464,888	1,561,023
Net Assets Per Share	(Yen)	1,310.15	1,721.90	1,902.56	2,025.31
Return on Equity	(%)	29.3	36.9	20.2	14.6
Shareholders' Equity	(%)	46.5	51.8	52.8	53.8

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(3) Issues That Must Be Addressed **(Enhancing our fundamental strength)**

The Company achieved steady growth owing to multiple factors in these few years. On the other hand, we came to acute realization that fundamental strength was lacking as a corporation. We believe it is necessary to enhance our fundamental strength by returning to the basics.

[1] Basic approach towards business/corporate culture reform

From nonconforming final vehicle inspections, we were given a fresh reminder that there was lack of awareness of public interest in and importance of our business; and lack of normative consciousness stemming from a culture that overemphasizes technology. Also, we reacknowledged that the platform for appropriate operation of business such as education, internal rules, communication and systems were inadequate.

To thoroughly implement preventative measures against the incidents identified and to deal with the cultural issues recognized this time, we have established the “Tadashii-Kaisha” Promotion Department and Compliance Office. We intend to fundamentally enhance our efforts to become a high-quality company and promote this with unwavering resolve. We are determined to transform ourselves into a “Tadashii-kaisha,” a company doing the right things in the right way, never to let another incident like this happen again.

[2] Initiatives on quality

As the production and unit sales figure rapidly increased, issues related to product quality such as airbags have continued to occur. Quality is the foundation of customers’ trust in SUBARU. We will treat quality as the top priority in our company-wide initiative and implement fundamental reforms led by the CQO (Chief Quality Officer). We will ensure the smooth supply of replacement parts, and increase work efficiency in the dealerships, among other measures, to enhance the quality of our customer service.

We deeply regret causing concerns and inconveniences to our stakeholders including our customers, will address the issues sincerely, and endeavor to enhance our fundamental strength.

(Enhancing brand value)

Both our automotive and aerospace businesses are not large in size, it is important to create added-value that is appreciated by our customers. We will engage in following efforts to expand the range of distinctive SUBARU products and strengthen our brand value:

- [1] Corporate activities that enhance customer trust and sympathy, that makes our customers smile
- [2] Expand the range of distinctive SUBARU products and services focused on “Enjoyment and Peace of Mind”
 - Roll-out of new multi-passenger SUV “Ascent” in North America Global launch of the all-new model for our global mainstream product, Forester.
 - Enhancement of connection services utilizing technologies such as telematics*
- * Technology for providing various information and services by mounting and utilizing communication systems on mobile objects such as vehicles.
- [3] Develop new safety/environmental technology that protects human life and global environment
 - Continue to provide industry-leading safety functions by sustained development and refinement of safety technology
 - Roll out electric vehicles to each market starting with plug-in hybrid vehicle in the U.S. market in 2018

We are committed to further development of our organization and human resources, which is essential for acceleration of these activities. In addition, we are aiming to expand and deepen collaboration with other companies.

Under the new management, the next mid-term management vision is scheduled for announcement during the summer of 2018.

(4) Capital Expenditures

The amount of capital expenditure for FYE2018 was 141.4 billion yen. Main investments included enhancement of existing production facilities for automotive business, facilities related to production of new model vehicles, sales facilities, research and development facilities, as well as production facilities for aerospace business.

[Translation for Reference and Convenience Purposes Only]

(5) Financing

[1] The Company secured total long-term loans payable of 3.4 billion yen.

[2] The Company securitized approximately 140 million US dollars of accounts receivables*1.

[3] The Company has entered into commitment line contracts*2 (jointly with our subsidiary Subaru of America, Inc. (SOA)) for a total of 221.5 billion yen and 150 million US dollars.

*1 Securitization of accounts receivables refers to monetization of uncollected accounts receivables by transfer of the claims to banks.

*2 Commitment line contracts promise extension of loans by banks and other lenders at the request by the borrower up to the predetermined amount which is to be made available for a set period of time.

(6) Main Businesses (as of March 31, 2018)

By Business Segment	Main Products
Automotive Div.	Legacy, Levorg, WRX, Impreza, SUBARU XV, Forester, SUBARU BRZ Justy, Chiffon, Stella, Pleo, Dias Wagon, Sambar
Aerospace Div.	Airplane, aerospace related machinery and components
Other Businesses	Real estate leasing

(7) Main Facilities (as of March 31, 2018)

[1] Company

Name	Address
Head Office	Shibuya-ku, Tokyo
Tokyo Office	Mitaka-shi, Tokyo
Gunma Plant	Ota-shi, Gunma; Oizumi-machi, Oura-gun, Gunma
Utsunomiya Plant	Utsunomiya-shi, Tochigi; Handa-shi, Aichi
SUBARU Test & Development Center	Sano-shi, Tochigi; Bifuka-cho, Nakagawa-gun, Hokkaido

[2] Domestic Subsidiaries/Overseas Subsidiaries

Refer to “(9) Significant Subsidiaries

(8) Major Lenders (as of March 31, 2018)

Lender	Amount of Borrowings (Million yen)
Nippon Life Insurance Company	10,900
Mizuho Bank, Ltd.	10,000
The Norinchukin Bank	10,000
Sumitomo Mitsui Trust Bank, Limited	4,500
Sumitomo Mitsui Banking Corporation	3,000
Saitama Prefectural Credit Federation Of Agricultural Cooperatives	3,000

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(9) Significant Subsidiaries (as of March 31, 2018)

[1] Significant Subsidiaries

Name	Address	Capital	Equity Interest	Main Businesses
Fuji Machinery Co., Ltd.	Gunma	480 Million yen	100.0%	Manufacture and sales of automotive parts
Ichitan Co., Ltd.	Gunma	480 Million yen	100.0%	Manufacture and sales of automotive parts
KIRYU INDUSTRY Co., Ltd.	Gunma	400 Million yen	100.0%	Manufacturing of repair parts for Subaru cars, Subaru vehicle rust prevention works, Manufacture of custom-build car, etc.
Subaru Logistics Co., Ltd.	Gunma	96 Million yen	100.0%	Shipping, land freight and warehousing of Subaru vehicles, etc.
H.B.C. Co., Ltd.	Kanagawa	490 Million yen	68.0%	Storing and shipping of Subaru vehicles
Hokkaido Subaru Inc.	Hokkaido	98 Million yen	100.0%	Sales of Subaru vehicles and components
Miyagi Subaru Inc.	Miyagi	80 Million yen	100.0%	Sales of Subaru vehicles and components
Niigata Subaru Inc.	Niigata	100 Million yen	100.0%	Sales of Subaru vehicles and components
Kanagawa Subaru Inc.	Kanagawa	100 Million yen	100.0%	Sales of Subaru vehicles and components
Chiba Subaru Inc.	Chiba	100 Million yen	100.0%	Sales of Subaru vehicles and components
Tokyo Subaru Inc.	Tokyo	100 Million yen	100.0%	Sales of Subaru vehicles and components
Nagoya Subaru Inc.	Aichi	100 Million yen	100.0%	Sales of Subaru vehicles and components
Osaka Subaru Inc.	Osaka	100 Million yen	100.0%	Sales of Subaru vehicles and components
Hiroshima Subaru Inc.	Hiroshima	92 Million yen	100.0%	Sales of Subaru vehicles and components
Fukuoka Subaru Inc.	Fukuoka	50 Million yen	100.0%	Sales of Subaru vehicles and components
Subaru Finance Co., Ltd.	Tokyo	2,000 Million yen	100.0%	Leasing and rental of Subaru vehicles; credit and financing related to Subaru vehicles

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Name	Address	Capital	Equity Interest	Main Businesses
Subaru of Indiana Automotive, Inc. (SIA)	US	USD 794,045,000	100.0%	Purchasing of production parts for Subaru vehicles, sales of completed vehicles to Subaru of America Inc. (SOA) and others
Subaru of America, Inc. (SOA)	US	USD 241,000	100.0%	Sales of Subaru manufactured vehicles, Subaru of Indiana Automotive, Inc. (SIA) manufactured vehicles and parts
Subaru Canada, Inc. (SCI)	Canada	CND 30,000,000	100.0%	Sales of Subaru manufactured vehicles, Subaru of Indiana Automotive, Inc. (SIA) manufactured vehicles and parts
Subaru Europe N.V./S.A. (SE)	Belgium	EUR 87,504,000	100.0%	Sales of Subaru vehicles and components
Subaru of China Ltd. (SOC)	China	CNY 187,354,000	60.0%	Sales of Subaru vehicles and components
North America Subaru Inc. (NASI)	US	USD 5,000	100.0%	Technical investigation for Subaru manufactured vehicles, Subaru of Indiana Automotive, Inc. (SIA) manufactured vehicles in North America market, automobile related regulatory compliance in the US
Yusoki Kogyo K.K.	Aichi	100 Million yen	100.0%	Manufacture and sales of aircraft parts to Subaru
Fuji Aircraft Maintenance Co., Ltd.	Tokyo	30 Million yen	100.0%	Inspection, service and maintenance of aircrafts
Subaru Kohsan Co., Ltd.	Tokyo	675 Million yen	100.0%	Rental and management of real estate
SUBARU IT CREATIONS CORPORATIONS	Saitama	100 Million yen	100.0%	IT system development and operation for Subaru Group

Notes: As of end of March 2018, there are 75 consolidated subsidiaries including the above 26 companies, and 8 equity method affiliates.

