SUBARU

Annual Report
2016

For the year ended March 31, 2016

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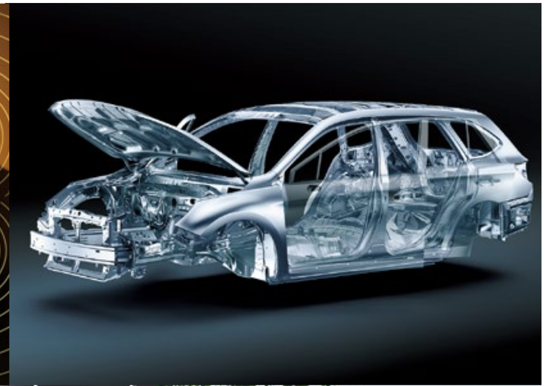
Disclaimer Regarding Forward-Looking Statements

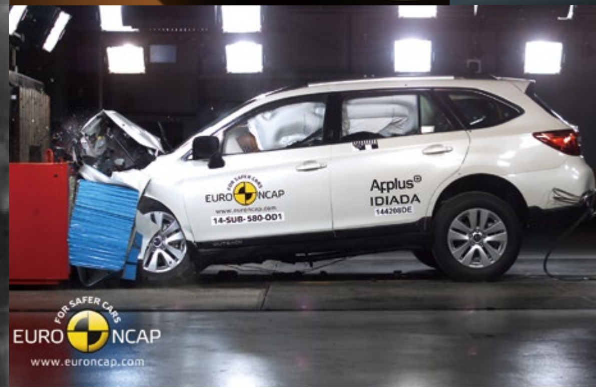
Statements herein concerning plans and strategies, expectations or projections about the future, FHI's efforts with regard to various management issues, and other statements, except for historical facts, are forward-looking statements. These forward-looking statements are subject to uncertainties that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

Subaru Story

Subaru Vehicle Manufacturing that Breathes Life into “Enjoyment and Peace of Mind”

Enjoyment and peace of mind to everyone:
The unchanging concept built into Subaru vehicles





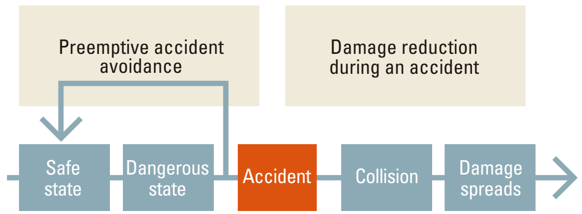
Peace of Mind

Subaru has continued to research safety performance for over half a century since the introduction of the “Subaru 360.”

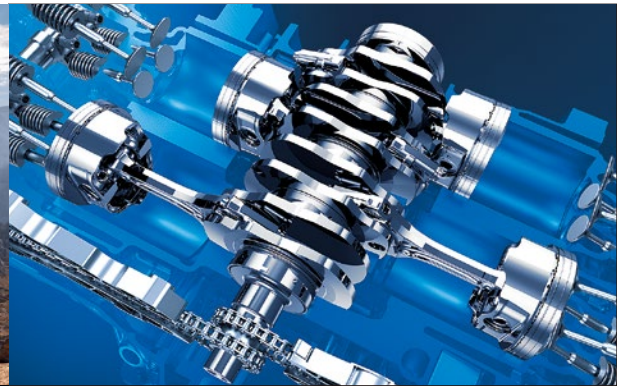
One of the most important factors that have formed the identity of Subaru that was founded as an airplane manufacturer is a high level of safety performance. For example, the Subaru 360 was the first to make it possible for four adults to fit comfortably in a mass production mini vehicles in 1958. The first ever monocoque body in Japan built by airplane manufacturing know how made spacious space and high strength a reality. Furthermore, at a time when the concept of crash safety was not common knowledge, since 1965, about 30 years before safety standard for frontal collisions started to be applied, we have run repeated tests and succeeded in developing a lightweight high-rigidity body. Also, in terms of the horizontally-opposed engine, based on data obtained in experiments, structures that are less susceptible to engine intrusion into the cabin during frontal collision were realized and shock absorbing space was secured when a pedestrian hit the hood of the vehicle, etc. were some of the innovations that have been highly rated.

And now, Subaru will continue to pursue advances in safety performance from four angles, “Primary Safety” that is incorporated in the basic design so that the driver is not easily fatigued and can concentrate on driving with peace of mind, “Active Safety” with low center of gravity design and AWD to be able to drive in a wide variety of weather and road surface conditions, “Pre-Collision Safety” represented by EyeSight that detects danger and avoids the damage of a collision, and “Passive Safety” to protect people from the shocks in the event of a collision.

Subaru’s Safety Concept








Enjoyment

The driving performance of Subaru. It is at this origin that we find "Human Centered Automobile Manufacturing"

Enjoyment of the automobile. At the center of this is the excellence of driving performance for the driver to be able to operate intuitively. The joy of that motion that is felt at the moment you step on the accelerator pedal. A car for which speed, sound, vibration and everything exists to satisfy the senses of the driver. At the core of this kind of ultimate packaging is Subaru's proprietary "Horizontally-opposed (boxer) engine." The advantages of superiority in rotational balance, having low vibration, being lightweight, compact and having a low center of gravity, it realizes superior handling performance with high driving stability. In the same way, Subaru's proprietary "Symmetrical All-Wheel Drive," realizes a high level of maneuverability such as the superior stability that AWD is supposed to have, superior weight balance and run-through performance regardless of the road surface, etc. It will arouse the joy of driving.

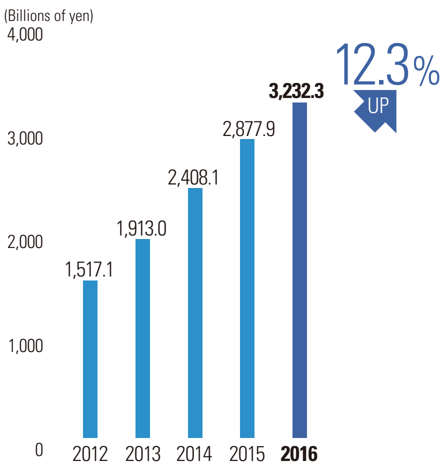
Subaru also does not stop with keeping the automobile as simply a means of transport and delivers to every single customer a richer daily life as we believe that we would like to be a partner accompanying people through their lives. The enjoyment of life is as unlimited as there are human beings. Subaru will continue to meet and exceed the expectations of customers by "Human Centered Automobile Manufacturing" going forward.

Prominence 2020

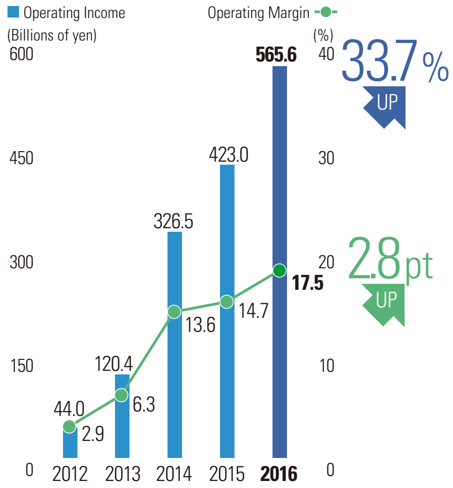
In the aim of having a "prominent presence" in customers' minds, we pursue our corporate vision to become "a high-quality company that is not big in size but has distinctive strength" by focusing on two initiatives — enhancing the Subaru brand and building a strong business structure.

Financial Highlights

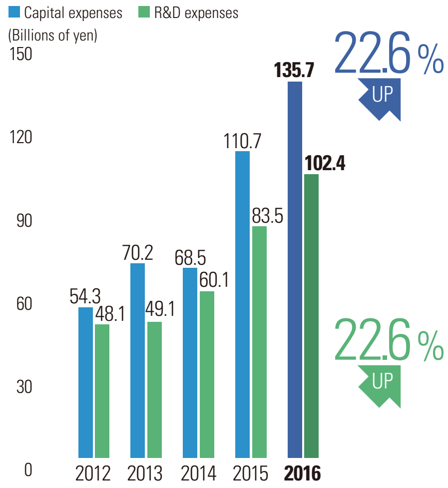
Net Sales



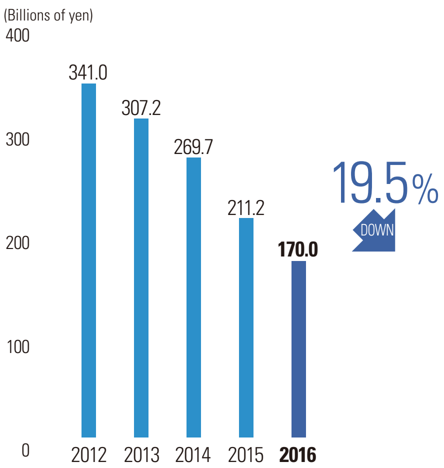
Operating Income / Operating Margin



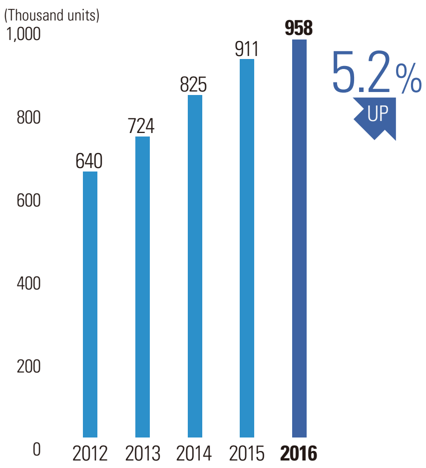
Capital expenses / R&D expenses



Interest-Bearing Debt Balance

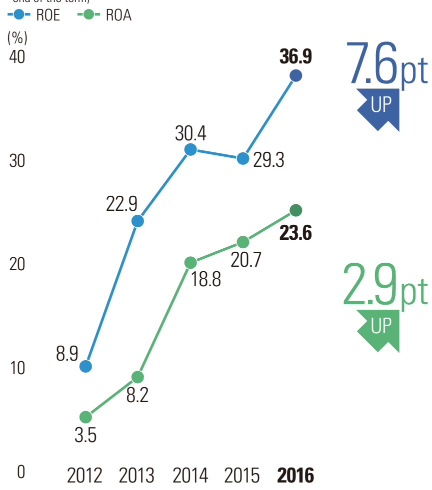


Automobiles sales volume

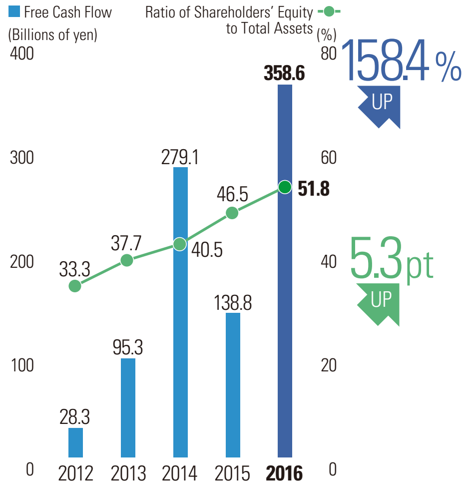


ROE / ROA

*ROA was calculated as operaing income / (average of assets at the beginning and end of the term)



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

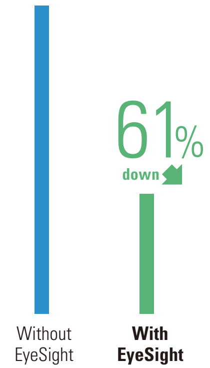


Non-Financial Highlights

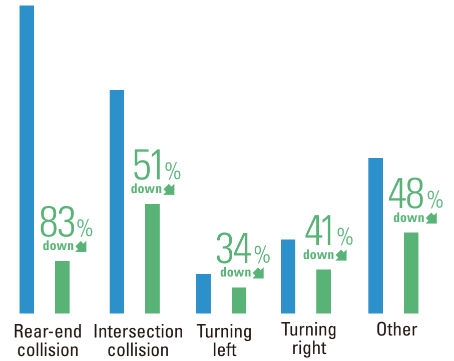
EyeSight Accident Reduction Data

61% reduction
in accident rate

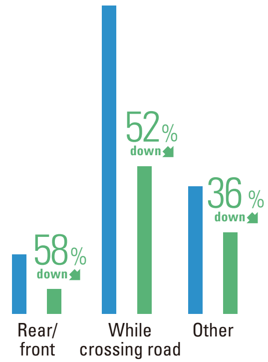
Comparison of rate of accidents resulting in injury or death with and without EyeSight (Ver.2)
No. per 10,000 vehicles (over 4 years)



Between vehicles*
* Placed top in frequency

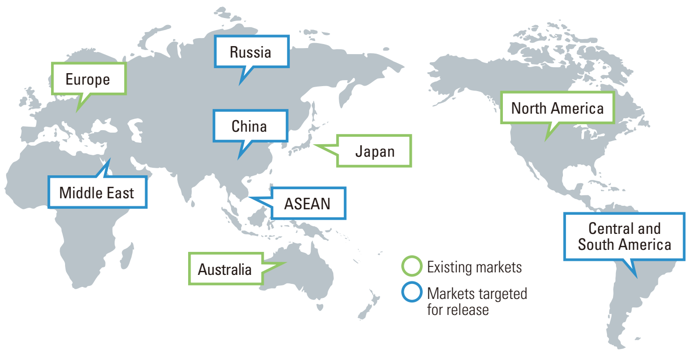


Between people and vehicles



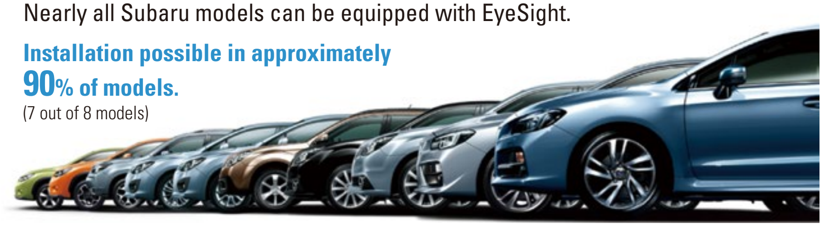
* Independent calculations from data on accidents that took place over the four years from 2011 – 2014 among vehicles sold between 2010 and 2013 in which installation of EyeSight (Ver. 2) is possible based on Institute for Traffic Accident Research and Data Analysis (ITARDA) data. There were 2,234 accidents.
* Calculates the number of accidents resulting in injury or death per 10,000 vehicles with and without EyeSight (over four years). Of the target vehicles, there were 246,139 with EyeSight (Ver. 2) and 48,085 without it.

Global Rollout and Penetration of EyeSight



Nearly all Subaru models can be equipped with EyeSight.

Installation possible in approximately 90% of models.
(7 out of 8 models)



* Of the Legacy, Levorg, WRX, Impreza, Subaru XV, Forester, Crossover 7, and Subaru BRZ models, installation is possible in all models except Subaru BRZ.

Large numbers of customers are choosing EyeSight in models that offer it. *FHI research

Region	Japan	Australia	Europe	U.S.
EyeSight penetration, Jan. to Dec. 2015	83%	62%	96%	31%
EyeSight highest penetration (models)	100% of Legacy, Levorg, WRX, Crossover 7 models	100% of Legacy models	96% of Outback models	57% of Outback models

Enhancing the Subaru brand through our value-adding and thorough differentiation strategies as we aim for sustainable growth.

Yasuyuki Yoshinaga

Representative Director of the Board,
President and CEO

FYE March 2016 Results and FYE March 2017 Outlook

Bolstering our corporate strength, regardless of currency impacts, while maintaining an industry-leading operating margin.

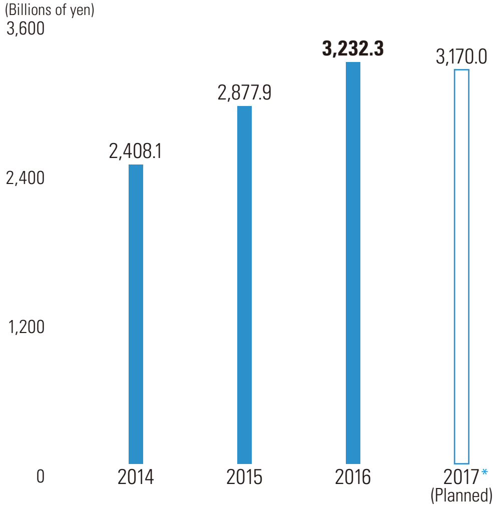
Fuji Heavy Industries Ltd. Group's consolidated net sales in FYE March 2016 came to 3,232.3 billion yen, a 12.3% year-on-year increase. As for consolidated performance, due to favorable foreign exchange rates, the increase in the number of units sold, and cost reductions, we were able to offset the increase in various overhead costs and R&D expenses. Operating profit was 565.6 billion yen (up 33.7% year on year), ordinary income came to 577.0 billion yen (up 46.6% year on year), and the fiscal year net income attributable to owners of parent was 436.7 billion yen (up 66.7% year on year). FHI recorded its highest historical levels of net sales as well as all income categories for the fourth consecutive fiscal year. Additionally, the operating margin was 17.5%. Although the number of passenger vehicles sold in Japan neared the cyclical end of the new-model effect and trailed the previous year, overseas sales (mainly in the North American market) progressed smoothly. Our worldwide sales numbers totaled 957,900 units (up 5.2% year on year), a historical high for the fourth consecutive year. The result of this growth in units sold, thanks to robust global support for the Subaru brand, allowed us to achieve steady increases in income and profit in actual figures excluding gains on foreign exchange, which is what pleases me most.

As for projections for FYE March 2017, we expect the Subaru brand to show continued strength and an increase in units sold in North America. We forecast global sales of 1,049.7 thousand units, 9.6% year-on-year growth and our first time exceeding one million units. As for consolidated results, we foresee being able to offset the increase in overhead costs and R&D expenses by increasing the number of units sold and further cost reductions. Since the yen is projected to strengthen from 121 yen/US$ in the fiscal year under review to 105 yen/US$, we expect consolidated net sales to dip 1.9% to 3,170.0 billion yen, operating profit to fall 25.7% to 420.0 billion yen, ordinary income to fall 27.2% to 420.0 billion yen, the fiscal year net income attributable to owners of parent to fall 32.9% to 293.0 billion yen, and an operating margin of 13.2%*. We will steadily bolster the strength of our business regardless of currency impacts, while maintaining an industry-leading profit margin.

*Figures in projections for FYE March 2017 were announced May 12, 2016, then revised August 3, 2016.
For details, please see the Company website (http://www.fhi.co.jp/english/ir/index.html).

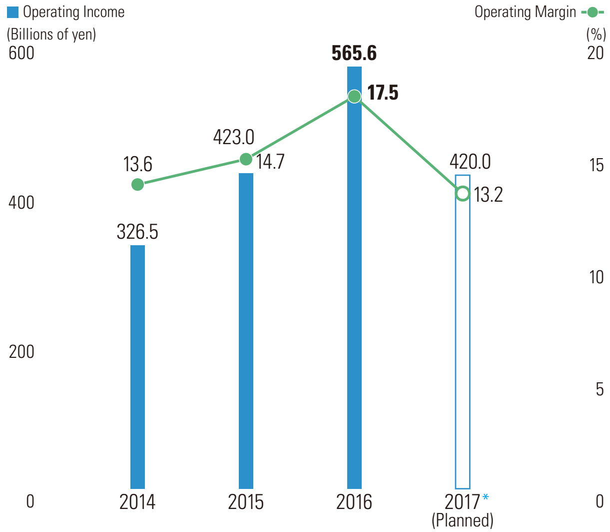
Net Sales

Years ended March 31



Operating Income / Operating Margin

Years ended March 31



Update on the Mid-Term Management Vision

2020 global sales units revised upward in line with favorable sales in the North American market.

In working to be "a high-quality company that is not big in size but has distinctive strength"—a stance we outlined in May 2014 in our mid-term management vision, "Prominence 2020"—FHI has been striving to increase corporate value, while focusing on the two initiatives of "enhancing the Subaru brand" and "building a strong business structure."

This fundamental policy has not changed; however, we announced updates of our 3-year consolidated profit plan, consolidated sales units, production plans, etc. in May 2016 in response to subsequent changes in the business environment and sales performance in each market.

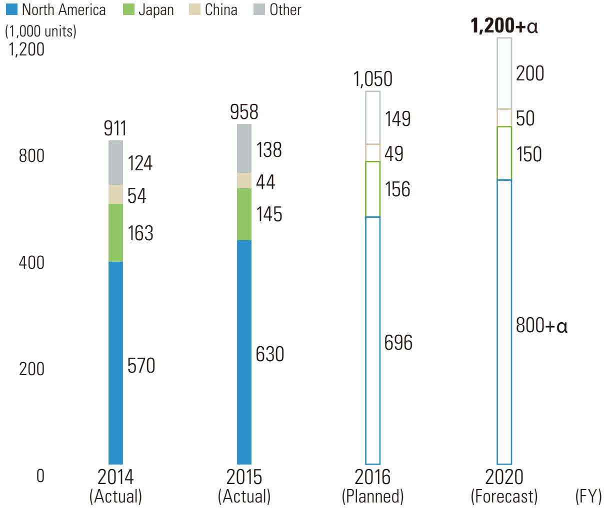
With regard to consolidated global sales units in FY 2020, we revised forecasts upward, to top 1,200.0 thousand units from the original target north of 1,100.0 thousand units, given that on-going sales strength is expected in the favorably performing North American market. We also reassessed our plans for increasing production capacity along the same lines. Existing plans had envisioned global production capacity (excluding CKD in Malaysia) of 1,050.0 thousand units (under standard operations) in FY 2020. We raised this figure to 1,132.0 thousand units in FY 2018 (under standard operations; 1,276.0 thousand units at maximum operation).

Furthermore, we announced a new Three-Year Business Operation/Profit Plan for FYE March 2017-2019. Planned three-year totals are 9,800 billion yen in net sales, 1,100 billion yen in operating profit, 360.0 billion yen in R&D expenses, and 470.0 billion yen in capital expenditures. While continuing to expand investment in future growth, we will maintain our current business model of high profitability and an industry-leading operating margin.

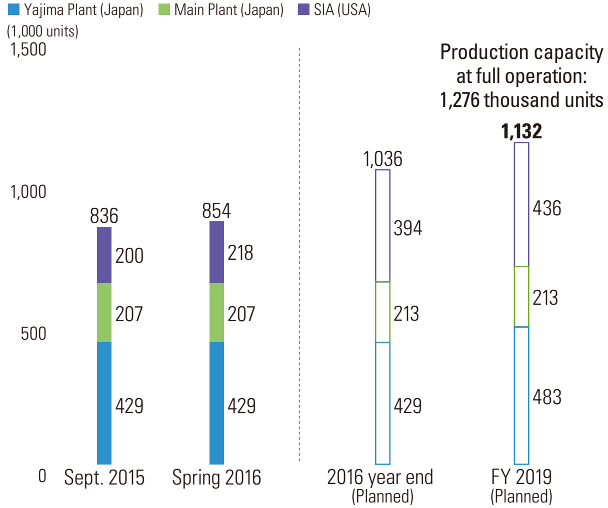
Because we are not comparatively large, our value-adding and thorough differentiation strategies are indispensable for competing with the world's major automobile manufacturers. Consequently, it is vital that we avoid entering the volume-sales zone in order to grow our sales units. That zone is the specialty of major automakers and we would eventually be forced to compete on price. We believe that it is beneficial to limit our categories and markets to those in which we can leverage our strengths, and to steadily grow our sales units by concentrating our management resources in those areas.

FHI is ardently pursuing value-adding and differentiation strategies that set us apart from other automakers, while further accelerating our initiatives to "enhance the Subaru brand" and "build a strong business structure."

Consolidated unit sales



Production capacity expansion plans



Changing Our Company Name in April 2017

Rallying all of our employees to enhance the brand under a new company name: Subaru Corporation.

As one of our measures to accelerate our "enhancing the Subaru brand" initiative, we will change our name from Fuji Heavy Industries Ltd. to Subaru Corporation in April 2017, which is the 100th anniversary of the founding of our predecessor, the Nakajima Aircraft Company.

Of course, simply changing the company name and logo does not immediately impart greater brand value. Brand value is something that increases as a result of having customers actually use our cars and approve of their features and quality. In that sense, Subaru cars have garnered high evaluations in recent years from customers and third-party agencies for their safety features and drivability.

By using Subaru as a name for both the company and the brand, the Group's employees will rally together to make Subaru the choice of even more customers and to dedicate effort to further boosting the value of the Subaru brand.

Adopting a Subaru Global Platform

Adopting a new platform that looks ten years into the future and enhances "enjoyment and peace of mind," which is one of Subaru's strengths.

As initiatives to "enhance the Subaru brand," FHI is dedicating effort to further boost comprehensive performance and safety features, pursue characteristic Subaru design, adopt environmentally conscious features, improve quality and service, and strengthen communication with customers.

The Subaru Global Platform, to be adopted starting with the next Impreza model slated for launch this fall, is one of these activities to "enhance the Subaru brand." In recent years in the automobile industry, companies are eagerly pursuing shared platforms that serve as the foundation for multiple vehicle models, though most are primarily doing so in order to lower costs through more efficient new model development, common parts, etc. In contrast, FHI is adopting a new platform with the central intention of enhancing the Subaru brand strengths of safety features and drivability.

The Subaru Global Platform developed with the year 2025 in mind brings broad improvements to the rigidity of bodies and chassis compared to current models, while also pursuing a lower center of gravity and evolution in the suspension system. This will allow even further gains in the basic "run, turn and stop" features that have earned Subaru an established reputation.

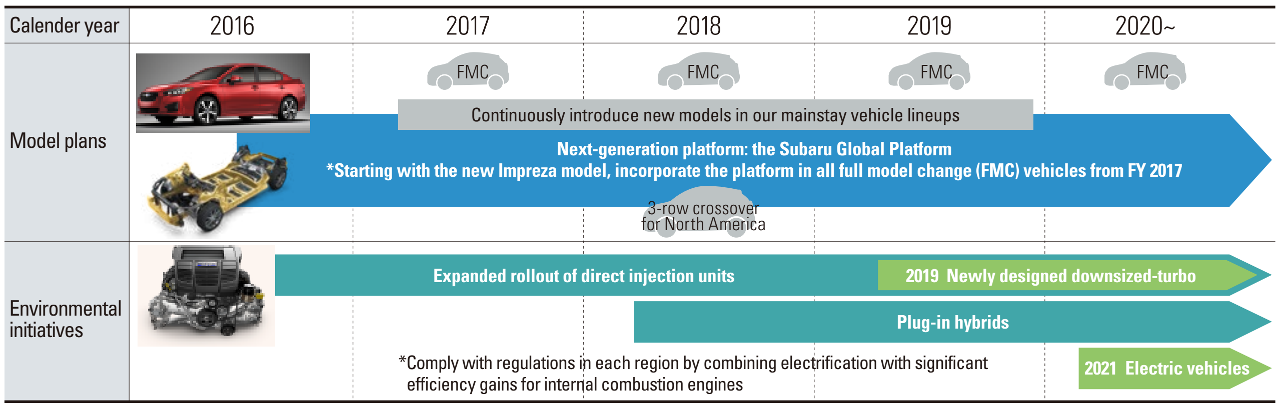
In addition, the new platform increases impact energy absorption in the event of a collision by 40% compared to current models. Currently, Subaru models have received top marks in safety tests by rating agencies inside and outside Japan, including the Japan New Car Assessment Program (JNCAP), the Insurance Institute for Highway Safety (IIHS) in the U.S., and the European New Car Assessment Programme (EuroNCAP), which has resulted in our greatest competitive strength in the marketplace. These safety tests continue to apply ever more stringent standards, including new types of collision tests. At FHI, introduction of the new Subaru Global Platform is further increasing our collision safety performance and will help us maintain the world's highest levels of safety going forward.

Fuji Heavy Industries Ltd.

▼

SUBARU CORPORATION

Product Strategy



Sales Strategy in the U.S.

Expanding production capacity and strengthening our dealer service framework to meet customer expectations.

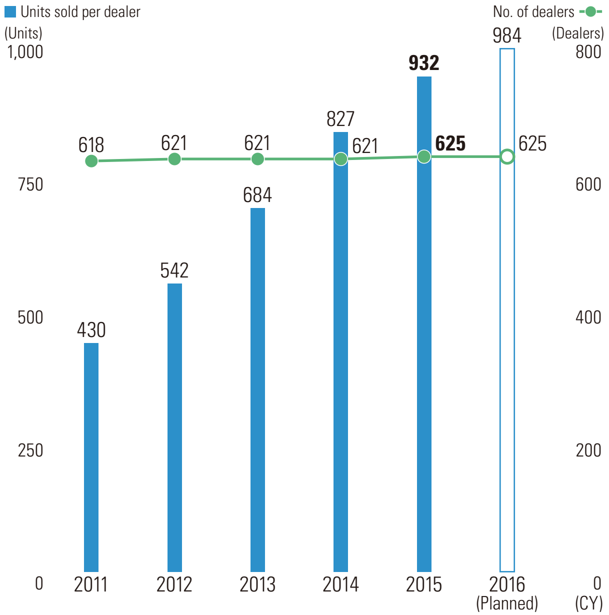
Local dealers in the U.S., our most important market, have reported that they could increase sales and seize a 5% market share if our supply were sufficient. In light of our current 3.4% market share, 5% might be a bit over-optimistic, but I believe 4% is entirely reasonable. If total vehicle demand in the U.S. is 17 million cars, that puts us at 680,000 units. If overall demand grows slightly, that number could rise to 700,000, so I would first like to increase our units sold to equal about a 4% market share in the next few years. We are basically not planning to increase the number of dealers from the current 625 dealers, but rather to increase the number of units sold at each dealer. Our sales plan for the U.S. in calendar year 2016 is 615,000 cars, approximately 1,000 cars per dealer, though somewhere around 750,000 cars should be possible by boosting the per-dealer number to approximately 1,200 units. In order to provide sales support for our local dealers, we plan to introduce a three-row crossover as a new model in North America in 2018.

Meanwhile, our Subaru incentive program was the lowest in the industry, approximately $900/vehicle for FYE March 2016, which is far less expensive than the industry average of around $3,000/vehicle. Considering that incentives are on a growth trajectory for the industry as a whole, we forecast a year-on-year increase, rising to $1,100 for the full year, for FYE March 2017. However, we still do not intend to grow sales by competing on price and will continue to sell vehicles with a low incentive program going forward.

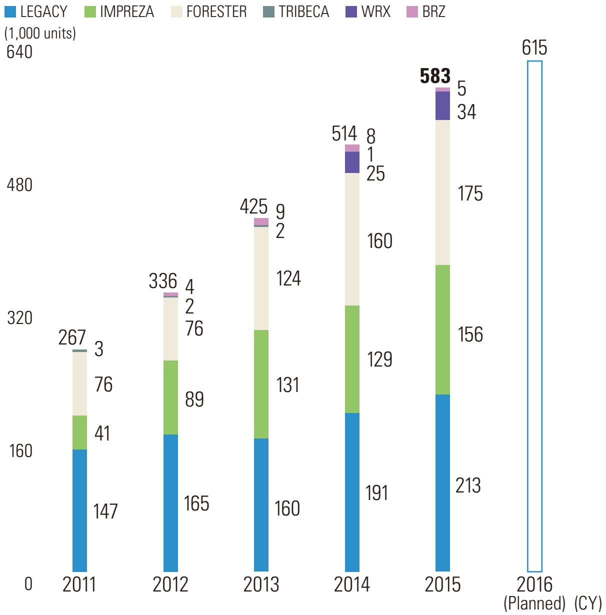
Additionally, we are expanding production capacity at our U.S. production subsidiary Subaru of Indiana Automotive, Inc. (SIA), in order to meet sales growth in North America. Production of the Outback model will commence from July 2016, after SIA ends consignment production of the Toyota Camry, and we will take early steps to relieve supply shortfalls. Also, production capacity at SIA will be expanded nearly twofold—from 200,000 units to approximately 400,000 units by the end of 2016.

In the U.S. market, all Subaru models equipped with EyeSight have received top marks in safety evaluations by the U.S. rating agency IIHS. This and other factors have solidified an image that "Subaru = safety and security," which I think has led to our current deep-rooted demand. Going forward, we intend of course to provide high quality, safe vehicles, while also striving to strengthen our service framework enabling us to deliver after-sales service that will delight new Subaru customers.

Changes in the number of dealers



Changes in the number of retail sales units



Responding to Environmental Regulations and Initiatives for Automated Driving

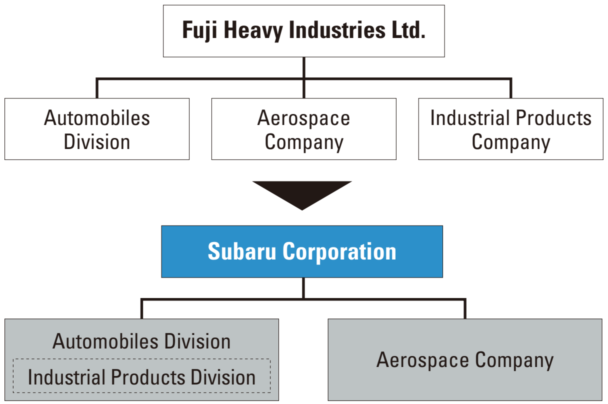
Expanding the R&D framework of the Automotive Business in order to accelerate our environmental response and our development of driving support technology.

In addition to the above, the Subaru Global Platform has been designed while keeping in mind developments in current gasoline engines and hybrid vehicles (HV), as well as plug-in hybrids (PHEV) and electric vehicles (EV). In the strong U.S. market, the scope of California's ZEV (Zero Emission Vehicle) regulations will be expanded to include mid-sized automakers (including FHI) in 2018. To coincide with this timeline, we are proceeding with research and development to launch PHEVs, followed by the subsequent launch of EVs in 2021. In essence, we are not developing dedicated PHEV and EV models. Our policy is to add PHEV and EV grades to our existing cars in the Subaru brand, leveraging their characteristic individuality and driving performance. This approach, I think, will ensure that Subaru's quintessential "enjoyment and peace of mind" will be imbued in a new generation of eco-cars.

At the same time, we are also making steady inroads with our automated driving R&D. FHI's view of automated driving is not "cars that drive in place of people," but rather, "cars that provide driving support with the driver in the central role." From this fundamental perspective, we are pushing the evolution of the highly praised EyeSight, our current driving support product that includes pre-collision safety technology. We are following this approach to develop automated driving technology that is distinctly Subaru technology.

We plan to actively invest in R&D expenses going forward, in order to accelerate development of these types of environmental features and advanced safety technologies. Furthermore, in order to optimize management resource allocation throughout the Group, and to expand development resources in our Automotive Business, we decided to integrate our Industrial Products Company into our Automobiles Division in October 2016. Existing production, sales, and service in our Industrial Products Company will continue for the duration, though development projects will be idled and management resources such as development personnel will be shifted to the Automobiles Division.

Company name change / business integration



A Word about CSR Management

Aiming to be a company that is continually trusted by society as we boost the quality of our management.

For FHI to achieve sustainable growth into the future, we must fulfill our corporate role of social responsibility and continue to be a company that constantly earns the trust and support of a broad group of stakeholders. To that end, it is vital to boost the overall quality of our corporate management to yet another level.

In the automotive business, we cannot deliver "enjoyment and peace of mind" to customers unless we provide sufficient quality, even if our cars are equipped with safety features at the world's highest standards. Amid continuing robust sales, primarily in North America, maximum capacity operations have become standard operations for each of our production sites in recent years. However, it is absolutely inexcusable for quality control to suffer as production accelerates. Our production units are thoroughly aware of their responsibility to stop the line if they are not absolutely confident in the quality of products.

Additionally, as society directs increased attention to corporate governance, FHI has been incorporating outside directors and auditors. Their participation has helped reflect stakeholder opinions to a greater extent in our business management. When putting together the Corporate Governance Guidelines we formulated last year, outside directors and auditors also took an active role in providing advice. Their participation greatly contributes to further establishing our corporate governance framework and increasing corporate value.

Under our new name of Subaru Corporation, management and Group employees alike will ensure thorough compliance with laws and regulations, conduct themselves responsibly every day, and continue to strive for even greater brand and corporate value. Thank you for your support and feedback going forward.

We will keep our industry-leading profit margin while aiming for sustainable growth and continuous return of profit to shareholders.

Mitsuru Takahashi
Director of the Board
Corporate Executive Vice President and CFO

We will strive to strengthen real profitability, excluding gains on foreign exchange, while aiming for 1,100 billion yen in operating income over the next three years.

In FYE March 2016, FHI (on a consolidated basis) posted record high levels for the fourth straight year in net sales and all income categories. Operating profit came to 565.6 billion yen, an increase of 142.5 billion yen year on year. 108.4 billion yen of that amount was from advantageous exchange rates; however, I see the result as extremely favorable, given that the actual figure excluding gains on foreign exchange was a 34.1 billion yen increase.

In the Company's "Prominence 2020" mid-term management vision, we are targeting 3-year total net sales of 8,000 billion yen and operating profit of 1,000 billion yen (assuming an exchange rate of 95 yen/US$) in our 3-year forecast for consolidated results (FYE March 2015-2017).

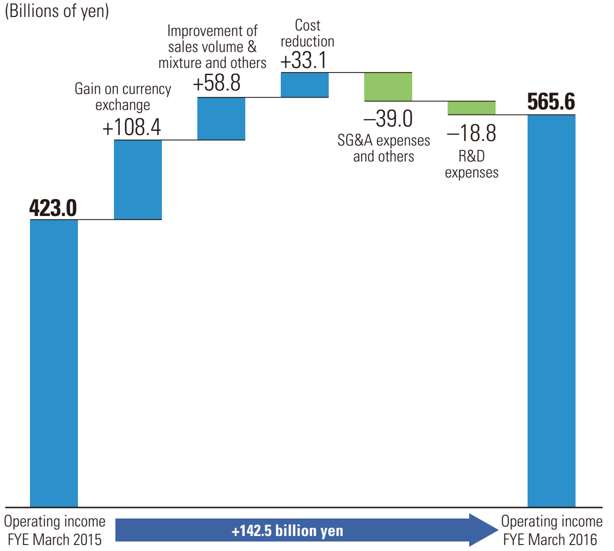
Current exchange rate fluctuations, however, show a shift in the direction of a weaker yen; operating profit for FYE March 2015 was 423.0 billion yen (at an exchange rate of 108 yen/US$) and 565.6 billion yen for FYE March 2016 (121 yen/US$). Assumptions of an exchange rate of 105 yen/US$ for FYE March 2017 have us expecting operating profit of 420.0 billion yen for that period, producing a projected 3-year total of 1,400 billion yen*. Recalculating using the initially projected exchange rate of 95 yen/US$ yields 870.0 billion yen, which underperforms the target of 1,000 billion yen. However, this amount includes systematically increased investments in future growth through greater R&D and capital expenditures, and we are confident that our real profitability has been consistently strengthened according to our plans.

This year, we formulated a new 3-year forecast for consolidated results (FYE March 2017-2019). We are planning for net sales of 9,800 billion yen, operating profit of 1,100 billion yen, and an 11.2% operating margin (assuming an exchange rate of 100 yen/US$), in addition to increased investment in R&D and capital expenditures. The new plan demonstrates our management's resolve to implement the investment necessary to achieve sustainable growth, while also maintaining our industry-leading operating profit margin going forward.

*Figures in projections for FYE March 2017 were announced May 12, 2016, then revised August 3, 2016.
For details, please see the Company website (http://www.fhi.co.jp/english/ir/index.html).

FYE March 2016: Analysis of Increase and Decrease in Operating Income Changes (consolidated)

(Billions of yen)



Three-Year Business Operation / Profit Plan

(Total of FYE March 2017-2019)

(¥100/US$)

Net sales	9.8 trillion yen
Operating Income	1.1 trillion yen
Operating Margin	11.2%
R&D expenses	360 billion yen (+29%)
Capital expenses	470 billion yen (+18%)
Depreciation expenses	290 billion yen (+38%)

( ): vs. previous 3 fiscal-year (FYE March 2017-2019) period

FYE March 2017 Consolidated Operating Plan

	Original plan (announced May 12, 2016)	Revised plan (announced August 3, 2016)
Net sales	3,170 billion yen	3,190 billion yen
Operating Income	420 billion yen	400 billion yen
Ordinary Income	420 billion yen	410 billion yen
Net income attributable to owners of parent	293 billion yen	285 billion yen
Exchange rate	¥105/US$	¥106/US$

Expanding investment in future growth, while maintaining our industry-leading operating profit margin.

Given that exchange rate gains led the Company to expect significant over-performance in FYE March 2015-2016, we boosted investment in R&D expenses above our initial plan. Background factors prompting this decision included the intensifying R&D competition surrounding environmental features and automated driving.

Heading into 2020, major global markets appear set to further strengthen their exhaust and fuel efficiency regulations, as seen by the expanded scope of ZEV (Zero Emission Vehicle) regulations for 2018 in the U.S. (primarily in California). At the same time, readers are no doubt aware that development and demonstration of automated driving technologies is being actively implemented by the world's major automobile manufacturers and IT companies.

FHI is proud of our industry-leading EyeSight technology for preventing accidents before they occur. We aim to preserve that leading position by evolving our EyeSight technology further as well as achieve automated driving in quintessentially Subaru fashion. At the same time, we are aware that we still have gains to be made in order to catch up with industry frontrunners in terms of environmental features such as electrification.

FHI has efficiently produced results with what was a comparatively low level of R&D investment. Going forward, however, I think it is no surprise that much more robust investment will be needed to clear the two significant technological hurdles of environmental features and automated driving.

Furthermore, considering the continued vehicle supply shortfalls, primarily in North America, larger capital expenditures are also indispensable for expanding production capacity. We project production capacity of 400,000 vehicles (which is nearly a two-fold increase) in the U.S. by the end of 2016, and plan for further capital expenditures beyond that in order to meet demand.

Balancing shareholders' equity and ROE at high levels, while maintaining an optimal cash position.

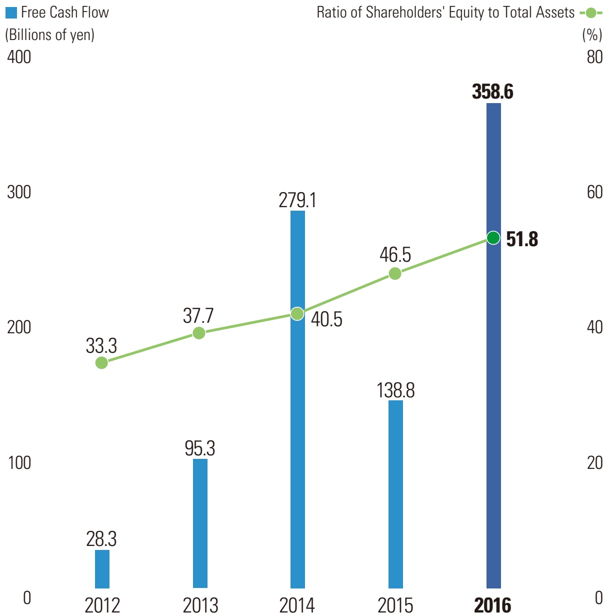
In tandem with our performance growth, FHI's capacity for cash flow generation is steadily increasing. Free cash flows for FYE March 2016 were 358.6 billion yen. This was a marked increase over FYE March 2015 (138.8 billion yen), which had special temporary factors including a cash-out equivalent to a year and half of corporate taxes, and FYE March 2014 (279.1 billion yen), which saw an almost 50 billion yen cash inflow from the sale of Polaris (U.S.) stock and an unrecorded expense of approximately 90 billion yen cash-out for corporate tax, due to net operating loss carryforwards from past terms.

Current free cash flows are judged to be at a level sufficient for maintaining the Company's sustained growth, though we would like to adjust our cash position going forward so that we maintain a healthy financial standing, while keeping the balance with ROE in mind.

FHI's fundamental capital policy is to keep a high balance between shareholders' equity and ROE. ROE for FYE March 2016 reached the very high level of 36.9%, though this was due to uncommon circumstances and is forecast to decline with time. We see strategic capital costs at approximately 8% and we would like to maintain ROE at roughly twice that for as long as possible.

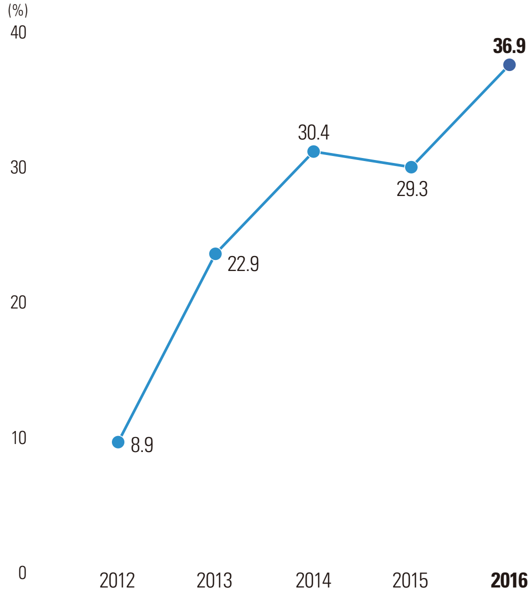
Free Cash Flow / Ratio of Shareholders' Equity to Total Assets

Years ended March 31



ROE

Years ended March 31



Achieving continuous dividend payments within a 20-40% consolidated payout ratio range linked with performance results.