[2] Other

The Company has reached a basic agreement on business affiliation with Toyota Motor Corporation in October 2005. We currently manufacture jointly developed sports car “SUBARU BRZ” and “TOYOTA 86” at our domestic production facility, Gunma Plant. In addition, the Company receives OEM vehicle supplies from Daihatsu Motor Co, Ltd., a subsidiary of Toyota Motor Corporation.

As of the end of March 2018, the number of SUBARU shares held by Toyota Motor Corporation was 129,000,000 shares, or 16.82% of total shares (the percentage of total shares held is calculated based on the number of shares excluding treasury stock of 2,055,039 shares).

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(10) Employees (as of March 31, 2018)

[1] SUBARU Group

By Business Segment	Number of employees (persons)		Change from end of previous fiscal year (persons)	
Automotive Div.	30,104	(7,242)	+1,050	(+518)
Aerospace Div.	2,741	(633)	80	(-70)
Other Businesses	699	(579)	-185	(-132)
Total	33,544	(8,454)	+945	(+316)

Notes: Number of employees refer to number of workers. Average annual number of contingent workers (seasonal staffs, casual workers, part-time workers, secondees from external parties, support staffs, guest engineers) are shown in brackets.

[2] Company Employees

	Number of Employees	(change from end of previous fiscal year)	Average Age	Average Length of Service
Male	13,854	(+116)	38.5	15.8 years
Female	1,025	(+55)	36.6	15.3 years
Total	14,879	(+171)	38.4	15.7 years

By Business Segment	Number of employees (persons)		Change from end of previous fiscal year (persons)	
Automotive Div.	12,674	(5,003)	+426	(+258)
Aerospace Div.	2,205	(543)	+82	(-51)
Other Businesses	-	(-)	-337	(-112)
Total	14,879	(5,546)	+171	(+95)

Notes:

- 1.Number of employees refer to number of workers. Average annual number of contingent workers (seasonal staffs, casual workers, part-time workers, secondees from external parties, support staffs, guest engineers) are shown in brackets.
- 2.The number of employees in Other Businesses decreased by 337 and the number of contingent workers decreased by 112, respectively, due to the abolition of Industrial Products Division that belonged to Other Businesses, by organaizational change dated September 30, 2017.

[Translation for Reference and Convenience Purposes Only]

2. Information on Shares Issued by the Company (as of March 31, 2018)

(1) **Common stock authorized** 1,500,000,000 shares

(2) **Common stock issued** 769,175,873 shares

(3) **Number of Shareholders** 138,794

(4) Major Shareholders (top 10)

Name of shareholder	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

Notes:

1. Number of shares held are rounded down to the nearest thousand shares.
2. The percentage of total shares held is calculated based on the number of shares excluding treasury stock of 2,055,039 shares.

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3. Information on Shares Held by the Company (as of March 31, 2018)

(1) Basic policy regarding cross-shareholdings

With respect to major listed stocks held by the Company as cross-shareholdings, the Company shall have the Board of Directors verify whether the holdings in these stocks will contribute to corporate management in the medium- and long-term upon assessment of economic rationality in view of risk returns, after comprehensive consideration of medium- and long-term improvement in corporate value, the importance of business strategy and business relationships with business partners. Number of Issues

(2) Number of shares and total amount of stock investment reported on the balance sheet which are held primarily for strategic purposes

	84 th FYE2015	85 th FYE2016	86 th FYE2017	87 th (Current) FYE2018
Number of Issues	91	63	62	49
Amount reported on Balance Sheet (Million yen)	39,055	28,764	13,339	9,371

4. Directors and Corporate Auditors

(1) Policy and procedures on nomination of candidates for Directors and Corporate Auditors

When nominating candidates for directors and corporate auditors, the Board of Directors nominates individuals who have abundant experience, superior abilities and knowledge, and high expertise appropriate for a director/corporate auditor of the Company in order to realize the Company's corporate philosophy, effective corporate governance, and sustainable growth, and to improve mid- to long-term corporate value.

The Board of Directors will nominate several outside directors considering the diversity of the Board, and to enhance the shareholder value and transparency of management by assuming the responsibility for monitoring and oversight of corporate management from an independent position.

To ensure fairness and transparency of appointments concerning directors and corporate auditors, nomination is deliberated at the Executive Nomination Meeting. The nomination proposal approved by unanimous consent is submitted to the Board of Directors and finalized with a resolution of the Board.

The Executive Nomination Meeting comprises of the representative directors, director in charge of Secretarial Office, and outside directors, chaired by the Chairman & Representative Director (in the event of vacancy or incapacitation of the Chairman, the President & Representative Director shall serve in its place).

Consent by the Board of Corporate Auditors is obtained for nomination of candidates for corporate auditors.

When nominating candidates for directors and corporate auditors, biography, posts and main fields of responsibilities in the Company, significant positions concurrently held, reasons for nominating the candidates for Directors of the Board for each nomination.

(2) Policy and Procedure for Determination of Remuneration for Directors

Executive compensation is determined from the perspective of the following items:

- Compensation, etc., shall be of levels commensurate with the roles and responsibilities, as well as being proper, fair and balanced.
- The compensation structure shall be determined with consideration for incentive to sustainable improvement in corporate value and performance and securing excellent human resources.

The specific components of the compensation, etc., shall be as follows. The total amount and the levels of compensation of each item shall be set for every position depending on difference in responsibility by utilizing the research data compiled by outside specialized agencies. Furthermore, the total amount of monetary compensation related to long-term incentives shall be up to 200 million yen per year.

[1] Base salary:

Fixed compensation for which specific amounts are determined based on job positions and with consideration given to elements such as the business environment.

[2] Short-term performance-linked compensation:

Performance-linked compensation for which specific amounts are determined based on the actual amount of consolidated ordinary income for the current fiscal year and with consideration given to elements such as ROE, the degree of improvement in net assets to total assets, the cultivation of human resources and business environment.

[3] Long-term incentives:

Compensation consisting of granting restricted stock intended to provide an incentive to achieve sustained improvement of the corporate value of the Company and to share more of that value with our shareholders.

Performance-linked compensation shall not be given to outside directors in view of their roles of fulfilling monitoring and oversight functions of corporate management from an independent position.

The total annual amount of compensation, etc., paid to directors shall be limited to 1.2 billion yen (of which an amount within 200 million yen is for Outside Directors) based on the resolution at the 85th Ordinary General Meeting of Shareholders held on June 28, 2016. The amount shall be determined by the Executive Compensation Meeting within the limit based on a delegation by the Board of Directors.

The Executive Compensation Meeting comprise of the representative directors, director in charge of Secretarial Office, and outside directors, chaired by the Chairman & Representative Director (in the event of vacancy or incapacitation of the Chairman, the President & Representative Director shall serve in its place).

The Executive Compensation Meeting shall determine the compensation of directors and corporate vice presidents by considering various elements such as properly comparable compensation levels of other companies, compensation of the Company's employees, social situations and performance evaluation of corporate vice presidents.