The shareholder returns aspect of FHI's capital policy is to pay a continuous dividend while considering performance-linked benefits. The dividend each fiscal year is determined based on a 20-40% consolidated payout ratio and takes a variety of conditions into consideration. Based on our policy of paying a continuous dividend, we decided to use nearly the same amount as the one-time profit (48.2 billion yen) gained from the Ministry of Defense helicopter lawsuit for a share buyback, as opposed to a dividend. We plan to retire all of the shares bought back. Our fundamental stance of delivering returns of profit to shareholders through a dividend is unchanged; however, we would also like to consider the approach like the share buyback carried out this year as an additional means for handling one-time profits that occur.

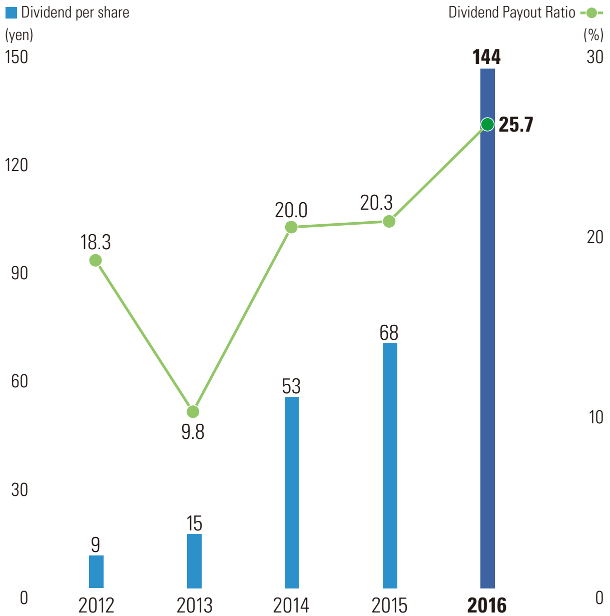
The annual dividend payment for FYE March 2016 was 144 yen per share (72-yen half-year and 72-yen year-end dividends), a 76-yen increase year on year. We forecast a dip in profit for FYE March 2017 due to foreign exchange impacts, though we plan to maintain the 144-yen (72-yen half-year and 72-yen year-end) dividend per share by raising the payout ratio. While we link our dividend with performance results, we aim to avoid, as much as possible, dividends cuts from profit fluctuations, and that is the reason why we utilize a range for our consolidated payout ratio.

In working to be "a high-quality company that is not big in size but has distinctive strength"—a stance we outlined in our mid-term management vision "Prominence 2020"—FHI aims to achieve sustainable growth, maintain our industry-leading level of profitability, increase corporate value, and meet the expectations of shareholders.

Thank you for your understanding and ongoing support for the future.

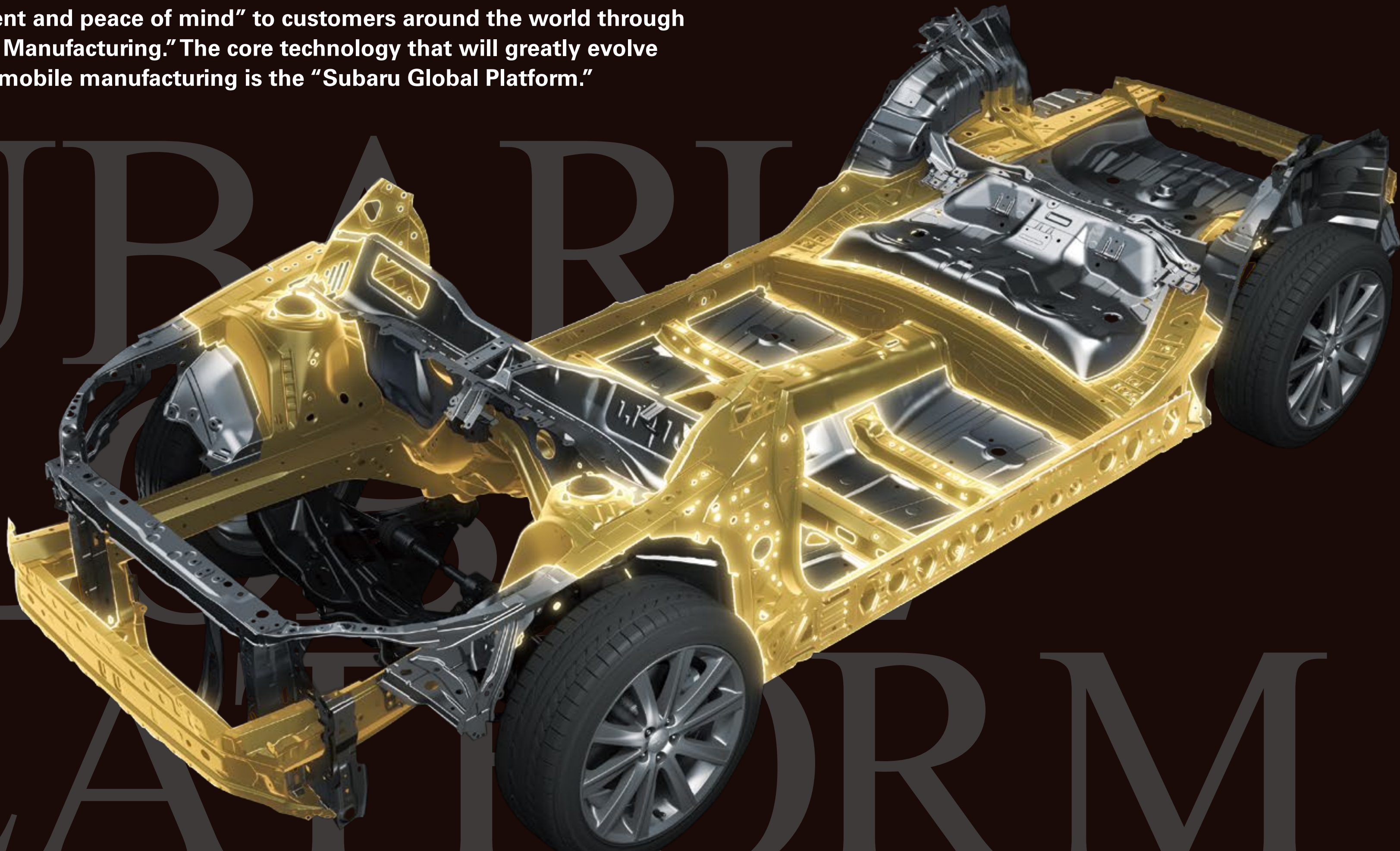
Dividend per share / Dividend Payout Ratio

Years ended March 31



Innovativeness of the Subaru Global Platform that will Serve as the Backbone of Next Generation Automobile Manufacturing

Subaru has provided “enjoyment and peace of mind” to customers around the world through “Human Centered Automobile Manufacturing.” The core technology that will greatly evolve Subaru’s next generation automobile manufacturing is the “Subaru Global Platform.”



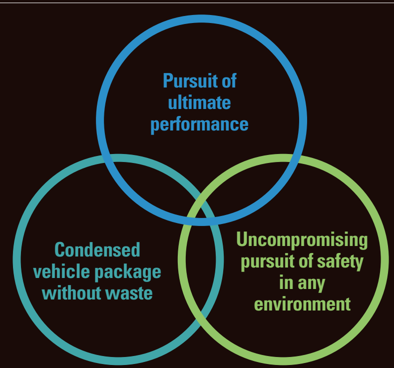
The DNA of Subaru that Underlies the Subaru Global Platform Facilitates "Enjoyment and Peace of Mind"

Naoto Muto
Director of the Board
Corporate Executive Vice President

The roots of Fuji Heavy Industries lie in the Nakajima Aircraft Company as an aircraft manufacturer. Founded in 1917 makes next year our 100th year anniversary. A great number of airplanes were developed and produced in the days of the Nakajima Aircraft Company. The uncompromising pursuit of safety performance and rational design that had developed because of the fact that we were an airplane manufacturer has been passed down over generations as the car making DNA of Subaru.

The "Subaru 360" is a mini vehicle that was released in 1958 but, regardless of being a mini vehicle, it was the first time anyone had adopted a monocoque body in Japan to realize a revolutionary package that fit four adult passengers comfortably while keeping the vehicle compact and lightweight. The "Subaru 1000," that was released in 1966, adopted an all-aluminum horizontally-opposed four-cylinder engine and a front-engine front-wheel-drive system, putting it at the forefront of a global trend to switch to front-wheel-drive on compact vehicles.

The Roots of Fuji Heavy Industries: The DNA of an Airplane Manufacturer



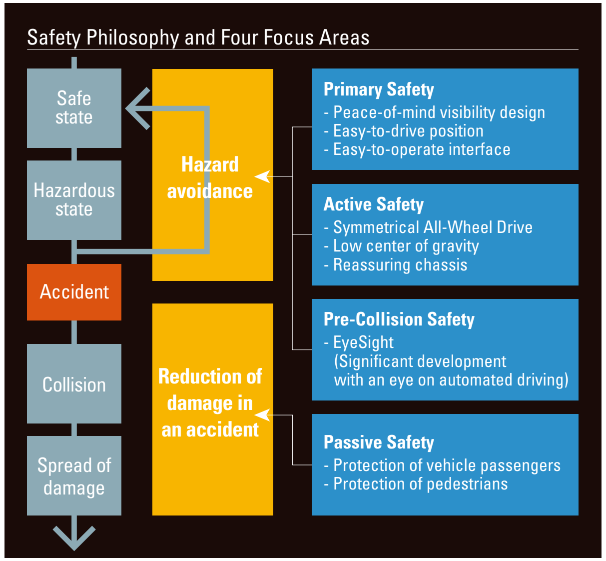
In Japan, frontal crash safety standards started to be applied in April, 1994 but if we take a look back 29 years prior to this, Subaru had already been working on frontal crash safety testing voluntarily on the "Subaru 360" since 1965. Following this, based on a safety concept to protect not only the driver but also the passengers as well as pedestrians, crash safety data in various forms such as rollovers and rear end collisions has been accumulated as we have continued with development of unique safety technologies to where we stand now.

In this way, here at Subaru, where we have worked on safety for over half a century, we currently view safety for car making from four angles: "Primary Safety," "Active Safety," "Pre-Collision Safety," and "Passive Safety." "Primary Safety," "Active Safety," and "Pre-Collision Safety" are technologies that have the purpose of avoiding an accident before it happens and "Passive Safety" is technologies that have the purpose of minimizing damage in the event of an accident.

In "Primary Safety," we develop vehicles with evaluation criteria in designing such as excellent visibility, driving positions that make driving easy, intuitive interfaces, etc. so that driver fatigue is reduced, allowing the driver to concentrate on driving with peace of mind.

"Active Safety" features the low center of gravity design of the body that takes advantage of the horizontally-opposed engine and symmetrical AWD that makes sure-footed driving possible in a wide variety of road surface conditions. Having a low center of gravity makes it easy for anyone to drive straight with peace of mind and corner smoothly.

In terms of "Pre-Collision Safety," the core technology is



"EyeSight." It is a system that recognizes what is in front of the vehicle with two cameras that function similarly to human eyes to provide safe protection with the car in front, pedestrians, and bicycles. Last year, actual market results were released showing a 61% reduction in accidents resulting in human injury or death for vehicles equipped with EyeSight. Subaru will continue to evolve "EyeSight" greatly going forward and focus our efforts on protecting the lives of Subaru customers around the world.

In terms of "Passive Safety," even if a crash was to take place, with the key concept of protecting the integrity of the cabin by smoothly crushing the front zone of the vehicle in an extremely short amount of time in mind, we develop a collision system that can adeptly cope with the actual market. Subaru has continued to research crash safety performance independently since the days of the "Subaru 360" and has garnered the highest level of rating in all safety performance tests performed by third parties in countries around the world.

Synchronized with the making of cars built with a safety concept as reliable technologies as the fundamentals of the vehicle, we follow the "Human Centered Automobile Manufacturing" concept so that the customers that use our vehicles feel the enjoyment, we have placed importance on the "feelings" of customers in the developments. We have improved "enhanced dynamic feel" of the vehicle so the enjoyment and how great it feels to drive straight and take turns intuitively could be felt with the senses.

To have the user feel a sense of security the moment he/she steps into the vehicle, sits downs, and closes the door. To have the user feel a solid rumble when turning the engine on and feel that smoothness as he/she steps on the accelerator pedal and starts to pull away from a stop. The vehicle runs so straight that the customer forgets about the existence of the steering wheel and when cornering, the vehicle turns exactly in line with the image that the customer has in mind when a turning maneuver is made on the steering wheel. To have the car move linearly interlocked to what the customer has in mind. This kind of relationship with the vehicle is what we have prepared in our vehicles so that the enjoyment can be truly felt.

Moreover, to expand extend the enjoyment of customers further from the perspective of making "living life" for our customers richer, we eliminate or avoid unnecessary packaging, pursue and utility, and have developed a vehicle that will be able to work in various situations with customers.

In addition to the development of new small displacement turbo engines that realizes significant fuel economy efficiency and hybrids (HV) that many of our current customers still use, we are also developing Plug-In Hybrid Electric Vehicles (PHEV) that can also be charged at home that is now under development for the US market and Electric Vehicles (EV) that aiming for a market launch in 2021.

The EyeSight that has been well received by customers for safety will also continue to improve safety levels going forward. The EyeSight will also react to and stop for bicycles that are encountered in intersections, and provide automated driving that can also cover lane changes on expressways on a mass production vehicle. Of course, automated driving for Subaru does not mean unmanned driving; it is automated driving that is centered on the customer. It will also be fun and safe automated driving.

All of the functions described above have been incorporated on vehicles with the Subaru Global Platform.

It is a platform that polishes up on the world's highest level of safety performance, realizes safety performance that anticipates 2025 that not only will have high performance but have a performance feel of movement that fits the human senses that can be understood by users the moment they step into the vehicle and that point in time that the car takes off. This platform will also be able to accommodate electrification as well as electric vehicles that will be key for future environment requirement compliance and furthermore will also be incorporated into automated driving.

The Subaru Global Platform will be equipped on the next generation Impreza that will be released for sale this fall, then it will be adopted on all independently developed vehicles by Subaru.

Designs of cars that express these functionalities are designs that exude the "enjoyment and peace of mind" of Subaru. Integrated under a concept called DYNAMIC×SOLID that comes with a lively and solid feel that has the Subaru touch, all Subaru vehicles will have the unified design to be brought to our customers everywhere.

Activities to facilitate enjoyment and peace of mind

Platform

SUBARU GLOBAL PLATFORM

Subaru best ever levels of overall performance evolutions to facilitate Subaru's vehicle manufacturing with enjoyment and peace of mind.

Driver Assist Technology

<Ultimate Goal that Subaru is Aiming Toward>

To achieve Zero Traffic Accidents

Uncompromising pursuit of accident avoidance performance with the "EyeSight" as the base. Realize an automated driving function that is centered on the human as a part of this evolution.

Design

Next Generation Subaru Design

<DYNAMIC×SOLID>

Shapes that are meaningful that incorporate Subaru characteristic functionality along with a high level of dynamism and solid feel.

A New Platform that Anticipates the Year 2025 that will Realize Subaru's Best Ever Overall Performance Evolutions

Tetsuo Onuki
Corporate Senior Vice President
Chief General Manager of Subaru Engineering Division 1

Do not stop with just raising performance and specs and pursue "enhanced dynamic feel" that resonates with human senses.

The "Subaru Global Platform," that was developed as a far-sighted technology in the year 2025, is a new platform that will be adopted on all forthcoming Subaru vehicles that we independently developed starting off with the next generation Impreza. A major aim of introducing the Subaru Global Platform is to realize significant evolutions in overall performance, that would have been difficult as just an extension of conventional technologies, by executing a complete overhaul of the platform, which is the basic structure of an automobile, and to facilitate "enjoyment and peace of mind" which is the greatest appeal of Subaru vehicles. To accomplish this, the element that the development team poured all of their efforts into was simply the pursuit of "enhanced dynamic feel" that resonates with human senses beyond high performance and "safety performance" at the highest levels in the world.

So what is "enhanced dynamic feel?" It is the performance feel that a person driving or riding a car feels, such as operation feel and drive feel while driving, as well as ride comfort. At Subaru, this "enhanced dynamic feel" is captured as a combination of three factors [1] performance feel that is felt when operating the steering wheel and pedals, [2] performance feel that is felt audibly, [3] performance feel that is felt from the movement of the vehicle and as has been done in the past we have pursued a high level of quality that delves into the realm of human sensations such as "smoothness" or "how great it feels." Furthermore, in the development of the Subaru Global Platform we have attempted to visualize "enhanced dynamic feel" that had been difficult to capture as physical values till now.

For example, when a driver is driving a vehicle, following the operation of the steering wheel, the forces trying to turn the vehicle is transmitted from the front wheels to the body and there is normally about a one tenth of a second delay that occurs until the vehicle actually starts to change its orientation. Reducing this slight delay is what leads to smooth and stable vehicle behavior and improvements in steering feel. Here at Subaru, we have developed our own original sensors, measured suspension inputs in 1/1000 second unit intervals and measured strain in 200 locations on the vehicle body to quantify the movements of each part of the vehicle. Furthermore, bench testing equipment that reproduces the movement of the suspension on actual roads was developed and development of vehicle elements has also progressed.

Taking this kind of fundamental research and elemental developments into consideration, Subaru has established three factors to pursue "enhanced dynamic feel" which are (1) being able to drive straight (straight line stability), (2) having no unpleasant vibration or noise, and (3) pleasant ride comfort. In order to realize these factors in the Subaru Global Platform development, the work

Factors that make up enhanced dynamic feel

The Enhanced Dynamic Feel that Subaru strives for

(1) Superior straight-line stability
(2) Having no unpleasant vibrations or noises
(3) Pleasant ride comfort

Subaru Global Platform

- Major improvement of body and chassis rigidity;
- Pursuit of an even lower center of gravity
- Evolution of the suspension

70 to 100% rigidity increase versus current vehicles

was focused on "significant increases of body and chassis rigidity," "pursuit of an even lower center of gravity," and "evolution of the suspension system."

For example, comparing the Subaru Global Platform to current vehicles, improvements have been made to the front body lateral rigidity, body torsional rigidity, front suspension rigidity, and rear sub-frame rigidity, by 90%, 70%, 70%, and 100%, respectively. Moreover, Subaru cars have traditionally had the characteristic "low center of gravity design" but on the Subaru Global Platform, an even lower center of gravity was achieved that is 5mm lower than current vehicles. The suspension has also advanced significantly by revising the suspension geometry and improving the rigidity of mounting points.

As a result of all of these advances, next generation vehicles that adopted the Subaru Global Platform have realized astounding straight line stability as if gliding solidly anchored to rails. As the steering responsive is extremely high, this astounding straight line stability was made possible by the driver being able to rectify turbulence of the trajectory path due to factors such as slight bumpiness to the road surface, side winds, etc.

At the same time in terms of countermeasures for noise and vibration, conventionally there were certain areas of the body and suspension that resonated to amplify vibrations but on the "Subaru Global Platform", the natural frequency of the body is raised by improving body rigidity, preventing resonance with the suspension. In addition, as concentration of localized strain was averted on the subframe mounting points, known to be the portion that is the weak point for stiffness, and the body's overall torsional characteristics were evened out for uniformity, then by optimizing the body frame structure and utilizing structural adhesive, we have rationally improved the body rigidity without adding weight. Furthermore, the amount of mass offset on the strut suspension, which is a source of vibration input, was also reduced 15% versus conventional levels which also contributed to reduction in noise and vibration.

In terms of providing a smooth and comfortable drive, increasing the rigidity of the body frame brought out the intrinsic shock damping performance of the suspension that enabled quick convergence of vibrations generated by factors such as bumps in the road, etc. By mounting the rear stabilizer directly onto the body, the new platform reduces the body roll of the vehicle by 50% compared to present models.

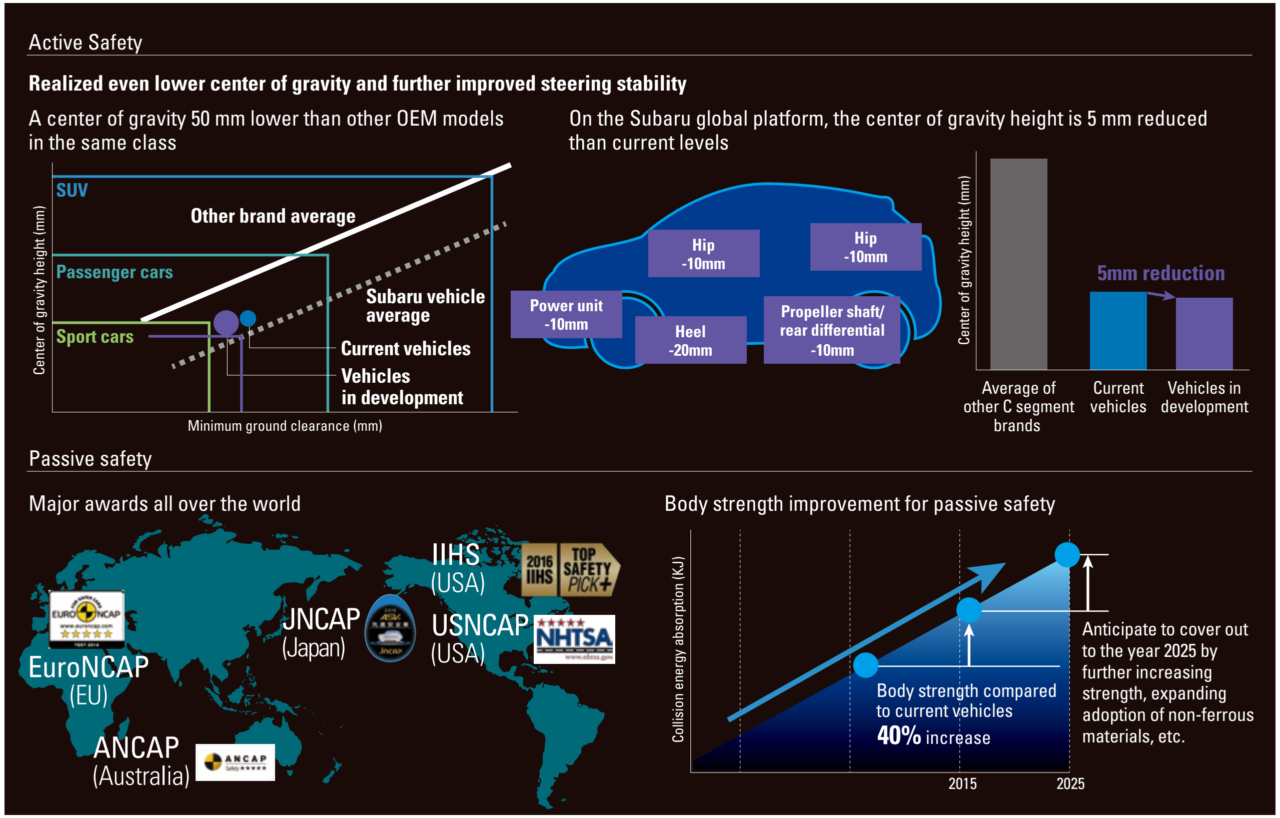
Through these activities, next generation Subaru vehicles equipped with the Subaru Global Platform will provide enhanced dynamic feel that will surely dominate not only Japanese vehicles but also top grade European vehicles as well.

Pursuing Far-sighted Safety Technology that Anticipates Ten Years in the Future Based On Subaru's Unique Safety Concept.

Another major objective of introducing the Subaru Global Platform is the further evolution and enhancement of the world's highest level of safety performance. Among the four focus areas based on the Subaru safety concept, the new platform brings major benefits especially in "Active Safety" and "Passive Safety."

In terms of "Active Safety," significant improvements to body and chassis rigidity and even lower center of gravity has improved steering stability on Subaru cars that had already been rated highly and had taken it up to the next level. In internal tests, the next generation Impreza danger avoidance speed has exceeded the 84.5 km/h on the existing vehicle considerably at 92.5 km/h which achieves levels comparable to European sports cars.

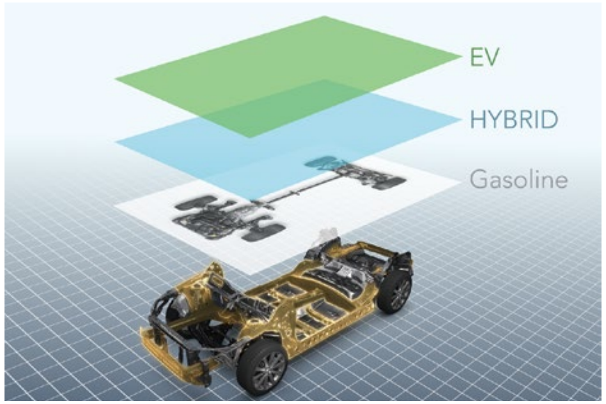
At the same time, in terms of "Passive Safety," body strength was raised by optimization of the frame structure, multiplexing of



the load transmission paths, adoption of high strength material, as well as improving collision energy absorption by 40% versus existing vehicles. These improvements further evolved crash safety performance that had already achieved the highest level of ratings in the world. In the future, compliance to various and diverse forms of crashes will be required, and we believe that collision energy absorption will have to be improved further by more than 30% at around 2025. The Subaru Global Platform is designed to have the potential to be able to comply with these improvements by further increasing strength to higher levels, expanding adoption of non-ferrous materials, etc.

If the rigidity and strength of the vehicle is improved significantly in this way, it would normally increase weight but the Subaru Global Platform effectively utilizes the amount of weight saved due to the rational design, on performance improvements and safety improvements, as a lightweight body that is on par with conventional Subaru vehicles has been made a reality. Moreover, in anticipation of the evolution of vehicles up till 2025, starting with gasoline engine vehicles, hybrid vehicles (HEV/PHEV) to electric vehicles (EV), it is designed as a platform that can accommodate various types of power units. The Subaru Global Platform that makes overall vehicle performance evolution possible such as outstanding straight line stability, high level danger avoidance performance, and the world's highest level of crash safety performance, will be an important core technology even in terms of realizing automated driving in the future.

Platform that anticipates out to 2025



Pursuing Human Centered Automated Driving Functions Toward Making "Zero Traffic Accidents" a Reality.

For Subaru that has "Human Centered Automobile Manufacturing" at its essence, the ultimate goal for automated driving is not "to have the car drive itself in place of the human" but it is "to aim for zero traffic accidents" that threaten human life and assets. Based on technical concepts such as these, Subaru will evolve driver assist and automated driving toward the realization of "Zero Traffic Accidents" by the introduction of the Subaru Global Platform and further advances to high performance and high functionality for the driver assist system "EyeSight."

Surveys in Japan have revealed a 61% fewer accidents resulting in injury or death for vehicles equipped with the "EyeSight Ver. 2" compared to those without it. If the conditions of the accidents are broken down further, car-to-car accidents dropped 80%, broadside collisions dropped 50% to demonstrate the benefits the system provides. The latest "EyeSight Ver. 3" that is currently launched in the market has improved performance in areas such as capabilities to detect obstacles, speed range that the brakes actuate, etc. thus we should be able to expect even further reductions in accident occurrences.

In terms of activities toward driver assist and automated driving, automated follow-up system in congested express ways will be added in 2017. This is a function that drives the car at 0 km/h to 65 km/h on the same lane while recognizing the movements of the vehicle driving ahead and the conditions of curves in the roadway with the "EyeSight" in traffic jam on expressways. Furthermore, in 2020, we plan to add a radar and digital map to the "EyeSight" that uses only stereo camera technology to realize automated driving on expressway roads including lane changes.

In this way, by practical implementation placing a priority on driver assist functions targeting situations with a high risk of becoming an accident, such as during heavy traffic when drivers are susceptible to losing their concentration, lane changes that demand careful checks in the rearward direction, etc. through this the capability of Subaru vehicles to avoid accidents will be improved exponentially. As a result of this pursuit of safety performance, we hope to make automated driving with distinctive Subaru value and provide "enjoyment and peace of mind" that is one step above to users.

Evolution of the EyeSight

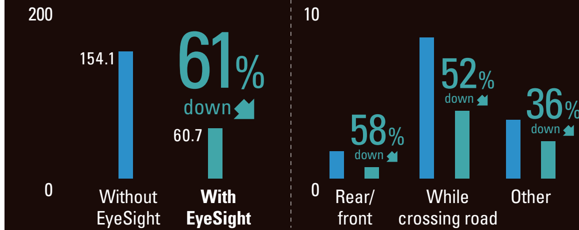
2017
Automated follow-up on congested expressways

2020
Automated driving including lane changes on expressways

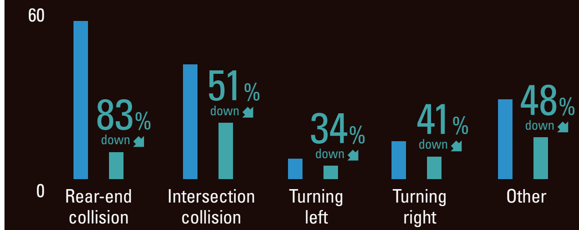
EyeSight Accident Reduction Data*1

61% reduction in accident rate

Comparison of rate of accidents resulting in injury or death with and without EyeSight (Ver.2)
No. per 10,000 vehicles (over 4 years)



Between vehicles*2



*1 Independent calculations from data on accidents that took place over the four years from 2011 – 2014 among vehicles sold between 2010 and 2013 in which installation of EyeSight (Ver. 2) is possible based on Institute for Traffic Accident Research and Data Analysis (ITARDA) data. There were 2,234 accidents.
Calculates the number of accidents resulting in injury or death per 10,000 vehicles with and without EyeSight (over four years). Of the target vehicles, there were 246,139 with EyeSight (Ver. 2) and 48,085 without it.
*2 Placed top in frequency

New Subaru Design that Puts "Enjoyment and Peace of Mind" Into the Physical Form of a Vehicle

Mamoru Ishii
General Manager, Subaru Design Department

Pursuing "Lifestyle Design" to make life richer, and "Long Life Design" that people will want to use for a long time.

At Subaru, for the mid-term management vision "Prominence 2020," six activities have been established to polish up the brand. One of the major items of these activities is positioned in the realm of design. In order for Subaru to be a prominent presence for customers, we have reconfirmed goals that design should be aiming for and developed a renewed Subaru design strategy. The new Subaru design will aim for "lifestyle design" to make the lives of customers richer and "long life design" that customers will want to use for a long time.

At Subaru, cars will obviously be designed to comfortably fit the customer's lifestyle but on top of that, to take that next step, and actively promote the design a new lifestyle that will make the life of customers richer. This is "Lifestyle design."

Of course, the car will become a partner in the rich life of the customer, thus it must be equipped with functional performance that can be used daily without stress but at the same time be designed in a way that customers will feel an affinity to want to use the car for a long time. For example, at Subaru, in order to achieve superior visibility performance, sure, effective field of view angle was secured but an interior design was executed that went as far as taking into account controlling light glare and reflections in the glass. On top of this, instead of following the latest trends haphazardly, the priority was placed on design that pursued genuine beauty of the vehicle that came about naturally. Reflecting the mentality of this kind of Subaru car making is what we believe will lead to "Long life design."

Design Philosophy of DYNAMIC×SOLID that Expresses "Enjoyment and Peace of Mind" from the Perspective of Design.

In pursuing our new design direction, we have also worked to interpret from a design perspective the value of "Enjoyment and Peace of Mind" that Subaru offers to customers and put it into the form of vehicles. As a result of analyzing "Enjoyment and Peace of Mind" based on this concept, we reacknowledged three meanings that should be expressed as a common theme throughout the new Subaru design and decided to evolve each area accordingly.

The first meaning is "functional value" in terms of "fine visibility," "comfortable interior space," "load capacity" and "run through capability," that had been a priority since the founding of Subaru. In addition to these factors, in recent years "Aerodynamic performance," have also become important factors. The second meaning is "manufacturing spirit" in terms of "rational design concepts" and a "Challenging spirit" that have been passed down over generations since the founding of Subaru as our DNA to want to create new value. Then the third meaning is "emotional value" in terms of communicating the sophisticated "shape" borne out of necessity represented by the distinct front face that is identified as a Subaru car in a single glance.

The latest design philosophy that embodies this new Subaru design is DYNAMIC×SOLID. The "solidness full of sense of security" and "sturdiness to protect passengers," that had been carefully developed into designs conventionally by Subaru is expressed by SOLID and throbbing Dynamic for next generation and active lifestyle, etc. is expressed by the keyword DYNAMIC.

At Subaru, this design philosophy of DYNAMIC×SOLID is incorporated into specific three-dimensional forms from the following three factors. The first and most important is the "stance." This could also be called the proportions of the vehicle and is the structure of framework that determines the profile of the vehicle. The second factor is "solid mass." This could also be referred to as volume or volume feel, and develops the way the muscles are built to give an impression of trust and toughness that the vehicle possesses. The third factor is "surface structure." Starting with Subaru's unique hexagon grille through this three-dimensional expression, this is what gives the impression of car's individual facial expression and character.

The next generation Impreza will be the first mass production vehicle to fully adopt this DYNAMIC×SOLID design. Please look forward with high expectations for future Subaru designs.

Our Basic Approach to Corporate Governance

FHI 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 on the right.

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.

(Established in November 1994)

Company Organizational Bodies

FHI has adopted a Board of Corporate Auditors system, and the Board of Directors and the Board of Corporate Auditors perform decision making, and oversight and auditing for the execution of important business operations. The Board of Directors is composed of eight directors, two of whom are highly independent outside directors to further strengthen governance. The Board of Corporate Auditors is composed of four corporate auditors, two of whom are outside corporate auditors to provide objective oversight of management.

With regard to 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, which deliberates on company-wide management strategy and the execution of key business operations. In addition to employing an executive officer system, FHI has introduced an in-house company system for the Aerospace and Industrial Products business divisions with the Automotive Business at its core with the aim of clarifying responsibility and speeding up execution of business operations.

Development of Internal Control System

FHI resolved its basic policy on the development of a system to ensure that the execution of the duties of the directors complies with laws and regulations and the Articles of Incorporation as well as the other systems stipulated by ordinance of Japan's Ministry of Justice as necessary to ensure the proper operation of a stock company at a meeting of the Board of Directors in May 2006.

Status of Development of Risk Management System

At FHI, the Corporate Planning Department, which plays a central role in the common functions of each business, and other company-wide shared corporate operations departments maintain close links with each department and company to enhance risk management.

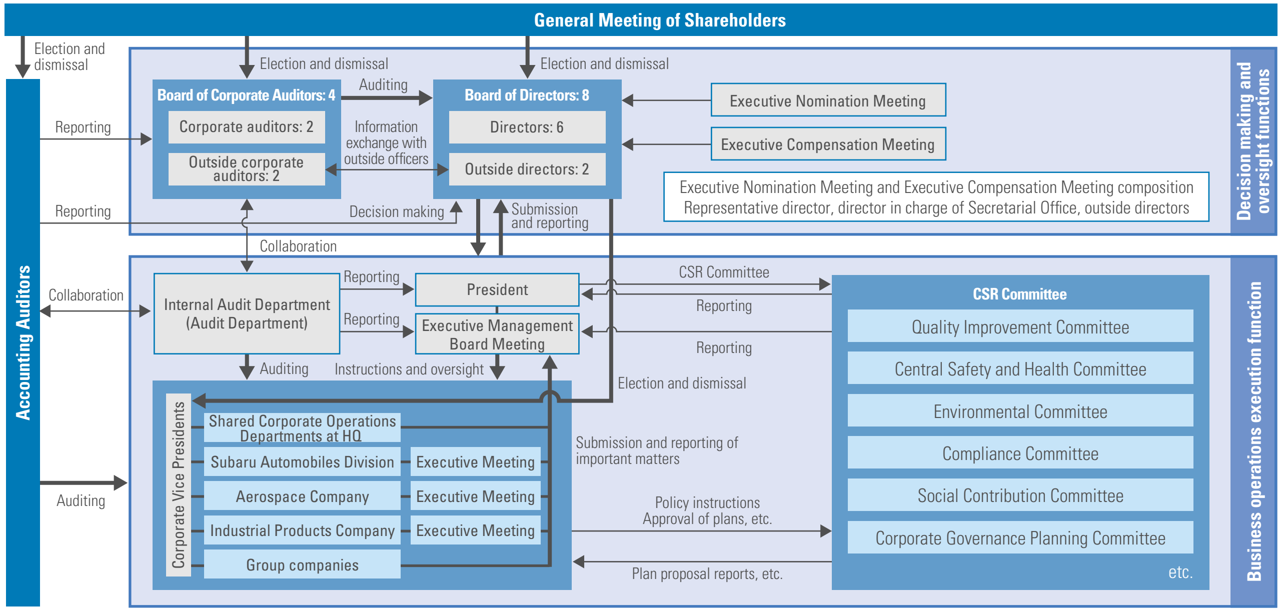
In addition, the Audit Department performs planned audits of each department and Group company.

FHI has also created and operates a system and organization to ensure compliance, which is the foundation of risk management, in order to assist with the development of the internal control system.

First, we have established the Compliance Committee which deliberates, discusses, determines, exchanges information, and liaises on important compliance issues to promote the implementation of company-wide compliance. In addition, we have assigned a compliance officer and compliance staff for each department and company to organize a system that meticulously implements compliance at each workplace. We also systematically provide education and training for officers and employees on a routine basis as well as raising awareness about compliance through such means as in-house publications as necessary.

Furthermore, in order to promote the implementation of compliance in the FHI Group, we conduct education and training and provide information through in-house publications for Group companies in addition to raising the effectiveness of these activities through the participation of Group companies in the FHI internal reporting system (Compliance Hotline.)

System of Corporate Governance



Status of Internal Audits and Auditing by Corporate Auditors

FHI's standing corporate auditors (including the standing outside corporate auditors), attend meetings of the Board of Directors and other important meetings, visit work sites, investigate subsidiaries, hear opinions from the internal audit department, and audit the execution of duties by the directors and others based on the audit policy and audit plan established by the Board of Corporate Auditors. The non-standing outside corporate auditors attend meetings of the Board of Directors and other important meetings, hear opinions from the internal audit department and the standing corporate auditors, and audit the execution of duties by the directors and others based on the audit policy and audit plan established by the Board of Corporate Auditors.

FHI has established the Audit Department as an internal auditing organization to implement planned audits of the execution of business operations in each in-house department as well as Group companies inside and outside Japan. At the beginning of the fiscal year, the department coordinates its internal audit plan for the fiscal year with the Board of Corporate Auditors' policy in advance. The Audit Department reports the results of all internal audits to the corporate auditors and reports on the status of internal audit activities and exchanges opinions with them on a monthly basis to achieve collaboration. The Audit Department also endeavors to strengthen the auditing function in conjunction with audits by the Accounting Auditor.

Evaluation of Internal Control System for Financial Reporting

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

The President & Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) evaluated the status of the development of the internal control system related to financial reporting as of March 31, 2016 and affirmed that it has been established properly and functions effectively and issued an internal control report audited by the Accounting Auditors to that effect.

Executive Compensation

By a resolution passed at the June 2016 General Meeting of Shareholders, the total amount of annual compensation for directors was set within 1.2 billion yen (including 200 million yen for outside directors), while the total amount for corporate auditors was set within 100 million yen by a resolution passed at the June 2006 General Meeting of Shareholders. Furthermore, by decision of the Board of Directors, the basic compensation for directors is to include a fixed amount (determined based on the director's rank, with additional considerations including the business environment, etc.) and a performance-based amount (determined based on the fiscal year's consolidated ordinary profit, with additional considerations including contribution to personnel development, the business environment, etc.). Compensation amounts for the fiscal year under review are shown below. Outside directors do not receive performance-based compensation.

Classification	Number	Total compensation (millions of yen)		
		Basic compensation		
		Fixed amount	Performance-based amount	
Directors (excluding outside directors)	7	234	282	516
Corporate auditors (excluding outside corporate auditors)	3	27	–	27
Outside executive officers	5	62	–	62
Total	15	322	282	604

*The above table includes one director and two auditors who resigned before the last day of the fiscal year under review. At the end of the fiscal year under review, there were 8 directors (including 2 outside directors) and 4 auditors (including 3 outside auditors).

Complying with the Corporate Governance Code

FHI's policies call for compliance with the provisions of the Tokyo Stock Exchange's Corporate Governance Code. Cognizant of these provisions, FHI formulated Corporate Governance Guidelines on November 5, 2015. These Guidelines, disclosed on our website, are intended to clarify our fundamental approach to corporate governance, in addition to our framework and management policies.

FHI's corporate governance pages:
https://fhi.co.jp/english/csr/mecenat/governance.html
https://fhi.co.jp/english/envi/csr/csr/governance/governance.html

Analysis and Evaluation of the Board of Directors' Effectiveness

Following the Corporate Governance Guidelines, we implemented analysis and evaluation of our Board of Directors' effectiveness in FY 2016.

Analysis and Evaluation Method
- **Implementation period:** March 2016
- **Respondents:** Directors and corporate auditors (12 in total, including outside directors)
- **Overview:** We carried out self-evaluations using a questionnaire that utilized expertise from a third-party organization.

An overview of the analysis results is as follows.

- The Board of Directors has an appropriate size and sufficient diversity for debate. The number, content, and amount of deliberation on proposals brought forth based on the Board of Directors' Proposal Criteria are appropriate and the Board's debate is open and unencumbered.
- Board of Directors members understand the specialized expertise of each member, respect fellow members, and strive to understand, rather than exclude, opinions and values that do not agree with their own.
- The support framework for outside executive officers as well as external communication may need further improvement.

From the above, the effectiveness of FHI's Board of Directors was evaluated positively for FY 2016. In terms of both its decision-making and oversight of business execution, the Board as a whole fulfills the roles and responsibilities set out in the Corporate Governance Code.

On the other hand, there were also constructive opinions expressing expectations for enhanced provision of information and explanations from the Company to outside executive officers, in addition to improved IR activity reports and more active strategic debate. Consequently, we have decided to digest the results of this survey and strive to continually improve corporate value, while boosting our support of outside executive officers to a new level. This will include more promptly distributing material used for proposals taken up by the Board of Directors, enhancing pre-briefings for outside executive officers, working to share information and provide feedback on IR activities to a greater extent than we have to date, and increasing opportunities for Board members (including outside executive officers) to exchange opinions and information on FHI's business strategies and management challenges.