[Translation for Reference and Convenience Purposes Only]

(3) Name of Directors and Corporate Auditors (as of March 31, 2018)

Title	Name	Responsibilities	Significant Positions Concurrently Held
Director of the Board and Chairman	Jun Kondo	CQO(Chief Quality Officer), China Project Office, Aerospace Company	Outside director, The Gunma Bank, Ltd.
Representative Director of the Board and President [Chairman of the Board] [Chairman of the Executive Nomination Meeting] [Chairman of the Executive Compensation Meeting]	Yasuyuki Yoshinaga	CEO(Chief Executive Officer)	Director, Subaru of Indiana Automotive, Inc. (SIA) Director, Subaru of America, Inc. (SOA) Chairman, The Society of Japanese Aerospace Companies Chairman, Japan Aircraft Development Corporation
Representative Director of the Board, Corporate Executive Vice President [Member of the Executive Nomination Meeting] [Member of the Executive Compensation Meeting]	Takeshi Tachimori	CTO(Chief Technical Officer), Marketing Division	Director, Subaru of America, Inc. (SOA)
Director of the Board, Corporate Executive Vice President	Masahiro Kasai	Manufacturing, Procurement Business, Planning Dept. (formerly Industrial Products Division)	Director, Subaru of Indiana Automotive, Inc. (SIA)
Director of the Board, Corporate Executive Vice President [Member of the Executive Nomination Meeting] [Member of the Executive Compensation Meeting]	Toshiaki Okada	CFO (Chief Financial Officer), Corporate Planning Dept., Secretarial Office, Finance & Accounting Dept., Human Resources Dept., Subaru Next Story Promotion Office	Director, Subaru of Indiana Automotive, Inc. (SIA) Director, Subaru of America, Inc. (SOA)
Director and Corporate Senior Vice President	Yoichi Kato	External Relations Dept., Corporate Administration Div. (Affiliated Companies Dept., General Administration Dept., CSR& Environment Dept., Intellectual Property Dept., Legal Dept., Internal Audit Dept.)	-
Outside Director <Independent> [Member of the Executive Nomination Meeting] [Member of the Executive Compensation Meeting]	Yoshinori Komamura	-	Adviser, Komatsu Ltd. Member of the Board, Institute for Strategic Leadership (ISL)

[Translation for Reference and Convenience Purposes Only]

Title	Name	Responsibilities	Significant Positions Concurrently Held
Outside Director <Independent> [Member of the Executive Nomination Meeting] [Member of the Executive Compensation Meeting]	Shigehiro Aoyama	-	Senior Advisor, Suntory Holdings, Ltd. External Director, Takamatsu Construction Group, Co., Ltd. President, The Distribution Economics Institute of Japan Director, Japan Marketing Association
Standing Corporate Auditor	Akira Mabuchi	-	Corporate Auditor, Subaru Kohsan Co., Ltd. Corporate Auditor, Tokyo Subaru Inc.
Standing Corporate Auditor	Shuzo Haimoto	-	Corporate Auditor, Subaru Finance Co., Ltd.
Outside Corporate Auditor <Independent>	Shinichi Mita	-	Advisor, Mizuho Capital Partners Co., Ltd. Member of the Board, Japan Association for Chief Financial Officers (JACFO)
Outside Corporate Auditor <Independent>	Yasuyuki Abe	-	Advisor, Sumitomo Corporation Director of the Board(External), JVC KENWOOD Corporation Advisor, ORANGE AND PARTNERS CO., LTD.

Notes:

1. Directors Toshiaki Okada and Yoichi Kato were elected and appointed at the 86th Ordinary General Meeting of Shareholders held on June 23, 2017.
2. Directors Naoto Muto and Mitsuru Takahashi retired at end of their terms at the conclusion of the 86th Ordinary General Meeting of Shareholders held on June 23, 2017.
3. Directors Yoshinori Komamura and Shigehiro Aoyama are outside directors as prescribed in Article 2, Item 15 of the Companies Act. The Company has no significant transaction relationship with Komatsu Ltd., for which Yoshinori Komamura concurrently serves as an Adviser, or the Institute for Strategic Leadership (ISL), for which he concurrently serves as the Member of the Board. The Company has no significant transaction relationship with Suntory Holdings Ltd., for which Shigehiro Aoyama concurrently serves as the Senior Advisor; Takamatsu Construction Group Co., Ltd., for which he concurrently serves as External Director; The Distribution Economics Institute of Japan, for which he concurrently serves as the President; or the Japan Marketing Association, for which he concurrently serves as a Director.
4. Corporate Auditors Shinichi Mita and Yasuyuki Abe are outside statutory auditors as prescribed in Article 2, Item 16 of the Companies Act. The Company has no significant transactions with Mizuho Capital Partners Co., Ltd., for which Shinichi Mita concurrently serves as an Adviser, or Japan Association for Chief Financial Officers (JACFO), for which he concurrently serves as a Member of the Board. The Company has no significant transactions with Sumitomo Corporation, for which Yasuyuki Abe concurrently serves as an Adviser; JVC KENWOOD Corporation, for which he concurrently serves as a Director of the Board ; or ORANGE AND PARTNERS CO. LTD., for which he concurrently serves as an Adviser.

[Translation for Reference and Convenience Purposes Only]

5. Corporate Auditor Shinichi Mita has extensive experience in Accounting and Finance Department at Kao Corporation, and has significant knowledge in finance and accounting.
6. Corporate Auditor Yasuyuki Abe has abundant experience at Financial & Logistics Business Unit and New Industry Cross-function Business Unit at Sumitomo Corporation, with extensive knowledge in general global management and IT related matters.
7. The Company has reported Directors Yoshinori Komamura, and Shigehiro Aoyama, and Corporate Auditors Shinichi Mita and Yasuyuki Abe as independent directors to the Tokyo Stock Exchange.
8. Key responsibilities of the directors as of April 1, 2018 are as shown in the below table.

Title	Name	Main fields of responsibilities in the Company
Director of the Board and Chairman	Jun Kondo	-
Representative Director of the Board and President	Yasuyuki Yoshinaga	CEO (Chief Executive Officer), "TADASHII-KAISHA" Promotion Dept., Compliance Office, Aerospace Company, Quality
Representative Director of the Board, Corporate Executive Vice President	Takeshi Tachimori	-
Director of the Board, Corporate Executive Vice President	Masahiro Kasai	-
Director of the Board, Corporate Executive Vice President	Toshiaki Okada	CFO (Chief Financial Officer), 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, Corporate Executive Vice President	Yoichi Kato	External Relations Dept., General Administration Dept., CSR & Environment Dept., Affiliated Companies Dept. Legal Dept., Internal Audit Dept.

(4) Summary of Contract for Limitation of Liability

The Company has executed a contract for limitation of damages under Article 423, paragraph 1 of the Companies Act pursuant to the provisions of Article 427, Paragraph 1 of the same Act with Yoshinori Komamura, Shigehiro Aoyama, Akira Mabuchi, Shuzo Haimoto, and Yasuyuki Abe. The maximum liability for damages pursuant to such contract shall be the amount prescribed in Article 425, Paragraph 1 of the Act.

[Translation for Reference and Convenience Purposes Only]

(5) Outside Directors and Corporate Auditors

Key activities for current fiscal year

Title	Name	Key activities
Outside Director	Yoshinori Komamura	Attended all seventeen meetings of the Board of Directors held during the current fiscal period, served as a member of the Executive Nomination Meeting and the Executive Compensation Meeting, and fulfilled his role as a sound advisor on the Company's management, with comments based on abundant experience and broad knowledge gained from his corporate management positions, and excellent insight on corporate social responsibility.
Outside Director	Shigehiro Aoyama	Attended all seventeen meetings of the Board of Directors held during the current fiscal period, served as a member of the Executive Nomination Meeting and the Executive Compensation Meeting, and fulfilled his role as a sound advisor on the Company's management, with comments based on abundant experience and broad knowledge gained from his corporate management positions, and excellent insight on corporate social responsibility.
Outside Corporate Auditor	Shinichi Mita	Attended all seventeen meetings of the Board of Directors and all twelve meetings of the Board of Corporate Auditors held during the current fiscal period and fully performed his auditing function, participating in management as an executive officer of a listed company, particularly with comments based on broad experience and knowledge on accounting and finance among corporate activities.
Outside Corporate Auditor	Yasuyuki Abe	Attended fifteen of the seventeen meetings of the Board of Directors and eleven of the twelve meetings of the Board of Corporate Auditors held during the current fiscal period and fully performed his auditing function, with comments based on abundant experience and knowledge gained from management responsibilities on wide range of business units as an executive officer for a trading company.

Notes: As stated in "1. (1) Progress and Results," nonconforming practices were identified at the Gunma Plant where personnel who were not qualified as final vehicle inspector performed final inspection and measurements and data were inappropriately altered in a sample test of fuel efficiency and gas emissions in the final inspection process. Outside directors and outside corporate auditors had no prior knowledge of such facts and were routinely providing advices on the importance of compliance and internal control based on abundant experience and extensive knowledge. After the identification of the facts, they have fulfilled their responsibilities by, for instance, receiving reports as needed on the progress status of the investigation into relevant facts to understand the situation, responding appropriately to requests and so on from MLIT in a timely manner, further enhancing and ensuring compliance, and seeking the implementation of appropriate measures to prevent the recurrence of similar problems.