Board Directors / Executive Officers

Directors of the Board

Yasuyuki Yoshinaga ①
Representative Director of the Board
President & CEO

April 1977	Joined the Company
April 2005	Corporate Vice President, Senior General Manager of Strategy Development Division, and General Manager of Corporate Planning Department
June 2006	Corporate Vice President and Chief General Manager of Strategy Development Division
April 2007	Corporate Vice President, Chief General Manager of Subaru Japan Sales & Marketing Division, and General Manager of Sales Promotion Department
June 2007	Corporate Senior Vice President and Chief General Manager of Subaru Japan Sales & Marketing Division
June 2009	Director of the Board and Corporate Executive Vice President
June 2011	Representative Director of the Board, President and CEO

Jun Kondo ②
Representative Director of the Board
Deputy President

April 1976	Joined the Company
June 2003	Corporate Vice President, Chief General Manager of Subaru Manufacturing Division, and Chief General Manager of Gunma Plant
May 2004	Corporate Vice President, Chief General Manager of Subaru Cost Planning & Management Division, and General Manager of Cost Planning Department
June 2004	Corporate Senior Vice President and Chief General Manager of Subaru Cost Planning & Management Division
June 2006	Corporate Senior Vice President, Chief General Manager of Subaru Cost Planning & Management Division, and Senior General Manager of Subaru Purchasing Division
April 2007	Corporate Senior Vice President, Chief General Manager of Strategy Development Division, and Chief General Manager of Subaru Cost Planning & Management Division
June 2008	Director of the Board and Corporate Executive Vice President
June 2011	Representative Director of the Board and Deputy President

Naoto Muto ③
Director of the Board
Corporate Executive Vice President

April 1977	Joined the Company
April 2005	Corporate Vice President, Senior General Manager of Subaru Product & Portfolio Planning Division, and General Manager of Subaru Product & Portfolio Planning Division
June 2006	Corporate Vice President and Chief General Manager of Subaru Product & Portfolio Planning Division
June 2007	Corporate Senior Vice President and Chief General Manager of Subaru Product & Portfolio Planning Division
April 2009	Corporate Senior Vice President and Chief General Manager of Subaru Purchasing Division
June 2010	Corporate Executive Vice President and Chief General Manager of Subaru Purchasing Division
June 2011	Director of the Board and Corporate Executive Vice President

Mitsuru Takahashi ④
Director of the Board
Corporate Executive Vice President

April 1978	Joined the Company
June 2006	Corporate Vice President and General Manager of Finance & Accounting Department
April 2009	Corporate Senior Vice President, CFO, and General Manager of Finance & Accounting Department
April 2010	Corporate Senior Vice President, CFO, General Manager of Finance & Accounting Department, and President of Eco Technologies Company
June 2010	Corporate Executive Vice President, CFO, General Manager of Finance & Accounting Department, and. President of Eco Technologies Company
April 2011	Corporate Executive Vice President, CFO, and President of Eco Technologies Company
June 2012	Director of the Board, Corporate Executive Vice President, CFO, and President

Takeshi Tachimori ⑤
Director of the Board
Corporate Executive Vice President

April 1977	Joined the Company
June 2006	Corporate Vice President and Senior General Manager of Subaru Product & Portfolio Planning Division
April 2009	Corporate Vice President, Chief General Manager of Subaru Product & Portfolio Planning Division, and President of Subaru Tecnica International Inc.
April 2010	Corporate Senior Vice President and Chief General Manager of Subaru Product & Portfolio Planning Division
April 2011	Corporate Senior Vice President and Chairman, President & CEO of Subaru of America, Inc.
June 2011	Corporate Senior Vice President; Chairman, President & CEO of Subaru of America, Inc.; and Chief General Manager of Subaru Overseas Sales & Marketing Division 1
April 2013	Corporate Executive Vice President, Chairman & CEO of Subaru of America, Inc., and Chief General Manager of Subaru Overseas Sales & Marketing Division 1
June 2013	Director of the Board and Corporate Executive Vice President

Masahiro Kasai ⑥
Director of the Board
Corporate Executive Vice President

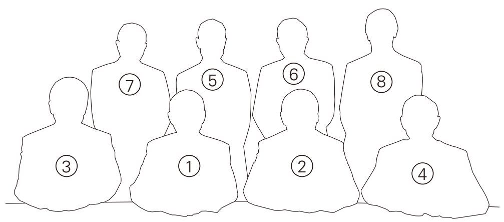
April 1978	Joined the Company
June 2007	Corporate Vice President and President & CEO of Subaru of Indiana Automotive, Inc.
April 2009	Corporate Vice President, Chief General Manager of Subaru Manufacturing Division, and Chief General Manager of Gunma Plant
April 2010	Corporate Senior Vice President, Chief General Manager of Subaru Manufacturing Division, and Chief General Manager of Gunma Plant
April 2014	Corporate Executive Vice President and Chief General Manager of Subaru Purchasing Division
June 2015	Director of the Board and Corporate Executive Vice President

Yoshinori Komamura ⑦
Outside Director

June 2015	Outside Director

Shigehiro Aoyama ⑧
Outside Director

June 2016	Outside Director



Executive Officers

Corporate Executive Vice President
Hisashi Nagano
Nobuhiko Murakami
Tomomi Nakamura
Kazuo Hosoya
Masaki Okawara

Corporate Senior Vice President
Yasuo Kosakai
Yasunobu Nogai
Satoshi Maeda
Toshiaki Okada
Tetsuo Onuki
Yoichi Katou
Katsuyuki Mizuma

Corporate Vice President
Masami Iida
Hiromi Tsutsumi
Shoichiro Tozuka
Toshiaki Tamegai
Hiroki Kurihara
Masayuki Uchida
Takuji Dai
Fumiaki Hayata
Atsushi Osaki
Tatsuro Kobayashi

Auditors

Standing Corporate Auditor
Akira Mabuchi
Shuzo Haimoto

Corporate Auditor
Shinichi Mita
Yasuyuki Abe

Outside Executive Officers

The Company has appointed Yoshinori Komamura and Shigehiro Aoyama to the position of outside director. Possessing considerable experience as executives and a high degree of expertise in the area of CSR, we are confident that Mr. Komamura and Mr. Aoyama will offer sound advice to the Board of Directors and other bodies and ensure the independent monitoring of the Company's management.

Outside corporate auditors are deemed to have sufficient ability to appropriately carry out their professional duties. Shinichi Mita possesses experience and knowledge related to management from being an executive in the manufacturing industry. In particular, he has broad knowledge of corporate accounting and finance. Yasuyuki Abe possesses experience and knowledge related to management from being an executive of a general trading company and has a wealth of experience and broad knowledge as a corporate manager.

FHI appoints outside directors and outside corporate auditors based on criteria for the independence of its outside executive officers.

Consolidated Ten-Year Financial Summary

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES Years ended March 31

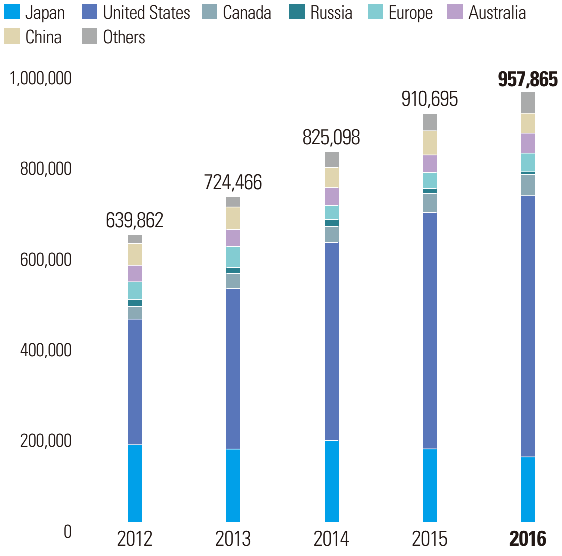
(Millions of yen) (Thousands of U.S. dollars[1])

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2016
For the year:											
Net sales	¥1,494,817	¥1,572,346	¥1,445,790	¥1,428,690	¥1,580,563	¥1,517,105	¥1,912,968	¥2,408,129	¥2,877,913	**¥3,232,258**	**$28,682,740**
Cost of sales	1,142,674	1,217,662	1,164,564	1,152,763	1,241,427	1,222,419	1,501,809	1,728,271	2,017,490	**2,187,136**	**19,408,430**
Gross profit	352,143	354,684	281,226	275,927	339,136	294,686	411,159	679,858	860,423	**1,045,122**	**9,274,310**
Selling, general and administrative expenses	304,237	309,004	287,029	248,577	255,001	250,727	290,748	353,369	437,378	**479,533**	**4,255,329**
Operating income (loss)	47,906	45,680	(5,803)	27,350	84,135	43,959	120,411	326,489	423,045	**565,589**	**5,018,981**
Income (loss) before income taxes and minority interests	45,589	31,906	(21,517)	(443)	63,214	52,879	93,082	328,865	392,206	**619,003**	**5,492,972**
Net income (loss) attributable to owners of parent	31,899	18,481	(69,933)	(16,450)	50,326	38,453	119,588	206,616	261,873	**436,654**	**3,874,825**
Comprehensive income	—	—	—	(13,416)	34,900	44,474	152,009	210,757	309,271	**405,703**	**3,600,169**
At year-end:											
Net assets	¥ 495,703	¥ 494,423	¥ 394,719	¥ 381,893	¥ 413,963	¥ 451,607	¥ 596,813	¥ 770,071	¥1,030,719	**¥1,349,411**	**$11,974,541**
Shareholders' equity	494,004	493,397	393,946	380,587	412,661	450,302	595,365	765,544	1,022,417	**1,343,732**	**11,924,146**
Total assets	1,316,041	1,296,388	1,165,431	1,231,367	1,188,324	1,352,532	1,577,454	1,888,363	2,199,714	**2,592,410**	**23,004,792**
Ratio of shareholders' equity to total assets (%)	37.5%	38.1%	33.8%	30.9%	34.7%	33.3%	37.7%	40.5%	46.5%	**51.8%**	
Per share: (in yen and U.S. dollars)											
Net income (loss):											
Basic	¥ 44.46	¥ 25.73	¥ (91.97)	¥ (21.11)	¥ 64.56	¥ 49.27	¥ 153.23	¥ 264.76	¥ 335.57	**¥ 559.54**	**$ 4.97**
Diluted	44.44	25.73	—	—	—	—	—	—	—	**—**	**—**
Net assets	687.81	687.02	505.59	488.58	528.88	576.97	762.87	980.98	1,310.15	**1,721.90**	**15.28**
Other information:											
Depreciation/amortization	¥ 81,454	¥ 87,164	¥ 74,036	¥ 65,785	¥ 56,062	¥ 58,611	¥ 61,544	¥ 61,486	¥ 71,821	**¥ 72,938**	**$ 647,245**
Capital expenditures (addition to fixed assets)	126,329	118,869	95,153	89,077	67,378	67,035	94,986	98,537	135,346	**168,338**	**1,493,815**
Research and development expenses	50,709	52,020	42,831	37,175	42,907	48,115	49,141	60,092	83,535	**102,373**	**908,448**
Number of shares issued (thousands of shares)[2]	782,865	782,865	782,865	782,865	782,865	782,865	782,865	782,865	782,865	**782,865**	
Number of shareholders[2]	42,920	44,484	40,839	39,223	34,240	33,139	28,890	51,386	70,942	**79,594**	
Number of employees[2]											
Parent only	11,752	11,909	12,137	12,483	12,429	12,359	12,717	13,034	13,883	**14,234**	
Consolidated	25,598	26,404	27,659	27,586	27,296	27,123	27,509	28,545	29,774	**31,151**	

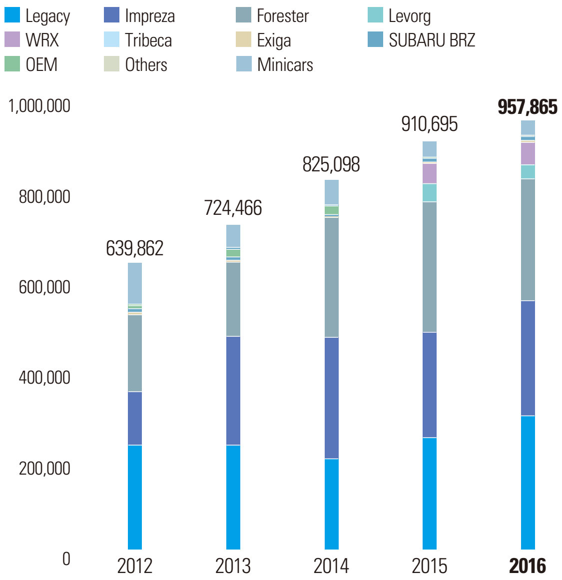
1. U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥112.69 to US$1.00, the approximate rate of exchange at March 31, 2016.
2. As of March 31

Five-Year Automobile Sales Years ended March 31

Consolidated Automobile Sales by Region (Number of units)



Consolidated Automobile Sales by Model (Number of units)



Consolidated Automobile Sales (Number of units)

	2012	2013	2014	2015	2016
Domestic units:					
Legacy	22,812	24,207	18,961	13,845	11,358
Impreza	29,122	53,250	61,071	39,462	39,794
Forester	13,803	18,044	36,572	21,103	22,044
Levorg	0	0	0	40,559	23,555
WRX	0	0	0	7,514	6,956
Exiga	8,020	7,392	3,853	1,937	4,498
SUBARU BRZ	249	6,711	3,380	1,890	1,995
OEM	5,844	2,778	1,857	1,127	884
Others	303	368	453	439	502
Passenger cars	80,153	112,750	126,147	127,876	111,586
Minicars	92,189	50,372	55,454	34,876	33,702
Domestic total	172,342	163,122	181,601	162,752	145,288
Overseas units by region:					
U.S.	280,356	357,569	441,799	527,630	582,674
Canada	28,239	32,644	36,013	42,439	47,579
Russia	15,860	14,719	15,314	11,559	5,723
Europe	39,075	46,382	31,756	35,730	41,778
Australia	36,928	38,120	39,515	38,889	44,611
China	48,323	50,185	44,807	53,821	44,388
Others	18,739	21,725	34,293	37,875	45,824
Overseas total	467,520	561,344	643,497	747,943	812,577
Overseas units by model:					
Legacy	210,194	207,460	182,712	235,791	286,979
Impreza	90,149	190,864	210,828	196,403	217,272
Forester	157,833	147,679	231,173	269,649	250,072
Levorg	0	0	0	0	7,713
WRX	0	0	0	37,982	43,120
Tribeca	5,702	4,243	2,561	64	34
SUBARU BRZ	38	10,100	15,822	7,914	7,387
OEM	3,372	591	256	135	0
Others	232	407	145	5	0
Overseas total	467,520	561,344	643,497	747,943	812,577
Grand total	639,862	724,466	825,098	910,695	957,865

Five-Year Automobile Sales Years ended March 31

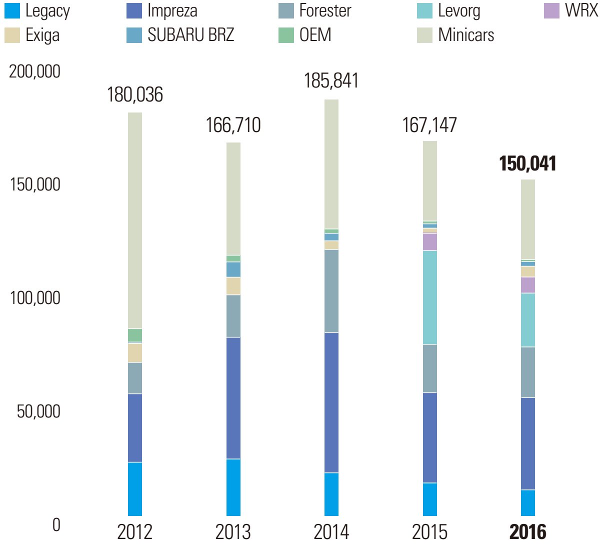
Non-consolidated Automobile Sales (Number of units)

	2012	2013	2014	2015	2016
Domestic units:					
Legacy	23,968	25,424	19,272	14,734	11,665
Impreza	30,566	54,306	62,519	40,277	41,137
Forester	13,990	18,951	37,124	21,569	22,631
Levorg	0	0	0	41,832	24,014
WRX	0	0	0	7,991	7,181
Exiga	8,477	7,845	3,869	2,016	4,797
SUBARU BRZ	585	6,850	3,334	1,941	2,070
OEM	5,993	2,953	1,944	1,224	904
Passenger cars	83,579	116,329	128,062	131,584	114,399
Minicars	96,457	50,381	57,779	35,563	35,642
Domestic total	180,036	166,710	185,841	167,147	150,041
Export units:					
Legacy	48,304	30,559	22,817	34,344	50,353
Impreza	100,350	198,232	206,022	199,770	218,866
Forester	162,199	142,745	247,362	265,072	249,202
Levorg	0	0	0	0	7,880
WRX	0	0	7,644	37,865	43,177
Tribeca	331	222	0	0	0
Exiga	232	407	145	5	0
SUBARU BRZ	211	11,542	15,118	8,418	7,005
OEM	3,372	316	86	135	0
Export total	314,999	384,023	499,194	545,609	576,483
U.S. retail sales[1]					
Legacy	146,806	164,680	160,340	191,060	212,741
Impreza	41,196	89,195	130,567	128,952	155,712
Forester	76,196	76,347	123,591	159,953	175,192
WRX	0	0	0	25,492	33,734
Tribeca	2,791	2,075	1,598	732	0
SUBARU BRZ	0	4,144	8,587	7,504	5,296
U.S. total	266,989	336,441	424,683	513,693	582,675
CKD overseas	175,256	185,757	165,554	222,513	242,424
(SIA portion)	175,256	183,729	159,266	218,565	237,060
SIA production units					
Legacy	164,968	177,471	161,204	206,681	235,979
Tribeca	5,661	3,713	2,307	0	0

1. U.S. Retail Sales are the aggregate figures for the calendar year from January through December.

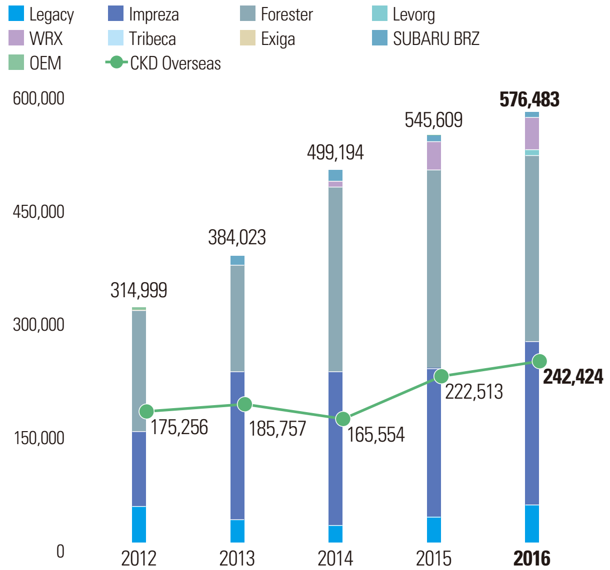
Non-consolidated Domestic Automobile Sales by Model (Number of units)

Years ended March 31



Non-consolidated Automobile Export Units by Model (Number of units)

Years ended March 31



The Fuji Heavy Industries Ltd. Group

The Fuji Heavy Industries Ltd. Group ("the Group") is engaged in activities conducted under four business divisions: Automobiles (which accounts for over 90% of consolidated net sales), Aerospace, Industrial Products, and Other.

On a consolidated settlement of accounts basis, FHI ("the Company") and 77 subsidiaries, as well as 2 equity-method affiliated companies, were included in the scope of the Group's consolidation as of March 31, 2016, the end of the fiscal year under review (April 1, 2015 – March 31, 2016 ("the fiscal year")).

Overview

Business Environment

During the period, the domestic economy in Japan continued to slowly recover, and, although weakness was seen in the growth of emerging markets, there was evidence of slight recovery in the global economy as a whole, focused mainly on developed nations. At the same time, the trend of economic conditions has become more opaque from the impact of the yen continuing to strengthen—while the dollar has weakened—from January of this year, and from fluctuations in capital markets.

In our mid-term management vision, "Prominence 2020," the Group has announced its goal to be "a high-quality company that is not big in size but has distinctive strength" in 2020. In working to achieve this goal, we have been focusing on two initiatives: "enhancing the Subaru brand" with the aim of value-added management, and "building a strong business structure" that increases our resilience to changes in the business environment and helps to ensure sustained growth. In the fiscal year under review, despite not introducing any new models, strong sales continued in many markets, especially in the U.S., our most important market. We were able to generate steady results, including posting historic highs for Subaru unit sales.

Performance Review

In light of the above factors, the Group recorded increases in income and profit, as well as our highest historical levels of consolidated net sales and all income categories for the fourth consecutive fiscal year.

Net sales amounted to 3,232.3 billion yen, up 354.3 billion yen (12.3%) year on year, owing to such factors as higher unit sales for automobiles and impacts from favorable exchange rates.

Accompanying the increase in net sales was strong income, with operating income 33.7% higher year on year and fiscal year net income attributable to owners of parent up 66.7% year on year.

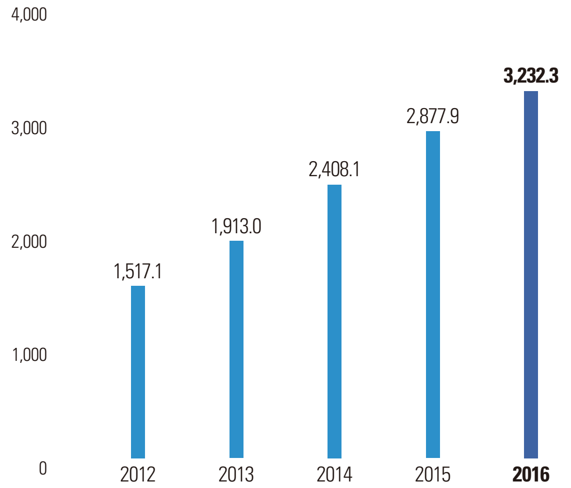
Cost of Sales, Expenses and Operating Income

Operating Income

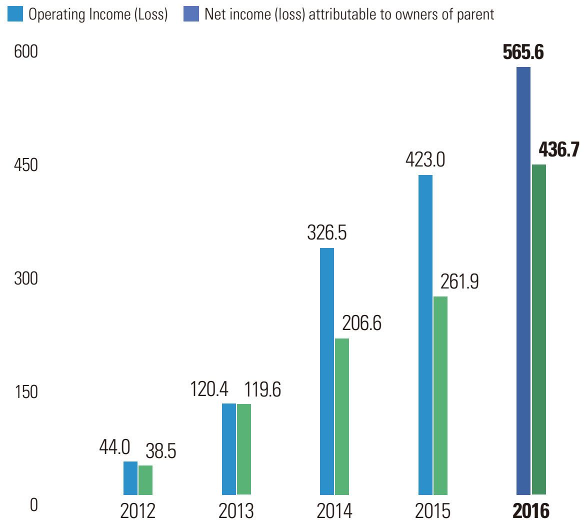
Operating income came to 565.6 billion yen, an increase of 142.5 billion yen, or 33.7%, year on year. Our operating margin, at 17.5% (up 2.8 points year on year), stands at a high level within the automotive industry.

Foreign exchange gains of 108.4 billion yen due to exchange rates moving in the direction of a weaker yen were a strong supporting factor. However, we were able to cover a 57.8 billion yen increase in

Net Sales (Billions of yen)
Years ended March 31



Operating Income (Loss) & Net income (loss) attributable to owners of parent
(Billions of yen)
Years ended March 31



various overhead costs and R&D expenses with profit excluding the boost from exchange rates, including an improved sales mix that added 58.8 billion yen and cost reductions that added 33.1 billion yen. As a result, we were able to grow income.

Income before Income Taxes and Minority Interests, and Net Income

Income before income taxes and minority interests rose 226.8 billion yen, or 57.8%, compared with the previous fiscal year, to 619.0 billion yen. This included a one-time profit of 48.2 billion yen gained from the lawsuit to recover initial investments related to the AH-64D helicopter for the Ministry of Defense.

Fiscal year net income attributable to owners of parent after total income taxes, plus net gain (loss) for the fiscal year attributable to non-controlling shareholders, rose 174.8 billion yen, or 66.7%, compared with the previous fiscal year, to 436.7 billion yen.

Segment Information

Automobiles Division

Net sales for this division stood at 3,039.4 billion yen, an increase of 340.5 billion yen, or 12.6%, year on year. Segment income also increased 142.7 billion yen, or 35.6%, year on year to 543.6 billion yen.

Consolidated global unit sales inside and outside Japan reached a new high for the fourth year in a row, growing 47,000 units (5.2%) year on year to 958,000 units.

Domestic Market

Automobile demand lagged in the domestic market. Passenger vehicle unit sales for the fiscal year under review were on a par with the previous fiscal year, while mini car unit sales decreased 16.6% year on year.

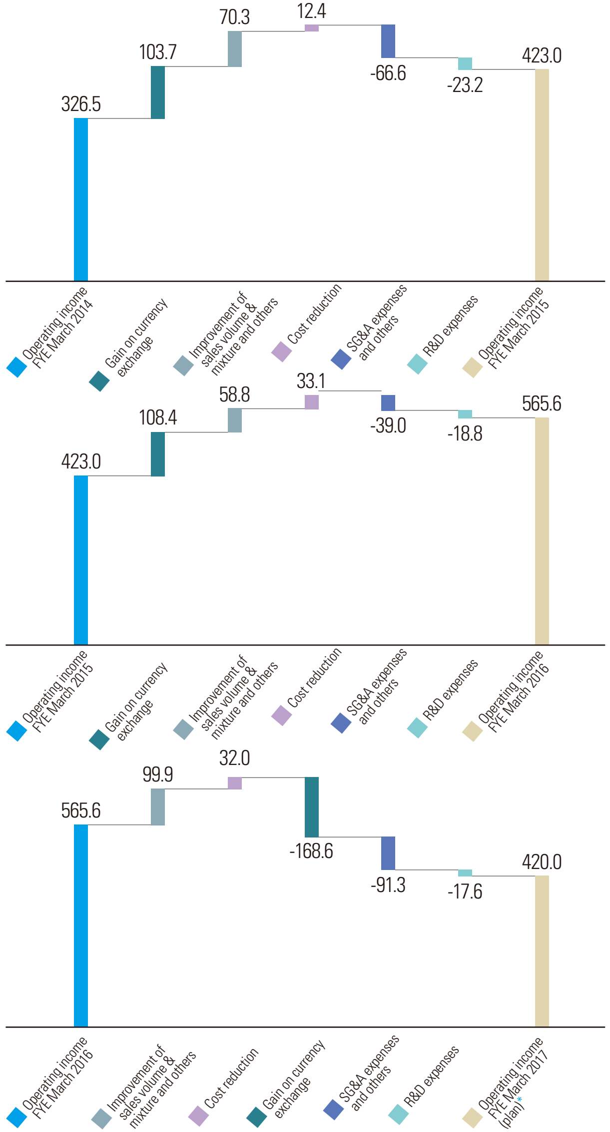
In this environment, the Group's unit sales in Japan dipped 17,000 units year on year (10.7%) to 145,000 units. Despite strong unit sales of some models, including the Impreza, Forester, and Crossover 7, there were lower unit sales for the one-year post-launch Levorg and Legacy. Passenger vehicle unit sales fell by 16,000 units, or 12.7%, year on year, to 112,000 units. Additionally, mini car unit sales, with the Stella showing sluggish sales a year after its launch date, fell 1,000 units (3.4%) year on year to 34,000 units.

Overseas Market

Overseas unit sales amounted to 813,000 units, an increase of 65,000 units, or 8.6%, year on year. Outback maintained strong results throughout the fiscal year, while Crosstrek (called Subaru XV outside North America) continued to sell well in North America. Furthermore, increased unit sales were contributed by Levorg, which started shipping in Europe from the second half of the fiscal year.

By region, units sold in North America increased 60,000 units, or 10.6%, year on year to 630,000 units. In Europe and Russia, sales volume was relatively unchanged at 48,000 units. China saw a decrease of 9,000 units, or 17.5%, to 44,000 units, while unit sales in Australia increased 6.000 units, or 14.7%, to 45,000 units, with other regions up 8,000 units, or 21.0%, to 46,000 units. Sales in North America posted a record high for the seventh fiscal year in a row.

Analysis of Increases and Decreases in Operating Income
(Consolidated, Three-Year YoY Comparison) (Billions of yen)



*Figures in projections for FYE March 2017 were announced May 12, 2016, then revised August 3, 2016. For details, please see the Company website (http://www.fhi.co.jp/english/ir/index.html).

Aerospace Division

Net sales for this division stood at 152.8 billion yen, an increase of 10.0 billion yen, or 7.0%, year on year. Segment income decreased 0.7 billion yen, or 3.8%, year on year to 18.2 billion yen.

Lower sales of the T-5 training aircraft and aerial simulation targets to the Ministry of Defense led net sales to trail that of the previous fiscal year, while sales to the commercial sector increased over the previous fiscal year thanks to net sales-boosting factors such as the exchange rate and a surge in production of the Boeing 777, among others.

Industrial Products Division

Net sales for this division came to 32.6 billion yen, an increase of 3.5 billion yen, or 12.2%, year on year. Segment income decreased 0.7 billion yen, or 89.5%, year on year to 0.1 billion yen.

Although sales grew for leisure-related engines in North America, an expense of 0.9 billion to handle functional issues with these products weighed income down.

Other Division

Net sales for this division stood at 7.5 billion yen, an increase of 0.4 billion yen, or 5.2%, year on year. Segment income also increased 1.0 billion yen, or 53.6%, year on year to 2.9 billion yen.

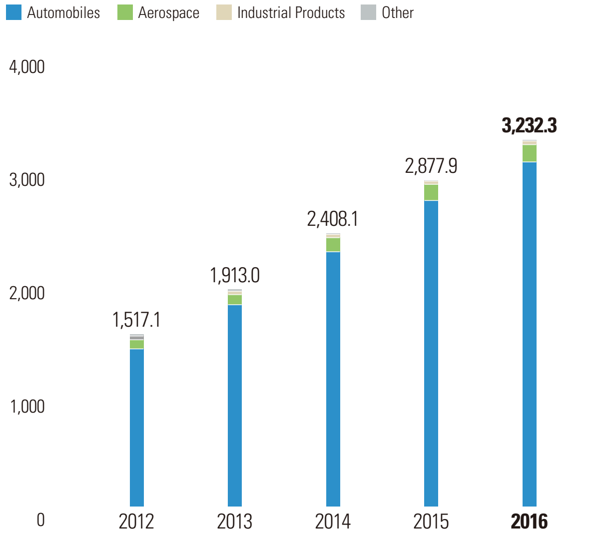
Liquidity and Financing

Financial Position

Total assets as of March 31, 2016 stood at 2,592.4 billion yen, an increase of 392.7 billion yen compared with the previous fiscal year-end.

Of this total, current assets stood at 1,784.1 billion yen, up 310.8 billion yen, while total property, plant and equipment rose 81.9 billion yen to 808.3 billion yen, both compared to the previous fiscal year-end. Current assets rose due to increases in funds in hand plus securities by 334.6 billion yen, which includes cash and deposits, while property,

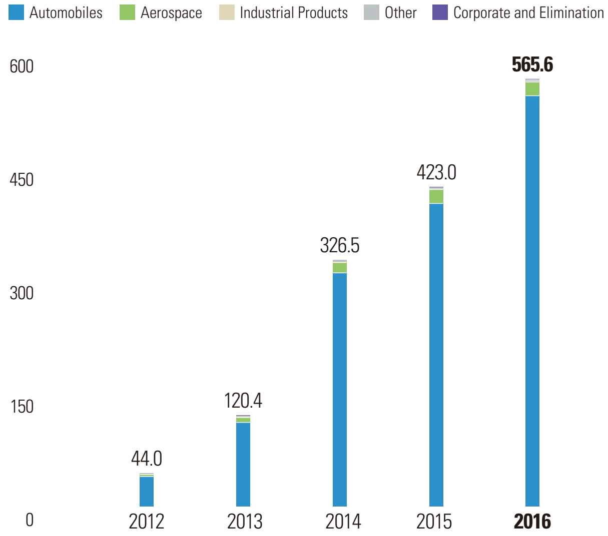
Net Sales by Segment (Billions of yen)
Years ended March 31



Net Sales by Segment (Billions of yen)

	2012	2013	2014	2015	2016
Automobiles	1,389.1	1,779.0	2,246.6	2,699.0	3,039.4
Aerospace	80.3	89.1	124.4	142.8	152.8
Industrial Products	33.6	30.1	29.8	29.0	32.6
Other	14.2	14.7	7.3	7.1	7.5
Total	1,517.1	1,913.0	2,408.1	2,877.9	3,232.3

Operating Income by Segment (Billions of yen)
Years ended March 31



Operating Income by Segment (Billions of yen)

	2012	2013	2014	2015	2016
Automobiles	39.4	111.0	309.0	400.9	543.6
Aerospace	2.9	6.8	14.1	18.9	18.2
Industrial Products	0.5	0.6	0.6	0.8	0.1
Other	1.0	1.6	2.1	1.9	2.9
Corporate and Elimination	0.2	0.4	0.6	0.6	0.8
Total	44.0	120.4	326.5	423.0	565.6

plant and equipment rose due to an increase of 57.9 billion yen in noncurrent assets.

Total liabilities were up 74.0 billion yen year on year, to 1,243.0 billion yen. The main factors behind this increase were a 25.9 billion yen rise in accounts payable with accounts payable-trade and electronically recorded monetary obligations, and a rise in income taxes payable of 45.3 billion yen.

Note that the fiscal year-end balance of interest-bearing debt decreased 41.2 billion yen to 170.0 billion yen. The debt/equity ratio (interest-bearing debt over shareholders' equity) remained at a safe level of 0.13.

Net assets totaled 1,349.4 billion yen, up 318.7 billion yen compared with the end of the previous fiscal year. This was primarily due to an increase in retained earnings of 351.6 billion yen, reflecting the recording of net income in the fiscal year under review. The increase in retained earnings boosted the shareholders' equity ratio to 51.8%, a 5.3-point increase year on year.

Cash Flows

In the fiscal year under review, net cash provided by operating activities was 614.3 billion yen, compared with 311.5 billion yen in the previous fiscal year. Income before income taxes and minority interests stood at 619.0 billion yen, received liability compensation at 48.2 billion yen, and total income taxes paid at 144.4 billion yen.

Net cash used in investing activities was 255.7 billion yen in the fiscal year under review compared with 172.8 billion yen used in the previous fiscal year. Expenditures (net) due to acquisition of noncurrent assets were 125.8 billion yen, while expenditures (net) due to acquisition of investment securities were 21.8 billion yen.

As a result, free cash flow amounted to 358.6 billion yen, compared to 138.8 billion yen provided in the previous fiscal year.

Net cash used in financing activities totaled 126.2 billion yen in FYE March 2016, compared with 110.5 billion yen in the preceding fiscal year. Expenditures (net) for the repayment of long-term borrowings were 33.0 billion yen and 84.9 billion yen was spent for dividend payments.

Accounting for the aforementioned activities and the effect of translation adjustments, cash and cash equivalents as of the end of the fiscal year under review stood at 829.5 billion yen.

Research and Development Expenses

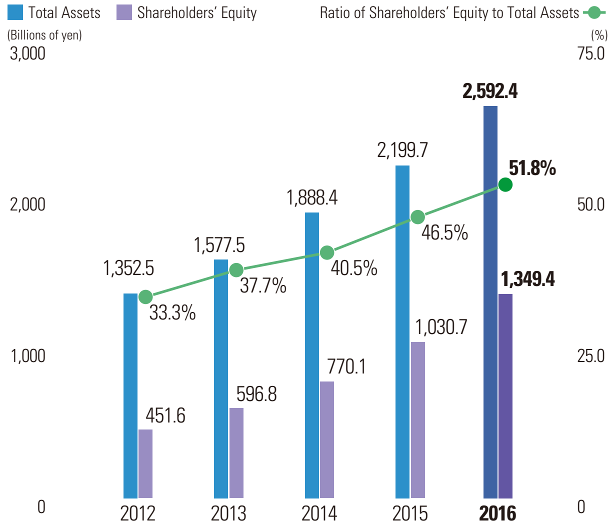
During the fiscal year under review, R&D expenses increased 18.9 billion yen, or 22.6%, year on year to 102.4 billion yen. Of that amount, 99.3 billion yen was related to the Automobiles Division.

Our vehicle R&D was dedicated to advancing product development to exceed customer expectations for "enjoyment and peace of mind" through our "six initiatives to enhance the Subaru brand." Additionally, in our "eight initiatives for building a strong business structure," we strived to reduce costs and train our human resources in order to strengthen our capacity for innovation.

Our next-generation platform, called the "Subaru Global Platform," which we unveiled in March

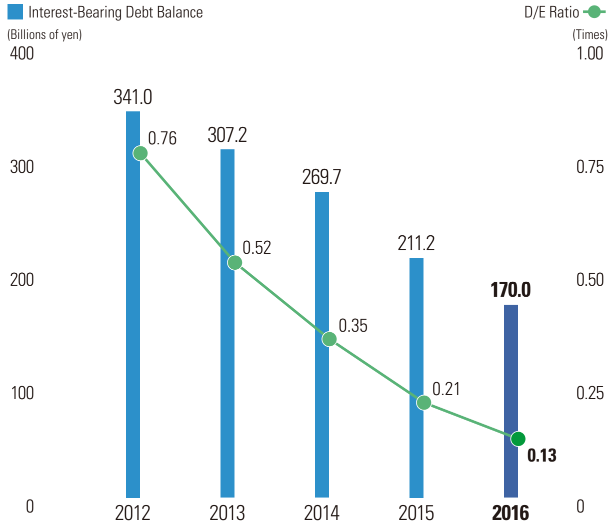
Total Assets, Shareholders' Equity & Ratio of Shareholders' Equity to Total Assets

Years ended March 31



Interest-Bearing Debt Balance & D/E Ratio (Billions of yen)

Years ended March 31



2016, is fundamental Subaru technology for unifying development of all of our models under a single platform design. Starting with the new Impreza model launching in 2016, we will gradually incorporate the platform in all new models that we bring to market.

With regard to safety, we are pushing the evolution of driving support systems, including EyeSight, striving to create Automated follow-up on congested expressways in 2017 and Automated driving included lane changes on expressways in 2020.

In terms of environmental initiatives, our product development includes a new downsizing turbo engine, as well as plug-in hybrid and electric vehicles to comply with ZEV (Zero Emission Vehicle) regulations* in California, U.S.A.

Furthermore, we are proceeding with the development of a three row crossover planned for launch in North America in 2018.

In order to further accelerate this development of future products, we plan to boost R&D spending by 17.6 billion yen, or 17.2%, over the fiscal year under review, to 120.0 billion yen in FYE March 2017.

*Regulations requiring automobile makers to have zero emission vehicles comprise a certain proportion of their number of vehicles sold.

Capital Expenditures and Depreciation

Capital expenditures rose 25.0 billion yen, or 22.6%, compared with the previous fiscal year, to 135.7 billion yen. The main expenditure was investing in facilities related to production, R&D, and sales in the Automobiles Division.

In this Division, 48.5 billion yen was spent primarily on building out production capacity accompanying the increase in vehicle sales, building production facilities for new models, building R&D facilities, and expanding and enhancing our sales network. In addition, 51.7 billion yen was spent at Subaru of Indiana Automotive, Inc. (SIA), our production base in the U.S., primarily on production facilities for production capacity expansion.

Depreciation increased 0.2 billion yen, or 0.3%, year on year, to 65.0 billion yen.

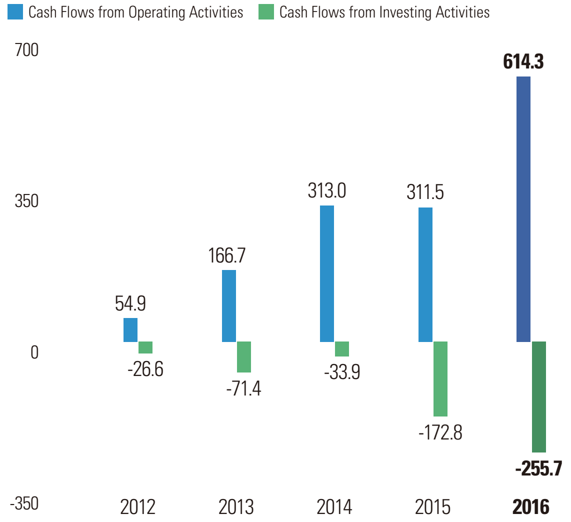
For FYE March 2017, capital expenditures are projected to increase by 24.3 billion yen, or 17.9%, year on year, to 160 billion yen and depreciation is scheduled to rise 15 billion yen, or 23.1%, year on year, to 80 billion yen.

Basic Policy Regarding the Distribution of Profits

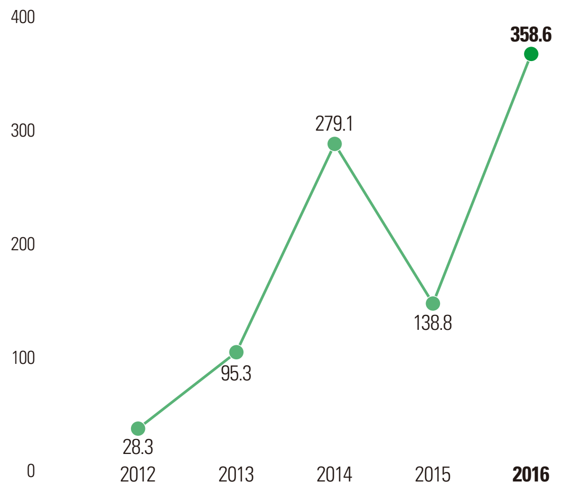
FHI views the interest of shareholders as a critical task for management. Based on maintaining continual dividend payments, we apply a results-linked approach that takes into consideration such factors as earnings, investment plans, and operating conditions. The dividend each fiscal year is determined based on a 20-40% consolidated dividend payout ratio and takes a variety of conditions into consideration.

In light of these conditions, FHI distributed a total dividend of 144 yen per share in the fiscal year under review, a 76-yen increase over the previous fiscal year. Retained earnings are allocated toward bolstering our financial position and investing in future growth and progress, including strengthening our production and sales frameworks and funding R&D so that we can continue to create compelling products. In FYE March 2017, we plan to follow our current trend and pay a dividend of 144 yen per share (72-yen half-year and

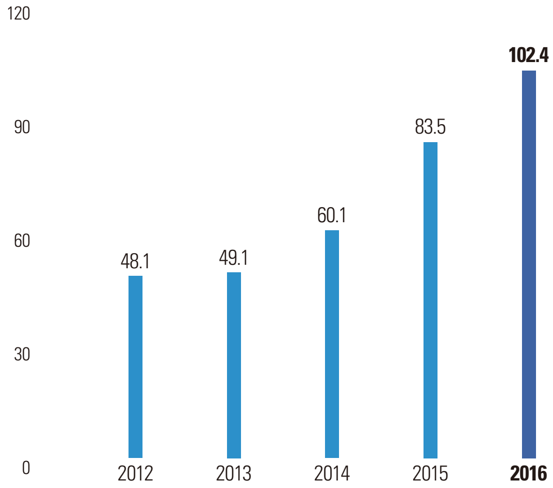
Cash Flows from Operating Activities & Cash Flows from Investing Activities (Billions of yen)
Years ended March 31



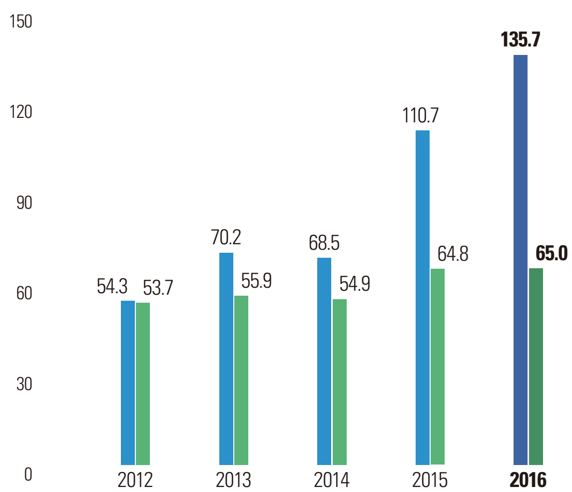
Free Cash Flow (Billions of yen)
Years ended March 31



Research and Development Expenses (Billions of yen)
Years ended March 31



Capital Expenditures, Depreciation Expenses (Billions of yen)
Years ended March 31



year-end dividends).

Additionally, the Board of Directors approved a 15-million share (or 48.0 billion yen) maximum common share buyback aimed at boosting capital efficiency and value for shareholders. We plan to retire all of the shares bought back. The buyback period lasts until September 30, 2016.

Outlook

Outlook for Our Mid-term Management Vision

The Group has been striving to become, by the year 2020, the type of company outlined in our mid-term management vision "Prominence 2020," which we announced in 2014. This ideal that we hope to achieve, and the direction of initiatives towards it, remain unchanged.

Now two years after formulating this vision, however, our progress and our operating environment have exceeded our initial estimates and continue to change. Accordingly, we have revised and updated our unit sales and production plans in order to further accelerate our initiatives for "enhancing the Subaru brand."

First, with regard to unit sales, we made an upward revision to our 2020 consolidated global sales unit forecast. After our review of markets, including the on-going sales strength in the North American market and the continued challenges of the Japanese market, we now expect unit sales to top 1,200 thousand units, as opposed to the original target north of 1,100 thousand units.

Along with revising unit sales upward, we re-assessed production plans and raised output targets from "1,050 thousand units in FY 2021" to "1,040 thousand units at the end of 2016 and 1,130 thousand units in FY 2019."* This will facilitate early steps to relieve continuing supply shortfalls in the U.S.

At the same time, we formulated a new Three-Year Profit Plan for FYE March 2017–FYE March 2019. We assumed an exchange rate of 100 yen/US$, targeting 3-year total net sales of 9,800 billion yen, operating income of 1,100 billion yen, R&D expenses of 360.0 billion yen, and capital expenditures of 470.0 billion yen. While expanding investment for growth, we aim to establish a highly profitable business model that maintains a profit margin at the 11% level, even with an exchange rate of 100 yen/US$.

*Production capacity at normal operation levels. Output at full operation, including over-time and weekend production, would be 1,276 thousand units.

Results for FYE March 2017

As for consolidated unit sales for FYE March 2017, we forecast an increase in units sold in the continually favorable North American market, adding 92,000 units (9.6%) year on year, to reach 1,050 thousand units and exceed for the first time one million Subarus sold.

For consolidated performance, we forecast lower income and profit based on an expected stronger yen at average annual exchange rates of 105 yen/US$ (previously 121 yen/US$) and 120 yen/€1 (previously 133 yen/€1).

For net sales, we forecast a decline to 3,170.0 billion yen, down 62.3 billion yen (1.9%) from the fiscal year under review, representing a decrease of 338.1 billion yen on currency exchange, despite a 270.1 billion yen improvement in sales mix resulting from increasing unit sales and other factors.

For operating income, despite income gains from improved sales mix and cost reductions, we expect a decrease of 145.6 billion yen, or 25.7%, year on year to 420.0 billion yen, due to 168.6 billion yen from currency fluctuations and 108.9 billion yen from expected increases in R&D and SG&A expenses. We also forecast 293.0 billion yen, down 143.7 billion yen (32.9%) year on year, in fiscal year net income attributable to owners of parent.