(6) Total Compensation for Directors and Corporate Auditors for the Fiscal Period

Classification	Number of persons	Total Compensation (Million yen)
Directors	10	512
(of which Outside Directors)	(2)	(25)
Corporate Auditors	4	77
(of which Outside Corporate Auditors)	(2)	(21)
Total	14	589
(of which Outside Directors and Outside Corporate Auditors)	(4)	(46)

Notes: The above table includes two directors who resigned before the last day of the current fiscal period. At the end of the current fiscal period, the Company had eight incumbent directors (including two outside directors) and four incumbent corporate auditors (including two outside corporate auditors)

[Translation for Reference and Convenience Purposes Only]

5. Accounting Auditors

(1) Accounting Auditors KPMG AZSA LLC

(2) Accounting Auditor Compensation

(i) Compensation for current fiscal period	183 million yen
(ii) Total amount of money and other property interests payable by the Company and its subsidiaries	205 million yen

(3) Reason for Agreement on Accounting Auditors Compensation by Board of Corporate Auditors

The Board of Corporate Auditors scrutinized the Accounting Auditors' explanation of the contents of the audit including the planned number of days required for the accounting audit for the current fiscal period; review and assessment of the audit for the previous fiscal period; reasonableness of progress in audit by the Accounting Auditors, and the grounds for calculation of quotes underlying the compensation, and agreed to the amount of compensation for the Accounting Auditors.

(4) Non-audit business

Non-audit business includes advisory business related to IFRS compliance.

(5) Policy on dismissal or refusal of reappointment of Accounting Auditors

The Board of Corporate Auditors shall dismiss accounting auditors in case any of the events prescribed in the Items in Article 340, Paragraph 1 occur, and determine the agenda concerning dismissal or refusal of reappointment of accounting auditors, and the Board of Directors will propose such agenda to the meeting of shareholders pursuant to such decision.

6. Company Framework and Policies

(1) Basic approach to corporate governance

<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.

The Company works on the enhancement of corporate governance as one of the top priorities of management in order to gain the satisfaction and trust of all of our stakeholders by achieving sustainable growth and improving our corporate value in the medium and long term aiming to be “A Compelling Company with Strong Market Presence” based on the “Customers Come First” principle under the corporate philosophy outlined above.

We aim to achieve efficient management by clearly separating management decision-making and oversight from business execution and increasing the speed of decision-making. Furthermore, through monitoring of business operations and advice provided by outside officers, we ensure appropriate management decision-making, oversight and business execution, and work to improve compliance and the risk management system. To increase management transparency, we provide timely and appropriate disclosure of information.

(2) Company Organizational Bodies

As corporate governance system, we have adopted a Board of Corporate Auditors system, in which Board of Directors perform decision making and oversight of the execution of important business operations.

Regarding the system for the execution of business operations, important issues that require consultation with the Board of Directors are thoroughly discussed at the Executive Management Board Meeting, a preliminary consultation body for the Board of Directors which deliberates on company-wide management strategy and the execution of key business operations. In addition to employing an executive officer system and establishing Executive Meetings as decision making body for the business divisions, we have introduced an in-house company system for the Aerospace Division with the aim of clarifying responsibility and speeding up execution of business operations.

Board of Directors and Board of Corporate Auditors perform decision making and oversight and auditing of the execution of important business operations. The Board of Directors is composed of eight directors, two of whom are highly independent outside directors for further strengthening 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.

(3) Corporate Code of Conduct

The Company sets down a 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.

<Corporate Code of Conduct>

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.

[Translation for Reference and Convenience Purposes Only]

(4) CSR Activity Policy

The Company is aiming to be “A Compelling Company with Strong Market Presence” based on the “Customers Come First” principle and will engage in CSR activities to achieve a sustainable society by contributing to the creation of better society and environment, through continuously providing “Enjoyment and Peace of Mind” to customers with meticulous automobile engineering and production of reliable goods.

The Company established and disclosed the following CSR Policy to further clarify our commitment to CSR activities as a manufacturer appreciated by our customers.

<CSR Policy>

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

(5) Environmental Actions

[1]Environmental Policies

<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 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 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. |

[2]Efforts regarding Climate Change

We believe reduction of greenhouse gas emissions is an important effort for sustainable growth of the society and the Company. The Company is aiming to reduce total direct greenhouse gas emission by SUBARU Group in FYE2030 by 30% of the level in FYE2016 and promoting specific efforts.

[Translation for Reference and Convenience Purposes Only]

(6) Promoting Diversity

For our company to continue offering customers value not found in competing products, each the Company employee needs to be able express his or her abilities as an individual with unique values. For this reason, SUBARU values differences in gender, nationality, culture, and lifestyles of employees and strives to create workplace environments in which everyone finds it easy to work. We also promote initiatives related to diversity at affiliated companies in Japan and overseas in accordance with regional characteristics and the business content of each company.

We established the Diversity Promotion Office in January 2015 in order to promote diversity at the Company even more proactively. Under the Diversity Promotion Office, we have designated “promoting active roles for female employees,” “employing people with disabilities,” “planning and promoting employment of non-Japanese,” and “promoting employment of the elderly” as priority themes. Among these themes, we have placed particular emphasis on efforts to promote active roles for female employees.

(7) Policy for Constructive Dialogue with Shareholders

The Company shall endeavor to develop a long-term relationship of trust with shareholders by holding constructive dialogue with them to contribute to the achievement of sustainable growth and improvement in corporate value in the medium and long term.

The overall constructive dialogue with shareholders shall be supervised by the CEO and CFO and taken charge by the Investor Relations Office of the Corporate Communications Department and the Shareholder Relations Office of the General Administration Department. In addition, relevant departments, including the Corporate Planning Department, Secretarial Office, Finance & Accounting Department, CSR & Environment Department, Legal Department and Audit Department, shall cooperate organically to enhance dialogue. The Company shall proactively disseminate clear information to shareholders through such means as timely holding various briefing meetings and utilizing its website, to deepen shareholders’ understanding about management strategy, description of business, products, performance, etc.

The Company shall periodically update directors, corporate auditors and corporate vice presidents, as well as relevant departments, on the details of opinions and concerns of shareholders obtained through dialogue with them. The Company shall thoroughly implement information management in accordance with the “Insider Trading Prevention Rules” and “Company Information Disclosure Rules” to prevent the leakage of undisclosed important internal information (insider information) through dialogue with shareholders. In addition, the Company shall hold appropriate dialogue with shareholders through fair disclosure in accordance with the disclosure policy specified separately.

(8) Framework for ensuring conformity of performance of duties by the directors to the laws and articles of incorporation, and other frameworks for ensuring appropriateness of business (as of March 31, 2018)

(I) Framework to ensure that the performance of duties by the directors comply with the laws and articles of incorporation

Following framework shall be established as a preventative measure against illegal acts by directors:

- [1] Directors shall establish a framework for effective supervision of performance of duties by other directors and effective audits by the corporate auditors, through activities such as attendance of various meetings, review of approval forms, and receiving business reports from corporate vice presidents and employees by the directors and corporate auditors.
- [2] Establish Compliance Rules and a framework for directors to comply with laws, articles of incorporation and internal rules.
- [3] Establish whistle blowing system (Compliance Hotline) as internal reporting framework where violation of laws/articles of Incorporation by directors in performing their duties have been identified by executive officers/employees.
- [4] Conduct compliance related trainings by external experts for directors as necessary.
- [5] A director who identifies violation of laws/articles of incorporation by another director shall immediately report such violation to the Board of Corporate Auditors and Board of Directors, and implement corrective measures.

[Translation for Reference and Convenience Purposes Only]

(II) Establishment of other systems prescribed by the applicable Ordinance of the Ministry of Justice as systems necessary to ensure the properness of operations of a Stock Company and the business of the corporate group comprising of the stock company and its subsidiaries

[1] Structure concerning storage and management of information related to performance of duties of directors

- i Establish internal rules on storage and management of minutes of the Board of Directors, approval forms, other documents related to performance of duties by directors, and other information, and appropriately store and manage such information in accordance with such rules and laws.

[2] Rules and other frameworks on management of risk of loss

- i. The Company shall establish rules, manuals and guidelines corresponding to the business of each division to prevent materialization and spread of risks.
- ii. Business-related risks shall be scrutinized by the directors and corporate vice presidents in accordance with certain approval rules, and the Corporate Planning Department shall lead the management by each division/company and shared corporate operation departments at the headquarters.
- iii Establish a company-wide emergency communication network to ensure prompt response to emergencies and prevent spreading of losses.

[3] Framework to ensure efficient performance of duties by Directors

- i. An executive officer system shall be implemented to delegate the business execution authorities of directors to corporate vice presidents. Chief Operating Officer (COO) shall supervise the business execution. Chief Executive Officer (CEO) shall supervise the overall management.
- ii. Directors shall supervise the business execution of corporate vice presidents and employees through attendance of various meetings and by receiving business reports.
- iii Discuss projects to be deliberated at the Board of Directors meeting in advance at Management Meetings (a preliminary consultation body for the Board of Directors to deliberate on company-wide business projects) and Executive Meetings (decision making body for each executive unit) to clarify issues for efficient deliberation at the Board of Directors meeting.
- iv. Board of Directors shall establish the medium- to long-term management goals, promote sharing of such goals, and periodically review the progress.
- v. Board of Directors shall periodically conduct self-evaluation and analysis, to ensure effective performance of roles and obligations of the directors both in terms of decision making and supervision over business execution.

[4] System to ensure conformity of execution of operations of executive officers and employees with laws and articles of incorporation

- i Establish Compliance Rules and a framework for executive directors and employees to comply with laws, articles of incorporation and internal rules.
- ii To promote compliance, establish Compliance Committee to deliberate/discuss, decide, exchange/communicate information on significant compliance matters.
- iii Structured education shall be conducted for executive directors and employees such as compliance lectures, to promote compliance awareness.
- iv Establish a whistle blowing system (Compliance Hotline) as an internal reporting framework in case executive officer or employees identify illegal business acts, etc.
- v. Establish Audit Department as an internal audit unit.

[5] Framework for securing appropriateness of business in corporate group

- i Establish subsidiary management rules, and manage/support subsidiaries mainly through the Company's department in charge of management of business or management of each subsidiary pursuant to such rules. At the same time, create a framework where subsidiaries are to make periodic reports as well as extraordinary reports as required on necessary matters to the Company.
- ii. The Company shall encourage its subsidiaries to establish rules, manuals and guidelines, etc. and build risk management systems corresponding to the characteristics of each subsidiary's business, to prevent materialization and spread of risks.
- iii The Company shall ensure efficiency of performance of duties by directors of subsidiaries by receiving business reports from subsidiaries pursuant to the subsidiary management rules, and conducting preliminary discussions on business for significant matters, etc.

[Translation for Reference and Convenience Purposes Only]

- iv The Company shall establish Audit Department as an organization that performs internal audits, and perform periodic business audits for affiliates including subsidiaries and related companies, and extraordinary audits for necessary matters as required.
- v The Company shall periodically convene Corporate Auditors of domestic affiliates and exchange opinions with the Company's Corporate Auditors to enhance audit functions at domestic affiliates.
- vi The Company shall concurrently appoint the Company's executive directors and employees as Corporate Auditors of some of the domestic affiliates to enhance the audit function.
- vii The Company shall apply the whistle blowing system (Compliance Hotline) in [4] above to domestic affiliates.
- viii Overseas subsidiaries are to comply with the local laws, and follow a framework pursuant to this policy to the extent possible.

[6] Matters concerning an employee where Corporate Auditors request for an employee to support his/her duties

- i In response to request by Corporate Auditors, one or more staffs shall be allocated from the Company's employees to support the duties of the Corporate Auditors.

[7] Matters related to securing independence of the employee from directors and effectiveness of instruction to the employee from Corporate Auditors

- i. In case such supporting staff is to be concurrently appointed to a position involving business execution, directors and executive units shall not intervene with the staff's performance of tasks supporting the Corporate Auditors; ensure the staff's independence from directors; and notify the Company's officers and employees that such supporting staff is to follow the instructions and orders of the Corporate Auditors.
- ii. Appointment of such supporting staff shall require consent by the Board of Corporate Auditors.

[8] Framework for reporting by directors, executive officers, and employees of the Company and its subsidiaries to the Company's Corporate Auditors; frameworks for other reports to the Company's Corporate Auditors; and the framework for securing effective audit by the Company's Corporate Auditors

- i. A system shall be established to ensure that the Company's Corporate Auditors can receive periodic reports on performance of duties from the directors, executive officers and employees of the Company or its subsidiaries.
- ii. A system shall be established to ensure that the Company's Corporate Auditors can collect information on the status of performance of obligations relating to each business division, etc. by the directors, executive officers and employees of the Company and its subsidiaries.
- iii Directors of the Company or its subsidiaries shall report to the Company's Corporate Auditors where matters that may cause significant damages to the Company, material violation of laws/articles of incorporation, or other material compliance matters occur.
- iv. Corporate Auditors of the Company may attend the Compliance Committee, which is an organizational body that deliberates/discusses, determines, exchange/communicate information on, important compliance matters.
- v. The Company and its subsidiary's Representative Directors, Directors, or Accounting Auditors shall attend meetings to exchange opinions held by the Company's Corporate Auditor at the request of such Corporate Auditor.
- vi. A framework shall be established to ensure that the person reporting to the Company's Corporate Auditors shall not receive disadvantageous treatment for the reason of making the report in the preceding Item.
- vii. A framework shall be established with respect to procedures for advance payment or repayment of expenses arising from performance of duties of Corporate Auditors and processing or repayment of other expenses arising from performance of such duties, to enable smooth processing in accordance with the invoice, etc. from the Corporate Auditors.

[Translation for Reference and Convenience Purposes Only]

(III) Summary of operation of framework for securing appropriateness of business

We have striven to ensure proper operation by establishing and implementing the basic policy on development of internal control system.

However, nonconforming practices in connection with final vehicle inspection were identified at the Gunma Plant. The Company therefore retained an external law firm (Nagashima Ohno & Tsunematsu) to conduct an investigation and disclosed the results of the investigation together with measures to prevent the recurrence of such incidents on December 19, 2017.

In the process of this investigation, it was confirmed that measurements and data concerning a sample test of fuel efficiency and gas emissions which formed part of final vehicle inspection had been altered. The Company therefore released the results of an internal investigation together with recurrence prevention measures on April 27, 2018.

With respect to the nonconforming final vehicle inspection, outside experts identified problems such as the poor awareness of the public interest in, and importance of, final vehicle inspection. We are also aware that the alteration of test measurements and data was a problem originating from the Company's corporate culture as in the case of the nonconforming final vehicle inspection. To address these problems, the Company has introduced, and will continue implementing, recurrence prevention measures including compliance education programs for final vehicle inspectors.

The management team will lead our efforts to prevent recurrence and raise awareness of all officers and employees, by emphasizing the public interest in, and importance of, final vehicle inspection and the need to improve compliance awareness for all areas of our business.

In addition to the above, the following shows a summary of the operation status of frameworks for ensuring sound business practices

[1] Compliance

To comply with laws, articles of incorporation and internal rules, the Company is continuously engaging in company-wide compliance activities by appointment of compliance manager and compliance officers at each business unit, and operating a program where compliance plans for each business unit is prepared, implemented and reported based on the overall annual compliance plan.

The Company conducted periodic Compliance Committee meetings chaired by a director in accordance with the Compliance Rules to oversee such compliance activities, and engaged in deliberation/discussion, decision making, information exchange/communication on important compliance matters.

The Company conducted information and opinion exchange on significant issues at the Planning Department Meeting (a preliminary deliberation body) to secure efficiency and effectiveness of the Compliance Committee, had discussions for preparation of annual compliance policy, and implemented education on material laws.

For the purpose of improving the overall level of Group compliance, we also held the Group Compliance Committee for domestic affiliates to promote information exchange on problematic cases.

To further enhance effectiveness of our compliance activities, the Company is dedicated to early identification and correction of issues through active and proper operation of the internal reporting system (Compliance Hotline) for domestic affiliates and significant overseas subsidiaries.

[2] Risk Management

The Company has established rules, manuals and guidelines corresponding to each business division's business to prevent materialization and spread of risks. Reviews are performed as necessary on the operation of such rules while ensuring consistency with the laws. During the period under review, addition/revision/abolishment were made to the rules and similar instruments.

Approval Rules are applied strictly to business-related risks, and all approved items were reviewed and scrutinized by directors and Corporate Auditors. Business-related risks were also managed by deliberation at the Executive Meeting and Board of Directors meeting depending on their significance.

Status of establishment of a company-wide emergency communication is being inspected periodically, and information is being shared as needed using the emergency communication network in case of a disaster that may affect the Company.

[3] Securing efficient performance of duties

The Company has introduced an executive officer system with the aim of ensuring speedy business execution by the directors through delegation of business execution to the executive officers and supervising the executive officers by attending various meeting bodies and receiving periodic business reports.

[Translation for Reference and Convenience Purposes Only]

Significant projects requiring submission to the Board of Directors were deliberated at the Executive Meeting to deepen the discussion and provide directionality. Deeper and efficient discussion at the Board of Directors meeting is being promoted by early distribution of materials and providing preliminary explanations where necessary.

Documents regarding performance of duties by the directors and other information is being stored and maintained appropriately in accordance with the internal rules.

[4] Securing appropriateness of business by the corporate group comprising of the Company and its subsidiaries

The Company is enhancing the audit and supervisory functions by appointing executive directors and employees of the Company to concurrently work as directors or Corporate Auditors of domestic affiliates.

In addition, the Company received periodic and ad hoc reporting from subsidiaries through designated management departments, had discussions where necessary, and issues that have significant impact on the Company were reported to the Executive Meeting.

To ensure that business activities are carried out strictly in accordance with the subsidiaries' management rules, the subsidiaries' projects that should be subject to preliminary discussions with the Company and projects to be determined at the discretion of subsidiaries were clearly distinguished. In addition, the information communication routes from each subsidiary to the Company were confirmed for each type of projects, and ongoing confirmation is being made on the establishment of rules at domestic subsidiaries.