Forecast for Consolidated Results (Billions of yen)

Years ended March 31

	2016	2017 (plan)	Change
Net sales	3,232.3	3,170.0	-62.3
Japan	605.4	610.3	4.9
Overseas	2,626.9	2,559.7	-67.2
Operating income	565.6	420.0	-145.6
Ordinary Income	577.0	420.0	-157.0
Income before income taxes and minority interest	619.0	413.0	-206.0
Net income attributable to owners of parent	436.7	293.0	-143.7
Exchange rate (in yen)			
¥/$	121	105	-16
¥/€	133	120	-13

*Figures in projections for FYE March 2017 were announced May 12, 2016, then revised August 3, 2016. For details, please see the Company website (http://www.fhi.co.jp/english/ir/index.html).

Forecast for Global Automobile Sales (Thousand units)

Years ended March 31

	2016	2017 (plan)	Change
Japan:			
Passenger cars	111.6	119.0	7.5
Minicars	33.7	37.3	3.6
Subtotal	145.3	156.3	11.0
Overseas:			
United States	582.7	643.1	60.4
Canada	47.6	52.6	5.0
Russia	5.7	9.6	3.9
Europe	41.8	40.1	-1.7
Australia	44.6	48.2	3.6
China	44.4	48.5	4.1
Other	45.8	51.2	5.4
Subtotal	812.6	893.4	80.8
Total	957.9	1,049.70	91.8

Business Risks

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

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

(1) Economic Trends

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

(2) Currency Exchange Rate Fluctuations

The Group's ratio of overseas net sales stood at 81.3%. The Group's consolidated financial statements, which are presented in Japanese yen, are affected by translation of overseas net sales, operating income and assets from local currencies, particularly U.S. dollars, into yen. Accordingly, in the event that discrepancies arise between projected exchange rates in full-year forecasts and actual rates at the time of account settlement, the Group's business performance and financial position may be adversely affected when the yen appreciates or positively affected when the yen depreciates.

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

(3) Dependence on Certain Businesses

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

(4) Changes in Market Appraisal

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

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

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

(6) Protection of Intellectual Property

The Group works to protect its intellectual property through the use of patents, designs, and trademarks in such areas as technologies and expertise that ensure product differentiation. However, the Group could experience a decrease in sales or the need for litigation procedures in cases where a third party makes unauthorized use of the Group's intellectual property to manufacture similar products, as well as in specific regions where intellectual property right protection is limited. Such factors could impact the Group's profitability.

(7) Product Defects

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

(8) Retirement Benefits and Retirement Benefit Obligations

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

(9) Environmental and Other Legal Regulations

The Group is subject to various domestic and overseas legal regulations in relation to such areas as exhaust emissions, energy conservation, noise, recycling, the level of pollutants emitted from manufacturing facilities, and safety of automobiles and other products. The Group's business performance and financial position could be affected by an increase in costs due to future regulatory changes.

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

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

Corporate Data (as of March 31, 2016)

Company Name
Fuji Heavy Industries Ltd.

Established
July 15, 1953

Paid-in Capital
¥153,795 million

Number of Employees
14,234 (consolidated: 31,151)

Website Address
http://www.fhi.co.jp/english/ir/

Head Office
Ebisu Subaru Bldg., 1-20-8, Ebisu, Shibuya-ku, Tokyo 150-8554, Japan
Phone & Fax: +81-3-6447-8000

Investor Relations Office
Ebisu Subaru Bldg., 1-20-8, Ebisu, Shibuya-ku, Tokyo 150-8554, Japan
Phone: +81-3-6447-8878 Fax: +81-3-6447-8107

Domestic Manufacturing Divisions
Gunma Manufacturing Division (Automobiles Division)
Utsunomiya Manufacturing Division (Aerospace Division)
Saitama Manufacturing Division (Industrial Products Division)

Principal Consolidated Subsidiaries and Affiliates

Company Name	Percentage of Voting Rights	Main Business Activities
Japan		
Fuji Machinery Co., Ltd.	100.0%	Manufacture and sales of automobile parts and industrial product parts
Ichitan Co., Ltd.	100.0%	Manufacture and sales of forged automobile / industrial product parts
Kiryu Industrial Co., Ltd.	100.0%	Manufacture of Subaru specially equipped automobiles and distribution of Subaru automobile parts
Subaru Tecnica International Inc.	100.0%	Management of SUBARU Motorsport Activities, Development and manufacture of competition parts, tuning parts and accessories for SUBARU cars
Subaru Kohsan Co., Ltd.	100.0%	Leasing of real estate, shopping mall management and travel agency operations
Subaru Finance Co., Ltd.	100.0%	Lease & credit facilities provider for Subaru automobiles, financing for FHI subsidized companies, lease for various facility equipment, rolling stock & FHI made garbage trucks and sales of insurance
Yusoki Kogyo K.K.	100.0%	Manufacture and sales for aircraft parts
TOKYO SUBARU INC.	100.0%	Distribution, sales and services of Subaru automobiles (including 32 other dealerships)
Overseas		
Subaru of America, Inc.	100.0%	Distribution and sales of Subaru automobiles and parts
Fuji Heavy Industries U.S.A., Inc.	100.0%	Engineering research of Subaru automobiles in North America Market
Subaru of Indiana Automotive, Inc.	100.0%	Manufacture of Subaru automobiles and contracted manufacture of Toyota automobiles
Subaru Canada, Inc.	100.0%	Distribution and sales of Subaru automobiles and parts
Subaru Europe N.V./S.A.	100.0%	Distribution, sales and marketing of Subaru automobiles and parts

Stock Information (as of March 31, 2016)

Common Stock Authorized
1,500,000,000 shares

Common Stock Issued
782,865,873 shares

Number of Shareholders
85,200

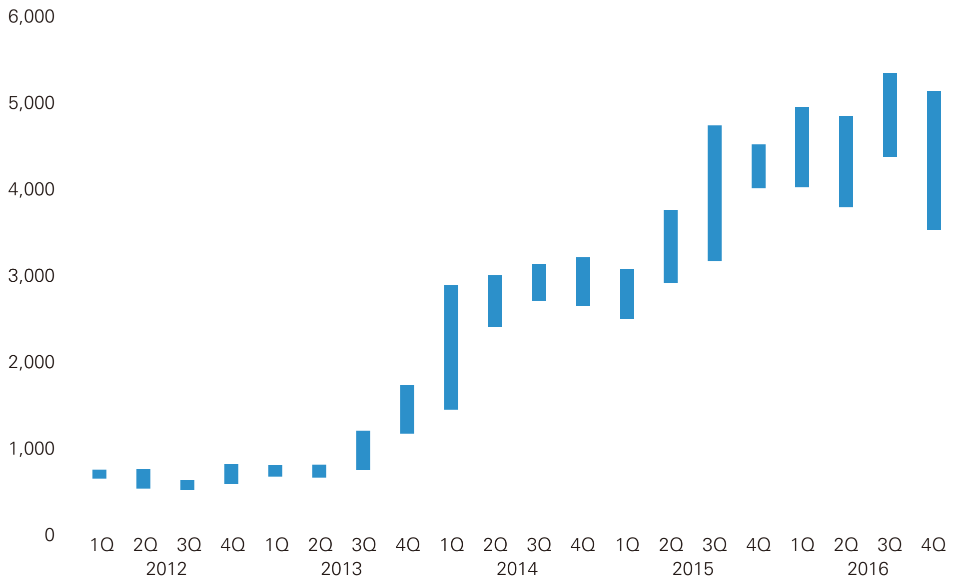
Stock Exchange Listing
Tokyo Stock Exchange

Transfer Agent
Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo
103-0028, Japan

Major Shareholders

Name	Number of Shares Held (in thousands)	Percentage of Total Shares
Toyota Motor Corporation	129,000	16.48
The Master Trust Bank of Japan, Ltd. (Trust account)	44,889	5.73
Japan Trustee Services Bank, Ltd. (Trust account)	42,809	5.47
Mizuho Bank, Ltd.	16,078	2.05
Suzuki Motor Corporation	13,690	1.75
Sompo Japan Nipponkoa Insurance Inc.	12,157	1.55
Tokio Marine & Nichido Fire Insurance Co., Ltd.	10,295	1.32
FHI's Client Stock Ownership	10,069	1.29
MIZUHO SECURITIES ASIA LIMITED-CLIENT A/C 69250601	9,902	1.26
Nippon Life Insurance Company	9,513	1.22

Quarterly Common Stock Price Range (Tokyo Stock Exchange) (Yen)



	2012	2013	2014	2015	2016
High	697	1,609	3,015	4,617	5,223
Low	402	545	1,330	2,380	3,411

SUBARU

Fuji Heavy Industries Ltd.

Ebisu Subaru Bldg., 1-20-8, Ebisu, Shibuya-ku, Tokyo 150-8554
Phone: +81-3-6447-8000
Fax: +81-3-6447-8184
http://www.fhi.co.jp/english/ir/

Consolidated Balance Sheets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2016 and 2015

ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current assets:			
Cash and deposits (Note 4 and 5)	**¥507,553**	¥228,821	**$4,503,976**
Notes and accounts receivable-trade (Note 5)	**140,319**	164,540	**1,245,177**
Lease investment assets (Note 5 and 17)	**21,532**	24,098	**191,073**
Short-term investment securities (Notes 4, 5 and 6)	**500,572**	444,737	**4,442,027**
Merchandise and finished goods	**192,705**	203,347	**1,710,045**
Work in process	**50,666**	52,734	**449,605**
Raw materials and supplies	**34,996**	39,569	**310,551**
Deferred tax assets (Note 12)	**90,893**	78,789	**806,576**
Short-term loans receivable (Note 5)	**151,973**	157,070	**1,348,593**
Other current assets	**93,509**	80,796	**829,790**
Allowance for doubtful accounts	**(625)**	(1,233)	**(5,546)**
Total assets	**1,784,093**	1,473,268	**15,831,866**
Property, plant and equipment (Notes 7 and 9)	**1,485,530**	1,423,977	**13,182,447**
Accumulated depreciation	**(886,905)**	(882,752)	**(7,870,308)**
Accumulated impairment loss	**(25,992)**	(26,528)	**(230,650)**
Total property, plant and equipment	**572,633**	514,697	**5,081,489**
Investments and other assets:			
Intangible assets	**20,989**	16,850	**186,254**
Investment securities (Note 5 and 6)	**106,987**	104,157	**949,392**
Investments in non-consolidated subsidiaries and affiliated companies	**5,415**	10,678	**48,052**
Net defined benefit assets(Note 11)	**1,774**	3,659	**15,742**
Deferred tax assets (Note 12)	**16,339**	13,113	**144,991**
Other assets	**87,607**	96,371	**777,416**
Allowance for doubtful accounts	**(3,427)**	(33,079)	**(30,411)**
Total investments and other assets	**235,684**	211,749	**2,091,437**
Total assets	**¥2,592,410**	¥2,199,714	**$23,004,792**

LIABILITIES AND NET ASSETS	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Current liabilities:			
Notes and accounts payable-trade (Note 5)	**¥326,625**	¥317,801	**$2,898,438**
Electronically recorded obligations-operating (Note 5)	**91,476**	74,420	**811,749**
Short-term loans payable (Note 5 and 7)	**33,252**	41,443	**295,075**
Current portion of long-term debts (Note 5 and 7)	**43,692**	44,329	**387,719**
Accrued expenses (Note 5)	**132,759**	126,007	**1,178,090**
Provision for bonuses	**23,554**	21,668	**209,016**
Provision for product warranties	**51,251**	49,708	**454,796**
Accrued income taxes (Note 5 and 12)	**100,272**	54,987	**889,804**
Other current liabilities (Note 5, 7 and 12)	**156,614**	142,693	**1,389,777**
Total current liabilities	**959,495**	873,056	**8,514,464**
Long-term liabilities:			
Long-term debts (Note 5 and 7)	**93,030**	125,420	**825,539**
Net defined benefit liability(Note 11)	**18,586**	17,963	**164,930**
Deferred tax liabilities (Note 12)	**18,769**	13,996	**166,554**
Other long-term liabilities (Note 7)	**153,119**	138,560	**1,358,763**
Total long-term liabilities	**283,504**	295,939	**2,515,787**
Contingent liabilities (Note 19)			
Net assets: (Note 13)			
Shareholders' equity:			
Capital stock			
Authorized– 1,500,000,000 shares			
Issued — 782,865,873 shares	**153,795**	153,795	**1,364,762**
Capital surplus	**160,071**	160,071	**1,420,454**
Retained earnings	**1,049,016**	697,414	**9,308,865**
Less－treasury stock, at cost,	**(1,402)**	(1,382)	**(12,441)**
2016— 2,487,843 shares			
2015— 2,483,395 shares			
Total shareholders' equity	**1,361,480**	1,009,898	**12,081,640**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**11,344**	17,986	**100,666**
Foreign currency translation adjustment	**(13,415)**	10,025	**(119,043)**
Remeasurements of defined benefit plans	**(12,808)**	(11,616)	**(113,657)**
Remeasurements of other postretirement benefits	**(2,869)**	(3,876)	**(25,459)**
Total accumulated other comprehensive income	**(17,748)**	12,519	**(157,494)**
Non-controlling interests	**5,679**	8,302	**50,395**
Total net assets	**1,349,411**	**1,030,719**	**11,974,541**
Total liabilities and net assets	**¥2,592,410**	¥2,199,714	**$23,004,792**

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

Consolidated Statements of Income

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Net sales (Note 2)	**¥3,232,258**	¥2,877,913	**$28,682,740**
Cost of sales (Note 14)	**2,187,136**	2,017,490	**19,408,430**
Gross profit	**1,045,122**	860,423	**9,274,310**
Selling, general and administrative expenses (Note 2 and 15)	**479,533**	437,378	**4,255,329**
Operating income (loss)	**565,589**	423,045	**5,018,981**
Other income (expenses):			
Interest and dividend income	**5,190**	4,127	**46,056**
Interest expenses	**(2,499)**	(2,903)	**(22,176)**
Equity in earnings of affiliates	**739**	499	**6,558**
Foreign exchange gains (losses)	**(2,056)**	(24,277)	**(18,245)**
Gain (loss) on valuation of derivatives	**9,883**	(2,003)	**87,701**
Gain (loss) on sales and retirement of noncurrent assets	**(4,530)**	(3,305)	**(40,199)**
Gain (loss) on sales of investment securities (Note 6)	**2,430**	953	**21,564**
Loss on valuation of investment securities (Note 6)	**(5,387)**	-	**-**
Loss on reduction of non-current assets	**(1,660)**	-	**-**
Reversal of allowance for doubtful accounts	**30,152**	-	**-**
Depreciation	**(981)**	(985)	**(8,705)**
Impairment loss (Note 9)	**(11)**	(38)	**(98)**
State subsidy	**2,999**	-	**26,613**
Other, net	**19,145**	(2,907)	**169,891**
	53,414	(30,839)	**473,991**
Income before income taxes	**619,003**	392,206	**5,492,972**
Income taxes (Note 12):			
Current	**191,168**	**133,256**	**1,696,406**
Deferred	**(8,524)**	**(6,199)**	**(75,641)**
	182,644	**127,057**	**1,620,765**
Net income	**436,359**	**265,149**	**3,872,207**
Net income (loss) attributable to non-controlling Interests	**(295)**	**3,276**	**(2,618)**
Net income attributable to owners of the parent	**¥436,654**	**¥261,873**	**$3,874,825**

	Yen		U.S. dollars
Per share data (Note 2) :			
Net income (loss) —Basic	**¥559.54**	¥335.57	**$4.97**
—Diluted *	**-**	-	**-**
Net assets	**1,721.90**	1,310.15	**15.28**
Cash dividends (Note 13)	**144.00**	68.00	**1.28**

The accompanying notes are an integral part of these statements.

*For the year ended March 31, 2016 and 2015 diluted information is not presented because potentially dilutive securities do not exist.

Consolidated Statements of Comprehensive Income

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Net Income	**¥436,359**	¥265,149	**$3,872,207**
Other comprehensive income (Note 3)			
Valuation difference on available-for-sale securities	(6,642)	7,357	**(58,940)**
Foreign currency translation adjustment	(23,777)	37,321	**(210,995)**
Remeasurements of defined benefit plans	**(1,192)**	2,270	**(10,578)**
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	**1,007**	(2,957)	**8,936**
Share of other comprehensive income (loss) of associates accounted for using equity r	**(52)**	131	**(461)**
Total other comprehensive income	**(30,656)**	44,122	**(272,038)**
Comprehensive income	**405,703**	309,271	**3,600,169**
Comprehensive income (loss) attributable to:			
Owners of the parent	**406,387**	305,229	**3,606,238**
Non-controlling interests	**(684)**	4,042	**(6,070)**

Consolidated Statements of Changes in Net Assets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Shareholders' equity			
Capital stock			
Balance at the beginning of current period	**¥153,795**	¥153,795	**$1,364,762**
Balance at the end of current period	**153,795**	153,795	**1,364,762**
Capital surplus			
Balance at the beginning of current period	**160,071**	160,071	**1,420,454**
Changes of items during the period			
Disposal of treasury stock	**0**	0	**0**
Total changes of items during the period	**0**	0	**0**
Balance at the end of current period	**160,071**	160,071	**1,420,454**
Retained earnings			
Balance at the beginning of current period	**697,414**	483,910	**6,188,783**
Cumulative effects of changes in accounting policies	**-**	1,385	**-**
Restated balance	**697,414**	485,295	**6,188,783**
Changes of items during the period			
Dividends from surplus	**(85,105)**	(49,970)	**(755,213)**
Net income attributable to owners of the parent	**436,654**	261,873	**3,874,825**
Disposal of treasury stock	**(1)**	-	**-**
Other	**54**	216	**479**
Total changes of items during the period	**351,602**	212,119	**3,120,082**
Balance at the end of current period	**1,049,016**	697,414	**9,308,865**
Treasury stock			
Balance at the beginning of current period	**(1,382)**	(1,395)	**(12,264)**
Changes of items during the period			
Purchase of treasury stock	**(20)**	(22)	**(177)**
Disposal of treasury stock	**0**	-	**0**
Other	**-**	35	**-**
Total changes of items during the period	**(20)**	13	**(177)**
Balance at the end of current period	**(1,402)**	(1,382)	**(12,441)**
Total shareholders' equity			
Balance at the beginning of current period	**1,009,898**	796,381	**8,961,736**
Cumulative effects of changes in accounting policies	**-**	1,385	**-**
Restated balance	**1,009,898**	797,766	**8,961,736**
Changes of items during the period			
Dividends from surplus	**(85,105)**	(49,970)	**(755,213)**
Net income attributable to owners of the parent	**436,654**	261,873	**3,874,825**
Purchase of treasury stock	**(20)**	(22)	**(177)**
Disposal of treasury stock	**(1)**	-	**(9)**
Other	**54**	251	**479**
Total changes of items during the period	**351,582**	212,132	**3,119,904**
Balance at the end of current period	**¥1,361,480**	¥1,009,898	**$12,081,640**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	**¥17,986**	¥10,629	**$159,606**
Changes of items during the period			
Net changes of items other than shareholders' equity	**(6,642)**	7,357	**(58,940)**
Total changes of items during the period	**(6,642)**	7,357	**(58,940)**
Balance at the end of current period	**11,344**	17,986	**100,666**
Foreign currency translation adjustment			
Balance at the beginning of current period	**10,025**	(26,661)	**88,961**
Changes of items during the period			
Net changes of items other than shareholders' equity	**(23,440)**	36,686	**(208,004)**
Total changes of items during the period	**(23,440)**	36,686	**(208,004)**
Balance at the end of current period	**(13,415)**	10,025	**(119,043)**
Remeasurements of defined benefit plans			
Balance at the beginning of current period	**(11,616)**	(13,886)	**(103,079)**
Changes of items during the period			
Net changes of items other than shareholders' equity	**(1,192)**	2,270	**(10,578)**
Total changes of items during the period	**(1,192)**	2,270	**(10,578)**
Balance at the end of current period	**(12,808)**	(11,616)	**(113,657)**
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries			
Balance at the beginning of current period	**(3,876)**	(919)	**(34,395)**
Changes of items during the period			
Net changes of items other than shareholders' equity	**1,007**	(2,957)	**8,936**
Total changes of items during the period	**1,007**	(2,957)	**8,936**
Balance at the end of current period	**(2,869)**	(3,876)	**(25,459)**
Total accumulated other comprehensive income			
Balance at the beginning of current period	**12,519**	(30,837)	**111,092**
Changes of items during the period			
Net changes of items other than shareholders' equity	**(30,267)**	43,356	**(268,586)**
Total changes of items during the period	**(30,267)**	43,356	**(268,586)**
Balance at the end of current period	**(17,748)**	12,519	**(157,494)**
Non-controlling interests			
Balance at the beginning of current period	**8,302**	4,527	**73,671**
Changes of items during the period			
Net changes of items other than shareholders' equity	**(2,623)**	3,775	**(23,276)**
Total changes of items during the period	**(2,623)**	3,775	**(23,276)**
Balance at the end of current period	**5,679**	8,302	**50,395**
Total net assets			
Balance at the beginning of current period	**1,030,719**	770,071	**9,146,499**
Cumulative effects of changes in accounting policies	**-**	1,385	**-**
Restated balance	**1,030,719**	771,456	**9,146,499**
Changes of items during the period			
Dividends from surplus	**(85,105)**	(49,970)	**(755,213)**
Net income attributable to owners of the parent	**436,654**	261,873	**3,874,825**
Purchase of treasury stock	**(20)**	(22)	**(177)**
Disposal of treasury stock	**(1)**	-	**(9)**
Other	**54**	251	**479**
Net changes of items other than shareholders' equity	**(32,890)**	47,131	**(291,863)**
Total changes of items during the period	**318,692**	259,263	**2,828,042**
Balance at the end of current period	**¥1,349,411**	¥1,030,719	**$11,974,541**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
As of March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	**2016**
Net cash provided by (used in) operating activities			
Income (loss) before income taxes	**¥619,003**	¥392,206	**$5,492,972**
Depreciation and amortization	**72,938**	71,821	**647,245**
Increase (decrease) in allowance for doubtful accounts	**(30,260)**	(146)	**(268,524)**
Interest and dividends income	**(5,190)**	(4,127)	**(46,056)**
Interest expenses	**2,499**	2,903	**22,176**
Loss (gain) on sales and retirement of noncurrent assets	**4,530**	3,305	**40,199**
Loss (gain) on sales and valuation of investment securities	**2,957**	(953)	**26,240**
Decrease (increase) in operating loans receivable	**(6,540)**	(23,112)	**(58,035)**
Decrease (increase) in notes and accounts receivable-trade	**22,791**	19,283	**202,245**
Decrease (increase) in inventories	**(1,342)**	(27,180)	**(11,909)**
Increase (decrease) in notes and accounts payable-trade	**30,082**	38,223	**266,945**
Other extraordinary income	**(19,656)**	(833)	**(174,425)**
Other, net	**15,538**	31,753	**137,883**
Sub total	**707,350**	503,143	**6,276,954**
Interest and dividends income received	**5,668**	4,361	**50,297**
Interest expenses paid	**(2,528)**	(2,839)	**(22,433)**
Proceeds from compensation for damage	**48,184**	0	**427,580**
Income taxes paid	**(144,418)**	(193,122)	**(1,281,551)**
Net cash provided by (used in) operating activities	**614,256**	311,543	**5,450,847**
Net cash provided by (used in) investing activities			
Net decrease (increase) in time deposits	**(101,631)**	(11,944)	**(901,864)**
Purchase of short-term investment securities	**(48,845)**	(43,424)	**(433,446)**
Proceeds from sales of short-term investment securities	**47,032**	17,905	**417,357**
Purchase of non-current assets	**(126,732)**	(115,173)	**(1,124,607)**
Proceeds from sales of non-current assets	**975**	1,540	**8,652**
Purchase of investment securities	**(47,005)**	(47,031)	**(417,118)**
Proceeds from sales of investment securities	**25,240**	26,364	**223,977**
Payments of loans receivable	**(106,117)**	(104,891)	**(941,672)**
Collection of loans receivable	**108,636**	108,065	**964,025**
Other, net	**(7,229)**	(4,191)	**(64,149)**
Net cash provided by (used in) investing activities	**(255,676)**	(172,780)	**(2,268,844)**
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	**(7,822)**	(18,811)	**(69,412)**
Proceeds from long-term loans payable	**11,760**	6,190	**104,357**
Repayments of long-term loans payable	**(44,797)**	(42,858)	**(397,524)**
Redemption of bonds	**-**	(4,060)	**-**
Cash dividends paid	**(84,938)**	(49,887)	**(753,731)**
Other, net	**(393)**	(1,120)	**(3,487)**
Net cash provided by (used in) financing activities	**(126,190)**	(110,546)	**(1,119,798)**
Effect of exchange rate change on cash and cash equivalents	**(14,887)**	25,998	**(132,106)**
Net increase (decrease) in cash and cash equivalents	**217,503**	54,215	**1,930,100**
Cash and cash equivalents at beginning of period	**612,085**	557,870	**5,431,582**
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	**(127)**	-	**(1,127)**
Cash and cash equivalents at end of period	**¥829,461**	¥612,085	**$7,360,556**