Furthermore, the Company's internal audit division performed business audits for the Company and its affiliates in accordance with the Internal Audit Rules. Their results were reported at the Executive Meeting, and corrective measures were implemented where necessary.

During the current fiscal period, the Company and subsidiaries have been preparing relevant rules to prepare for implementation of the EU General Data Protection Rules (GDPR).

[5] Securing effectiveness of Corporate Auditors' Audit

The Company has established a framework where the Corporate Auditors can gather information from directors and employees in case of matters that may cause significant damages to the Company, significant violation of laws/articles of incorporation, or other significant compliance matters. In addition, the framework ensures smooth performance of Corporate Auditors' duties by allocating the Company's employees to provide support for duties of Corporate Auditors.

The Company's Corporate Auditors attend important meetings including the Board of Directors meeting, Executive Meeting, and Compliance Committee, and state their opinions as necessary to secure effectiveness of the audit.

In addition, periodic semi-annual interviews with directors and executive officers as well as on-site audits of key offices and affiliates are performed to confirm the status of establishment and operation of the internal control system.

Monthly reports are received from Internal Audit and Legal Divisions, and reports on subsidiaries are received as necessary from departments in charge of managing the subsidiaries. Furthermore, discussion meetings are held with Corporate Auditors of key group subsidiaries.

Collaboration with Accounting Auditors were sought with quarterly information and opinion exchange, and discussion was held on the nomination of Accounting Auditors.

[Translation for Reference and Convenience Purposes Only]

(9) Summary of Evaluation of the Effectiveness of the Board of Directors

The Board of Directors conduct analysis and evaluation on the effectiveness of the Board of Directors in accordance with the Corporate Governance Guideline, and review and implement improvement measures for the issues identified. During the current fiscal period, the evaluation was conducted after reviewing the questions, for performing a more detailed evaluation on the effectiveness of the supervisory function of the Board of Directors in response to the occurrence of the nonconforming final vehicle inspections. The result is reported below.

1. Methods of Evaluation and Analysis

- [1] Timing: March 2018
- [2] Respondents: All directors and auditors (12 in total, including outside directors)
- [3] Process: Self-evaluation using a questionnaire prepared by a third-party body
- (a) Third-party body conducts anonymous self-evaluation survey of all directors and auditors
 - (b) Third-party body aggregates and analyzes responses
 - (c) Board of Directors verifies and discusses report received from third-party body
- [4] Questions:
- I. Board of Directors management structure
 - II. Board of Directors supervisory function
 - III. Shareholder dialogue

2. Evaluation Results

- As in previous fiscal years, the results confirmed that the Board of Directors conducts free and open discussion from a Company-wide perspective, based on the chair's leadership and mutual understanding among members.
- The results also confirmed shared recognition of the appropriateness of matters including Board of Directors size, the proportion of outside directors, directors comprising the Executive Nomination Meeting and the Executive Compensation Meeting, and sharing of shareholder and investor views.
- Additionally, the results confirmed several points expected to improve the Board of Directors and enhance its functions, including further reinforcement of Board of Directors risk identification and management systems and more comprehensive discussion of medium- to long-term management strategy.

3. Future Initiatives

The Board of Directors confirmed that as well as discussing medium- to long-term management strategy, it will increase its focus on reinforcing risk identification and management systems and take rigorous steps to prevent recurrence of inappropriate conduct.

With effect from April 1, 2018, the Company established a "TADASHII-KAISHA" Promotion Department and a Compliance Office in the aim of reinforcing efforts to address issues relating to legal compliance and corporate culture reforms. The Board of Directors confirmed that these organizational units will be central to its scrutiny of Group-wide activities, and that it will strive to restore stakeholder trust.

By continuing to evaluate Board of Directors effectiveness, the Company Board of Directors will enhance its functions, strengthen corporate governance, and continually improve corporate value.

[Translation for Reference and Convenience Purposes Only]

Consolidated Financial Statements

Consolidated Balance sheet

Item	(Unit: Million yen)	
	FYE2018 (as of March 31, 2018)	FYE2017 (as of March 31, 201)
Assets		
Current Assets	1,895,210	1,845,251
Cash and deposits	765,397	658,822
Notes and accounts receivable-trade	155,247	158,454
Lease investment assets	17,120	18,538
Short-term investment securities	242,573	320,579
Merchandise and finished goods	202,435	205,991
Work in process	52,307	51,754
Raw materials and supplies	42,448	43,586
Deferred tax assets	124,766	109,600
Short-term loans receivable	185,364	176,433
Other	107,893	102,045
Allowance for doubtful accounts	(340)	(551)
Noncurrent Assets	989,103	917,070
Property, plant and equipment	703,108	657,265
Buildings and structures, net	207,133	178,464
Machinery, equipment and vehicles, net	169,814	172,977
Land	184,339	183,477
Vehicles and equipment on operating leases, net	18,638	11,609
Construction in progress	55,908	45,416
Other, net	67,276	65,322
Intangible Assets	28,293	24,905
Other	28,293	24,905
Investments and other assets	257,702	234,900
Investment securities	113,465	105,510
Net defined benefit asset	82	931
Deferred tax assets	32,244	20,922
Other	115,273	110,848
Allowance for doubtful accounts	(3,362)	(3,311)
Total Assets	2,884,313	2,762,321

[Translation for Reference and Convenience Purposes Only]

Item	(Unit: Million yen)	
	FYE2018 (as of March 31, 2018)	FYE2017 (as of March 31, 2017)
Liabilities		
Current Liabilities	1,051,006	1,013,738
Notes and accounts payable-trade	320,137	349,737
Electronically recorded obligations-operating	64,863	92,098
Short-term loans payable	22,082	43,205
Current portion of long-term loans payable	42,982	44,443
Income taxes payable	45,372	13,858
Accrued expenses	255,914	221,328
Provision for bonuses	24,131	23,678
Provision for product warranties	34,743	59,259
Provision for loss on construction contracts	160	65
Provision for loss on business liquidation	3,098	3,317
Provision for loss related to airbags	64,711	—
Other	172,813	162,750
Noncurrent liabilities	272,284	283,695
Long-term loans payable	21,138	60,612
Deferred tax liabilities	20,305	29,802
Provision for product warranties	35,801	—
Provision for directors' retirement benefits	447	536
Net defined benefit liability	19,337	18,615
Other	175,256	174,130
Total liabilities	1,323,290	1,297,433
Net Assets		
Shareholders' equity	1,590,477	1,480,077
Capital stock	153,795	153,795
Capital surplus	160,197	160,178
Retained earnings	1,283,539	1,173,277
Treasury stock	(7,054)	(7,173)
Accumulated other comprehensive income	(37,633)	(21,413)
Valuation difference on available-for-sale securities	7,038	8,099
Foreign currency translation adjustment	(36,193)	(16,631)
Remeasurements of defined benefit plans	(10,136)	(10,996)
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	1,658	(1,885)
Non-controlling interests	8,179	6,224
Total net assets	1,561,023	1,464,888
Total liabilities and net assets	2,884,313	2,762,321

[Translation for Reference and Convenience Purposes Only]

Consolidated Statements of (Comprehensive) Income

(Unit: Million yen)

Items	FYE2018 April 1, 2017 to March 31, 2018	FYE2017 April 1, 2016 to March 31, 2017
Net Sales	3,405,221	3,325,992
Cost of Sales	2,442,706	2,386,266
Gross Profit	962,515	939,726
Selling, general and administrative expenses	583,068	528,916
Operating Income	379,447	410,810
Non-operating income	14,301	6,900
Interest income	6,812	3,131
Dividends income	1,374	1,485
Equity in earnings of affiliates	778	292
Gain on valuation of derivatives	2,266	—
Other	3,071	1,992
Non-operating expenses	13,814	23,380
Interest expenses	1,379	1,846
Foreign exchange losses	7,395	4,800
Loss on valuation of derivatives	—	4,248
Depreciation	1,025	956
Settlement related expenses	—	7,659
Other	4,015	3,871
Ordinary income	379,934	394,330
Extraordinary income	5,940	12,609
Gain on sales of noncurrent assets	563	908
Gain on sales of investment securities	4,618	10,144
Reversal of allowance for doubtful accounts	—	—
Other	759	1,557
Extraordinary Loss	88,534	12,244
Loss on sales and retirement of noncurrent assets	5,400	4,178
Loss related to airbags	81,261	—
Loss on business liquidation	—	5,122
Impairment loss	31	1,188
Other	1,842	1,756
Income before income taxes	297,340	394,695
Income taxes-current	113,155	123,591
Income taxes-deferred	(37,554)	(12,448)
Net income	221,739	283,552
Net income (loss) attributable to non-controlling interests	1,385	1,198
Net income attributable to owners of parent	220,354	282,354

[Translation for Reference and Convenience Purposes Only]

**Consolidated Statement of Changes in Net Assets
(April 1, 2017 to March 31, 2018)**

(Unit: Million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at the beginning of current period	153,795	160,178	1,173,277	(7,173)	1,480,077
Changes of items during the period					
Dividends from surplus	—	—	(110,463)	—	(110,463)
Net income attributable to owners of parent	—	—	220,354	—	220,354
Purchase of treasury stock	—	—	—	(11)	(11)
Disposal of treasury stock	—	19	—	130	149
Adjustments due to change in fiscal year end of consolidated subsidiaries	—	—	828	—	828
Change of the scope of consolidation	—	—	(355)	—	(355)
Change of scope of equity method	—	—	922	—	922
Transfer to capital surplus from retained earnings	—	—	—	—	—
Other	—	—	(1,024)	—	(1,024)
Net changes of items other than shareholders' equity	—	—	—	—	—
Total changes of items during the period	—	19	110,262	119	110,400
Balance at the end of current period	153,795	160,197	1,283,539	(7,054)	1,590,477

	Accumulated other comprehensive income					Non-controlling interest	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	Total accumulated other comprehensive income		
Balance at the beginning of current period	8,099	(16,631)	(10,996)	(1,885)	(21,413)	6,224	1,464,888
Changes of items during the period							
Dividends from surplus	—	—	—	—	—	—	(110,463)
Net income attributable to owners of parent	—	—	—	—	—	—	220,354
Purchase of treasury stock	—	—	—	—	—	—	(11)
Disposal of treasury stock	—	—	—	—	—	—	149
Adjustments due to change in fiscal year end of consolidated subsidiaries	—	—	—	—	—	—	828
Change of the scope of consolidation	—	—	—	—	—	—	(355)
Change of scope of equity method	—	—	—	—	—	—	922
Transfer to capital surplus from retained earnings	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	(1,024)
Net changes of items other than shareholders' equity	(1,061)	(19,562)	860	3,543	(16,220)	1,955	(14,265)
Total changes of items during the period	(1,061)	(19,562)	860	3,543	(16,220)	1,955	96,135
Balance at the end of current period	7,038	(36,193)	(10,136)	1,658	(37,633)	8,179	1,561,023

[Translation for Reference and Convenience Purposes Only]

[Reference]

Consolidated Statements of Cash Flows

(Unit: Million yen)

Item	FYE2018 April 1, 2017 to March 31, 2018	FYE2017 April 1, 2016 to March 31, 2017
Net cash provided by (used in) operating activities	366,298	345,442
Net cash provided by (used in) investing activities	(150,711)	(254,252)
Net cash provided by (used in) financing activities	(170,937)	(189,044)
Effect of exchange rate on cash and cash equivalents	(10,831)	(2,991)
Net increase (decrease) in cash and cash equivalents	33,819	(100,845)
Cash and cash equivalents at beginning of period	728,616	829,461
Increase (decrease) in cash and cash equivalents resulting from change of the scope of consolidation	(534)	-
Increase (decrease) in cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries	3,690	-
Cash and cash equivalents at end of period	765,591	728,616

[Translation for Reference and Convenience Purposes Only]

Non-consolidated Financial Statements

Non-consolidated Balance Sheet

(Unit: Million yen)

Item	FYE2018 (as of March 31, 2018)	FYE2017 (as of March 31, 2017)
Assets		
Current Assets	1,313,105	1,238,953
Cash and deposits	601,440	453,026
Accounts receivable-trade	244,157	244,342
Short-term investment securities	102,499	197,499
Merchandise and finished goods	39,307	42,144
Work in process	47,567	47,124
Raw materials and supplies	15,663	15,997
Advance payments-trade	6,644	2,309
Prepaid expenses	6,957	7,732
Deferred tax assets	76,921	45,374
Short-term loans receivable to subsidiaries and affiliates	56,195	84,934
Current portion of long-term loans receivable from subsidiaries and affiliates	22,500	10,000
Deposits paid	30,759	28,115
Accounts receivable-other	36,845	32,828
Other	25,683	27,537
	(32)	(8)
Noncurrent assets	630,846	601,030
Property, plant and equipment	322,751	294,419
Buildings, net	86,423	68,910
Structures, net	12,469	7,591
Machinery and equipment, net	99,248	99,051
Vehicles, net	1,771	1,904
Tools, furniture and fixtures, net	7,608	9,046
Land	80,002	80,003
Construction in progress	33,493	26,119
Other, net	1,737	1,795
Intangible assets	25,676	21,848
Software	20,008	16,285
Other	5,668	5,563
Investments and other assets	282,419	284,763
Investment securities	9,371	13,339
Stocks of subsidiaries and affiliates	147,657	144,442
Investments in capital of subsidiaries and affiliates	2,436	2,436
Long-term loans receivable	604	704
Long-term loans receivable from subsidiaries and affiliates	71,885	81,838
Claims provable in bankruptcy, claims provable I rehabilitation and other	2,690	2,662
Prepaid pension cost	12,506	14,739
Deferred tax assets	17,208	7,243
Other	22,099	22,000
Allowance for doubtful accounts	(4,037)	(4,640)
Total assets	1,943,951	1,839,983

[Translation for Reference and Convenience Purposes Only]

(Unit: Million yen)

Item	FYE2018 (as of March 31, 2018)	FYE2017 (as of March 31, 2017)
Liabilities		
Current liabilities	735,601	665,114
Notes payable-trade	1,270	3,370
Accounts payable-trade	263,317	276,052
Electronically recorded obligations-operating	63,841	91,320
Current portion of long-term loans payable	40,100	41,100
Lease obligations	909	931
Accounts payable-other	29,374	28,383
Accrued expenses	144,607	121,840
Income taxes payable	42,294	9,932
Advances received	33,937	31,968
Deposits received	1,468	1,183
Provision for bonuses	15,686	15,763
Provision for product warranties	21,235	28,239
Provision for loss on construction contracts	160	65
Provision for loss on business liquidation	3,098	3,571
Provision for loss related to airbags	64,711	-
Asset retirement obligations	0	228
Other	9,594	11,169
Noncurrent liabilities	52,282	59,620
Long-term loans payable	16,000	52,700
Lease obligations	1,345	1,330
Provision for product warranties	30,380	-
Provision for retirement benefits	381	433
Deferred tax liabilities	16	32
Other	4,160	5,125
Total liabilities	787,883	724,734
Net Assets		
Shareholders' equity	1,153,260	1,110,089
Capital stock	153,795	153,795
Capital surplus	160,090	160,071
Legal capital surplus	160,071	160,071
Other capital surplus	19	-
Retained earnings	846,429	803,396
Legal retained earnings	7,901	7,901
Other retained earnings	838,528	795,495
Reserve reduction entry of land	990	990
General reserve	35,335	35,335
Retained earnings brought forward	802,203	759,170
Treasury stock	(7,054)	(7,173)
Valuation and translation adjustments	2,808	5,160
Valuation difference on available-for-sale securities	2,808	5,160
Total net assets	1,156,068	1,115,249
Total liabilities and net assets	1,943,951	1,839,983

[Translation for Reference and Convenience Purposes Only]

Non-consolidated Statements of Income

(Unit: Million yen)

Item	FYE2018 April 1, 2017 to March 31, 2018	FYE2017 April 1, 2016 to March 31, 2017
Net Sales	2,087,834	2,059,285
Cost of Sales	1,604,246	1,583,271
Gross Profit	483,588	476,014
Selling, general and administrative expenses	227,573	218,504
Operating income	256,015	257,510
Non-operating income	29,282	22,847
Interest income	1,362	691
Interest on securities	38	84
Dividends income	19,523	16,660
Real estate rent	2,835	2,813
Gain on valuation of derivatives	2,266	-
Other	3,258	2,599
Non-operating expenses	19,272	18,693
Interest expenses	311	536
Depreciation	966	916
Foreign exchange losses	14,242	1,709
Loss on valuation of derivatives	-	4,248
Settlement expenses	-	7,659
Other	3,753	3,625
Ordinary income	266,025	261,664
Extraordinary income	5,677	11,725
Gain on sales of noncurrent assets	46	244
Gain on sales of investment securities	4,256	9,500
Other	1,375	1,981
Extraordinary loss	85,772	8,463
Loss on sales and retirement of noncurrent assets	3,092	2,664
Loss related to airbags	81,261	-
Loss on business liquidation	-	4,864
Other	1,419	935
Income before income taxes	185,930	264,926
Income tax-current	72,913	71,752
Income taxes-deferred	(40,479)	(15,078)
Net Income	153,496	208,252

[Translation for Reference and Convenience Purposes Only]

**Non-consolidated Statements of Changes in Net Assets
(April 1, 2017 to March 31, 2018)**

(Unit: Million yen)

	Shareholders' equity								
	Capital stock	Capital Surplus			Legal retained earnings	Retained earnings			Total retained earnings
		Capital reserve	Other capital surplus	Total capital surplus		Other retained earnings			
					Reserve for reduction entry of land	General reserve	Retained earnings brought forward		
Balance at the beginning of current period	153,795	160,071	—	160,071	7,901	990	35,335	759,170	803,396
Changes of items during the period									
Dividends from surplus	—	—	—	—	—	—	—	(110,463)	(110,463)
Net income	—	—	—	—	—	—	—	153,496	153,496
Purchase of treasury stock	—	—	—	—	—	—	—	—	—
Disposal of treasury stock	—	—	19	19	—	—	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	—	—	—	—
Total changes of items during the period	—	—	19	19	—	—	—	43,033	43,033
Balance at the end of current period	153,795	160,071	19	160,090	7,901	990	35,335	802,203	846,429

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at the beginning of current period	(7,173)	1,110,089	5,160	5,160	1,115,249
Changes of items during the period					
Dividends from surplus	—	Δ110,463	—	—	(110,463)
Net income	—	153,496	—	—	153,496
Purchase of treasury stock	(11)	(11)	—	—	(11)
Disposal of treasury stock	130	149	—	—	149
Net changes of items other than shareholders' equity	—	—	(2,352)	(2,352)	(2,352)
Total changes of items during the period	119	43,171	(2,352)	(2,352)	40,819
Balance at the end of current period	(7,054)	1,153,260	2,808	2,808	1,156,068

[Translation for Reference and Convenience Purposes Only]

Audit Report

Accounting Audit Report on Consolidated Financial Statements

Independent Auditor's Report

May 15, 2018

The Board of Directors
SUBARU CORPORATION

KPMG AZSA LLC

Hidetoshi Fukuda (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Ryoichi Isashi (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Yumiko Hosoi (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

We have audited the consolidated financial statements, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the related notes of SUBARU CORPORATION as at March 31, 2018 and for the year from April 1, 2017 to March 31, 2018 in accordance with Article 444-4 of the Companies Act.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion

[Translation for Reference and Convenience Purposes Only]

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 referred to above present fairly, in all material respects, the financial position and the results of operations of SUBARU CORPORATION and its consolidated subsidiaries for the period, for which the consolidated financial statements were prepared, in accordance with accounting principles generally accepted in Japan.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act.

[Translation for Reference and Convenience Purposes Only]

Accounting Audit Report on Non-consolidated Financial Statements

Independent Auditor's Report

May 15, 2018

The Board of Directors
SUBARU CORPORATION

KPMG AZSA LLC

Hidetoshi Fukuda (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Ryoichi Isashi (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

Yumiko Hosoi (Seal)
Designated Limited Liability Partner
Engagement Partner
Certified Public Accountant

We have audited the financial statements, comprising the balance sheet, the statement of income, the statement of changes in net assets and the related notes, and the supplementary schedules of SUBARU CORPORATION as at March 31, 2018 and for the year from April 1, 2017 to March 31, 2018 in accordance with Article 436-2-1 of the Companies Act.

Management's Responsibility for the Financial Statements and Others

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

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements and the supplementary schedules based on our audit as independent auditor. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and the supplementary schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements and the supplementary schedules. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements and the supplementary schedules, 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 financial statements and the supplementary schedules 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 financial

[Translation for Reference and Convenience Purposes Only]

statements and the supplementary schedules.

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 financial statements and the supplementary schedules referred to above present fairly, in all material respects, the financial position and the results of operations of SUBARU CORPORATION for the period, for which the financial statements and the supplementary schedules were prepared, in accordance with accounting principles generally accepted in Japan.

Other Matter

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

Notes to the Reader of Independent Auditor's Report:

The Independent Auditor's Report herein is the English translation of the Independent Auditor's Report as required by the Companies Act.

Board of Corporate Auditors' Report

Audit Report

The Board of Corporate Auditors have prepared this Audit Report by analyzing the Audit Report prepared by the auditors concerning the performance of duties by the directors for the 87th fiscal period between April 1, 2017 and March 31, 2018, and report as follows.

1. The Corporate Auditors, and the Methods and Contents of Audit by the Board of the Corporate Auditors

[1] The Board of the Corporate Auditors determined the audit policy and allocation of duties, received reports on the status and results of audits from each auditor, received reports on the status of performance of duties from directors, etc., and accounting auditors, and requested explanation where necessary.

[2] In accordance with the standards for auditor's audit prescribed by the Board of the Corporate Auditors, each auditor attempted to communicate with the directors, internal control division and other employees, etc., following the audit policy and allocation of duties, etc., strove to gather information and establish audit environment, and performed the audit using the following methods.

As stated in the business report, in response to the identification of nonconforming final vehicle inspections and sampling inspections of fuel economy and emissions during final vehicle inspections at Gunma Manufacturing Division during the fiscal year under review, status of the analysis of cause of the incident, as well as the status of review and implementation of preventative measures were added to audit items.

(i) Participated in board of directors' meetings and other important meetings, received reports from the directors and employees, etc., on the status of performance of their duties, requesting explanations where necessary, inspected important approval documents, etc., and examined the status of the business and assets at the headquarters and major offices. With respect to subsidiaries, the Corporate Auditors sought communication and exchange of information with the directors and corporate auditors, etc., of the subsidiaries, and received reports on business from the subsidiaries where necessary.

(ii) With respect to the content of the board of directors' resolution concerning the establishment of the system prescribed in Article 100, Paragraphs 1 and 3 of the Enforcement Rule for the Company Act as necessary for securing the system to ensure that the performance of duties by the directors described in the Business report comply with the laws and articles of incorporation and appropriateness of the business of the corporate group comprising of the stock company and its subsidiaries, as well as the status of the system established based on the resolution of the board of directors' meeting (internal control system), the Corporate Auditors received periodic reports on the status of establishment and operation of such system, requested explanation and stated our opinions where necessary.

(iii) We monitored and reviewed that the accounting auditors maintained independence and performed appropriate audits and received reports from the accounting auditors on the status of performance of their duties, and requested explanation where necessary. We also received a notice from the Accounting Auditors that the "system to secure appropriate performance of duties" (matters listed in the Items of Article 131 of Company Calculation Rules) were established in accordance with the "Quality Control Standards for Audit" (October 28, 2005 Business Accounting Council), etc. and requested explanation where necessary.

Based on the above methods, we reviewed the Business Report and its supporting documents, Non-consolidated Financial Statements (the Non-consolidated Balance Sheet, Non-consolidated Statements of Comprehensive Income, Non-consolidated Statement of Changes in Net Assets, and the Notes to the Non-consolidated Financial Statements) and their supporting documents as well as Consolidated Financial Statements (the Consolidated Balance Sheet, Consolidated Statements of Comprehensive Income, Consolidated Statement of Changes in Net Assets, and the Notes to the Consolidated Financial Statements).

[Translation for Reference and Convenience Purposes Only]

2. Audit Results

[1] Audit Result for the Business Report, etc.

- (i) The business report and its supporting documents correctly represent the status of the Company in accordance with the laws and the Articles of Incorporation.
- (ii) There were no unlawful acts or material facts in violation of laws or the Articles of Incorporation in relation to the performance of duties of the directors.
- (iii) The contents of the resolution by the board of directors meeting concerning the internal control system was appropriate. In addition, there were no matters that must be reported concerning the performance of duties by the directors concerning the internal control system.

As stated above, nonconforming final vehicle inspection and sample measurement process of fuel economy and emissions at Gunma Manufacturing Division were identified. Consequently, we believe there is room for improvement of operation of the internal control system. The Board of Corporate Auditors have confirmed that the Company is already analyzing the cause of the above stated incident and have started establishment of preventative countermeasures. We will continue to pay attention to the status of establishment and implementation of the preventative countermeasures.

[2] Audit Results for the Non-consolidated Financial Statements and Supporting Documents

The methods and results of the audit by the accounting auditors KPMG AZSA LLC were appropriate.

[3] Audit Results for Consolidated Financial Statements

The methods and results of the audit by the accounting auditors KPMG AZSA LLC were appropriate.

May 15, 2018

SUBARU CORPORATION Board of Corporate Auditors

Standing Corporate Auditor Akira Mabuchi (seal)

Standing Corporate Auditor Shuzo Haimoto (seal)

Outside Corporate Auditor Shinichi Mita (seal)

Outside Corporate Auditor Yasuyuki Abe (seal)

Notes to the Reader of Audit Report:

The Audit Report herein is the English translation of the Auditor's Report as required by the Companies Act.