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES

1. Basis of Presentation of the Financial Statements

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

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

The translations of the Japanese yen amounts into U.S. dollars in the accompanying consolidated financial statements are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was ¥112.69 to U.S.$1. The convenience translation should not be construed as a representation that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

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

The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The fiscal year-end of consolidated subsidiaries is the same as that of the parent company, except for 4 consolidated foreign subsidiaries in fiscal year 2016 and 5 consolidated foreign subsidiaries in fiscal year 2015, respectively, the fiscal year-end of those subsidiaries is December 31. The operating results of those subsidiaries that have different fiscal year-end are consolidated by using the financial statements as of each subsidiary’s respective fiscal year-end, the necessary adjustments being made in consolidation if there are any significant transactions between January 1 and March 31.

The consolidated financial statements include the accounts of the Company and 77 subsidiaries in fiscal year 2016 and 77 subsidiaries in fiscal year 2015, respectively.

In addition, 1 non-consolidated subsidiary and 1 affiliated company were accounted for by the equity method in fiscal 2016; 1 non-consolidated subsidiary and 1 affiliated company were accounted for by the equity method in fiscal 2015, respectively.

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

The difference between the cost and the underlying net equity of investments in subsidiaries and affiliated companies is allocated to identifiable assets based on their fair value at the date of acquisition. The unallocated residual value of the excess of the cost over the fair value of the underlying net assets is recognized as goodwill and amortized over a period of five years on a straight-line basis.

All assets and liabilities of subsidiaries, which include not only the Company’s interest in the subsidiaries but also the non-controlling interest portion, are valued based on their fair value at the time the Company first consolidates the subsidiary.

[2] Short-Term Investment Securities and Investment Securities

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

[3] Inventories

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

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

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

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

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

Estimated useful lives for depreciable assets are as follows:

Buildings and structures: 7–50 years
Machinery, equipment and vehicles: 2–20years

[5] Intangible Assets (Excluding Leased Assets)

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

[6] Leased Assets

For leased assets under finance lease transactions in which the ownership is transferred to the lessee:
The leased assets are depreciated by the same method as used for other property, plant and equipment.

For leased assets under finance lease transactions in which the ownership is not transferred to the lessee:
The leased assets are depreciated by the straight-line method over the leased period and the residual value is zero.

[7] Allowance for Doubtful Accounts

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

[8] Provision for Bonuses

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

[9] Provision for Product Warranties

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

[10] Provision for Loss on Construction Contracts

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

[11] Accounting method for Retirement Benefits

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

Unrecognized prior service cost is being amortized on the straight-line method over a period (10-19 years) that is shorter than the average remaining service period of the eligible employees. Unrecognized net actuarial gain or loss is amortized from the following fiscal year on the straight-line method over a period (primarily 16 years for fiscal years 2016 and 2015) that is shorter than the average remaining service period of the eligible employees.

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

[12] Translation of Foreign Currency-Denominated Accounts

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

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

[13] Revenue Recognition

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

[14] Accounting for Lease Transactions

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

[15] Derivative Financial Instruments and Hedge Accounting

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

For interest rate swap contracts used as a hedge that meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed.

Derivative financial instruments qualifying as a hedge, along with the underlying transactions, assets and liabilities are as follows:

Financial Instrument	Transactions, assets and liabilities
Interest swaps	Borrowings

The risk exposures to movements in interest rates are hedged according to the Company's and its consolidated subsidiaries' risk management policy. An evaluation of hedge effectiveness is not considered necessary as the terms and notional amounts of these hedging instruments are the same as those of the underlying transactions, assets and liabilities, and therefore they are presumed to be highly effective in offsetting the effect of movements in interest rates at their inception as well as during their terms.

[16] Goodwill

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

[17] Cash and Cash Equivalents

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

[18] Income Taxes

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

[19] Research and Development Expenses

Research and development costs are expensed as incurred and amounted to ¥102,373 million (US$ 908,448 thousand) and ¥83,535 million for fiscal years 2016 and 2015, respectively.

[20] Net Income per Share

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

[21] Reclassification

Certain reclassifications have been made in the consolidated financial statements for the year ended March 31, 2015 to conform to the presentation for the year ended March 31, 2016."

[22] Changes in Accounting Policy

The Accounting Standard for Business Combinations (ASBJ Statement No.21, September 13, 2013) and Consolidated Financial Statements (ASBJ Statement No.22, September 13, 2013) and Business Divestitures (ASBJ Statement No.7, September 13, 2013) were applied from the period of the first quarter of fiscal year 2016.

The presentation method of net income was changed and the reference to "minority interests" was changed to "non-controlling interests". To conform to these changes in presentation, the quarterly consolidated financial statements and consolidated financial statements in the previous fiscal year have been reclassified.

[23] Changes in Presentation

(Consolidated Statements of Income)

Consolidated Statements of Income for the fiscal year ended March 31,2016 include the following reclassification.
"Real estate rent" which was presented as a separate account in the prior fiscal year, has been included in “Other” in the current fiscal year due to its decreased financial materiality. To reflect this change, ¥532 million of “real estate rent” separately stated under “Other income(expense)” in the prior fiscal year has been reclassified into “Other” in the consolidated statements of income for the prior fiscal year provided herein.

3. Other comprehensive income

Amounts reclassified to net income (loss) in fiscal 2016 and 2015, which were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Valuation difference on available-for-sale securities			
Increase(decrease) during the year	**(¥8,513)**	¥10,660	**($75,544)**
Reclassification adjustments	**(2,288)**	(953)	**(20,303)**
Sub-total, before tax	**(10,801)**	9,707	**(95,847)**
Tax (expense) or benefit	**4,159**	(2,350)	**36,907**
Sub-total, net of tax	**(6,642)**	7,357	**(58,940)**
Foreign currency translation adjustment	**-**	-	**-**
Increase during the year	**(23,670)**	37,321	**(210,045)**
Reclassification adjustments	**(107)**	-	**(950)**
Sub-total, before tax	**(23,777)**	37,321	**(210,995)**
Tax (expense) or benefit	**-**	-	**-**
Balance at end of year, net of tax	**(23,777)**	37,321	**(210,995)**
Remeasurements of defined benefit plans	**-**	-	**-**
Increase(decrease) during the year	**(3,648)**	1,246	**(32,372)**
Reclassification adjustments	**2,406**	3,035	**21,351**
Sub-total, before tax	**(1,242)**	4,281	**(11,021)**
Tax (expense) or benefit	**50**	(2,011)	**444**
Balance at end of year, net of tax	**(1,192)**	2,270	**(10,578)**
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries	**-**	-	**-**
Increase(decrease) during the year	**1,548**	(4,642)	**13,737**
Reclassification adjustments	**-**	-	**-**
Sub-total, before tax	**1,548**	(4,642)	**13,737**
Tax (expense) or benefit	**(541)**	1,685	**(4,801)**
Balance at end of year, net of tax	**1,007**	(2,957)	**8,936**
Share of other comprehensive income of associates accounted for using equity method			
Increase during the year	**(52)**	131	**(461)**
Total other comprehensive income	**(¥30,656)**	¥44,122	**($270,396)**

4. Additional Cash Flow Information

Cash and cash equivalents as of March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Cash and deposits	**¥507,553**	¥228,821	**$4,503,976**
Short-term investment securities	**500,572**	444,737	**4,442,027**
Short-term loans receivable	**151,973**	157,070	**1,348,593**
Sub-total	**1,160,098**	830,628	**10,294,596**
Less maturity over three months	**(126,107)**	(25,911)	**(1,119,061)**
Short-term investment securities excluding cash equivalents	**(52,557)**	(45,562)	**(466,386)**
Short-term loans receivable excluding repurchase agreement	**(151,973)**	(147,070)	**(1,348,593)**
Cash and cash equivalents	**¥829,461**	¥612,085	**$7,360,556**

5. Financial Instruments

(1) Summary of Financial Instruments Status

[1] Action Policy with Regard to Financial Instruments

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

[2] Details of Financial Instruments and Respective Risks

Notes and accounts receivable-trade and Lease investment assets are subject to customer credit risks. In addition, operating receivables denominated in foreign currencies due to globalized business of the FHI Group are subject to the risk of changes in foreign exchange rates. As a general rule, however, forward foreign exchange contracts are utilized to hedge the foreign exchange rate risk, considering the net amount of operating receivables denominated in foreign currencies that exceed foreign currency denominated operating liabilities. Available-for-sale securities and investment securities are mainly stocks associated with business and capital alliances with principal business partners, and are subject to risk of market price fluctuation.

Majority of payables included in Notes and accounts payable-trade and Electronically recorded obligations-operating are due within one year. A certain portion of such liabilities involve foreign currency denominated transactions associated with the import of raw materials and is subject to exchange rate fluctuation risk, although it is consistently less than accounts receivable balance denominated in the same foreign currency. Funds financed by bank loans and corporate bonds are primarily used for capital expenditure, whose repayment or redemption dates will come within 7 years after March 31, 2016 at the latest. A certain portion of those liabilities may have variable interest rates and are subject to the risk of changes in interest rates, although such risk is mitigated using derivative transactions (interest rate swap transactions).

Derivative transactions include foreign exchange forward contracts to hedge against exchange rate fluctuations associated with trade accounts receivables and liabilities denominated in foreign currencies, and interest rate swap contracts to hedge against the risk of change in interest rates on bank loans. With regard to hedging instruments and hedged items, hedge policy, the method of evaluation of hedge effectiveness and other related items, please refer to "2-[15] Derivative Financial Instruments and Hedge Activities".

[3] Risk Management System with Regard to Financial Instruments

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

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

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

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

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

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

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

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

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

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

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

The consolidated balance sheet amounts, the fair value and difference as of March 31, 2016 and 2015 were as follows:

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

As of March 31, 2016

	Millions of yen		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	**¥507,553**	**¥507,553**	**¥-**
Notes and accounts receivable-trade	**140,319**		
Allowance for doubtful accounts (*1)	**(105)**		
	140,214	**140,214**	**-**
Lease investment assets	**21,532**		
Allowance for doubtful accounts (*1)	**(53)**		
	21,479	**23,095**	**1,616**
Short-term loans receivable	**151,973**		
Allowance for doubtful accounts (*1)	**(294)**		
	151,679	**155,038**	**3,359**
Short-term investment securities, Investment securities and Other securities	**118,565**	**118,565**	**-**
Total Assets	**939,490**	**944,465**	**4,975**
Notes and accounts payable-trade	**326,625**	**326,625**	**-**
Electronically recorded obligations-operating	**91,476**	**91,476**	**-**
Short-term loans payable	**33,252**	**33,252**	**-**
Current portion of long-term loans payable	**33,692**	**33,807**	**(115)**
Current portion of bonds	**10,000**	**10,011**	**(11)**
Accrued income taxes	**100,272**	**100,272**	**-**
Accrued expenses	**132,759**	**132,759**	**-**
Bonds payable	**-**	**-**	**-**
Long-term loans payable	**93,030**	**93,673**	**(643)**
Total Liabilities	**821,106**	**821,875**	**(769)**
Derivative transactions (*2)			
hedge accounting is not applied	**7,159**	**7,159**	**-**
hedge accounting is applied	**¥-**	**¥-**	**¥-**

As of March 31, 2016

	Thousands of U.S. dollars		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	**$4,503,976**	**$4,503,976**	**$-**
Notes and accounts receivable-trade	**1,245,177**		
Allowance for doubtful accounts (*1)	**(932)**		
	1,244,245	**1,244,245**	**-**
Lease investment assets	**191,073**		
Allowance for doubtful accounts (*1)	**(470)**		
	190,603	**204,943**	**14,340**
Short-term loans receivable	**1,375,792**		
Allowance for doubtful accounts (*1)	**(2,609)**		
	1,345,985	**1,375,792**	**29,807**
Short-term investment securities, Investment securities and Other securities	**1,052,134**	**1,052,134**	**-**
Total Assets	**8,336,942**	**8,381,090**	**44,147**
Notes and accounts payable-trade	**2,898,438**	**2,898,438**	**-**
Electronically recorded obligations-operating	**811,749**	**811,749**	**-**
Short-term loans payable	**295,075**	**295,075**	**-**
Current portion of long-term loans payable	**298,980**	**300,000**	**(1,020)**
Current portion of bonds	**88,739**	**88,837**	**(98)**
Accrued income taxes	**889,804**	**889,804**	**-**
Accrued expenses	**1,178,090**	**1,178,090**	**-**
Bonds payable	**-**	**-**	**-**
Long-term loans payable	**825,539**	**831,245**	**(5,706)**
Total Liabilities	**7,286,414**	**7,293,238**	**(6,824)**
Derivative transactions (*2)			
hedge accounting is not applied	**63,528**	**63,528**	**-**
hedge accounting is applied	**$-**	**$-**	**$-**

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

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

As of March 31, 2015

	Millions of yen		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	¥228,821	¥228,821	¥-
Notes and accounts receivable-trade	164,540		
Allowance for doubtful accounts (*1)	(640)		
	163,900	163,900	-
Lease investment assets	24,098		
Allowance for doubtful accounts (*1)	(66)		
	24,032	28,794	4,762
Short-term loans receivable	157,070		
Allowance for doubtful accounts (*1)	(341)		
	156,729	158,313	1,584
Short-term investment securities, Investment securities and Other securities	118,702	118,702	-
Total Assets	692,184	698,530	6,346
Notes and accounts payable-trade	317,801	317,801	-
Electronically recorded obligations-operating	74,420	74,420	-
Short-term loans payable	41,443	41,443	-
Current portion of long-term loans payable	44,329	44,441	(112)
Current portion of bonds	-	-	-
Accrued income taxes	54,987	54,987	-
Accrued expenses	126,007	126,007	-
Bonds payable	10,000	10,059	(59)
Long-term loans payable	115,420	116,074	(654)
Total Liabilities	784,407	785,232	(825)
Derivative transactions (*2)			
hedge accounting is not applied	(2,725)	(2,725)	-
hedge accounting is applied	¥-	¥-	¥-

*1. Allowance for doubtful accounts corresponding to Notes and accounts receivable-trade, Lease investment assets and Short-term loans receivable is deducted.
*2. Indicated are the net amounts of assets and liabilities results from derivative transactions, with the total net liabilities indicated in ( ).

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

Assets

Cash and deposits and Notes and accounts receivable-trade

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

Lease investment assets and Short-term loans receivable

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

Short-term investment securities and investment securities

Fair value is determined by the stock exchange price, while bonds are determined by the stock exchange price or by quotations received from financial institutions. Please refer to the note entitled "5.Short-term investment securities and investment securities" regarding to respective objectives for holding securities.

Liabilities

Notes and accounts payable-trade, Short-term loans payable, Accrued income taxes and Accrued expenses

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

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

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

Current portion of bonds and Bonds payable

The fair value of bonds issued by the Company is based on market prices if available. For bonds with no available market price, fair value is calculated using the present value that is calculated as discounted cash flow of the total amount of principal and interest by, where discount rates are adopted taking into consideration the remaining redemption period and credit risks.

Derivative transactions

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

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

Consolidated balance sheet amount as of March 31, 2016 and 2015:

Other securities (available-for-sale securities)	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Stocks of non-consolidated subsidiary and affiliated companies	**¥2,817**	¥7,401	**$24,998**
Certificate of deposit	**149,900**	140,000	**1,330,198**
Commercial paper	**172,996**	144,982	**1,535,150**
Money management fund	**135,119**	114,192	**1,199,033**
Unlisted stocks (excluding over-the-counter stocks)	**976**	1,015	**8,661**
Medium Term Note	**30,000**	30,000	**266,217**
Other	**¥3**	¥3	**$27**

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

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

As of March 31, 2016:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	**¥507,553**	**¥-**	**¥-**	**¥-**
Notes and accounts receivable-trade	**130,484**	**8,142**	**1,693**	**-**
Lease investment assets	**6,555**	**14,896**	**81**	**-**
Short-term loans receivable	**48,205**	**101,691**	**2,077**	**-**
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	**8,595**	**19,447**	**2,585**	**4,106**
Corporate bonds	**3,440**	**19,623**	**3,317**	**4,299**
Other	**¥353,419**	**¥1,006**	**¥1,056**	**¥4,189**

As of March 31, 2016:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	**$4,503,976**	**$-**	**$-**	**$-**
Notes and accounts receivable-trade	**1,157,902**	**72,251**	**15,024**	**-**
Lease investment assets	**58,168**	**132,186**	**719**	**-**
Short-term loans receivable	**427,766**	**902,396**	**18,431**	**-**
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	**76,271**	**172,571**	**22,939**	**36,436**
Corporate bonds	**30,526**	**174,133**	**29,435**	**38,149**
Other	**$3,136,206**	**$8,927**	**$9,371**	**$37,173**

As of March 31, 2015:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	¥228,821	¥-	¥-	¥-
Notes and accounts receivable-trade	158,147	6,393	-	-
Lease investment assets	7,002	16,864	232	-
Short-term loans receivable	58,335	96,412	2,323	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	11,186	14,963	2,226	3,838
Corporate bonds	3,930	17,001	2,762	2,392
Other	¥345,429	¥1,571	¥829	¥4,437

[4] Amount of repayment for long-term debt and other interest-bearing debt
As of March 31, 2016:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Short-term loans payable	**¥33,252**	**-**	**-**	**¥-**
Bonds payable	**10,000**	**-**	**-**	**-**
Long-term loans payable	**¥33,692**	**¥90,918**	**¥2,112**	**¥-**

As of March 31, 2016:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Short-term loans payable	**$295,075**	**$-**	**$-**	**$-**
Bonds payable	**88,739**	**-**	**-**	**-**
Long-term loans payable	**$298,980**	**$806,797**	**$18,742**	**$-**

As of March 31, 2015:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Short-term loans payable	¥41,443	¥-	¥-	¥-
Bonds payable	-	10,000	-	-
Long-term loans payable	¥44,329	¥113,022	¥2,398	¥-

6. Short-Term Investment Securities and Investment Securities

Information on the value of short-term investment securities and investment securities as of March 31, 2016 and 2015 was as follows:

(1) Other securities (available-for-sale securities):
As of March 31, 2016:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	**¥39,363**	**¥22,386**	**¥16,977**
Debt securities			
Government and municipal bonds	**28,450**	**28,019**	**431**
Corporate bonds	**21,151**	**20,835**	**316**
Other	**5,307**	**5,229**	**78**
Sub-total	**94,271**	**76,469**	**17,802**
Book value not exceeding acquisition cost:			
Equity securities	**7,020**	**8,100**	**(1,080)**
Debt securities			
Government and municipal bonds	**6,282**	**6,336**	**(54)**
Corporate bonds	**9,527**	**9,670**	**(143)**
Other	**-**	**-**	**-**
Other	**1,465**	**1,504**	**(39)**
Sub-total	**24,294**	**25,610**	**(1,316)**
Total	**¥118,565**	**¥102,079**	**¥16,486**

As of March 31, 2016:

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	**$349,303**	**$198,651**	**$150,652**
Debt securities			
Government and municipal bonds	**252,463**	**248,638**	**3,825**
Corporate bonds	**187,692**	**184,888**	**2,804**
Other	**47,094**	**46,402**	**692**
Sub-total	**836,552**	**678,578**	**157,973**
Book value not exceeding acquisition cost:			
Equity securities	**62,295**	**71,879**	**(9,584)**
Debt securities			
Government and municipal bonds	**55,746**	**56,225**	**(479)**
Corporate bonds	**84,542**	**85,811**	**(1,269)**
Other	**-**	**-**	**-**
Other	**13,000**	**13,346**	**(346)**
Sub-total	**215,583**	**227,261**	**(11,678)**
Total	**$1,052,134**	**$905,839**	**$146,295**

As of March 31, 2015:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	¥50,341	¥24,170	¥26,171
Debt securities			
Government and municipal bonds	20,802	20,471	331
Corporate bonds	21,366	21,067	299
Other	6,139	6,013	126
Sub-total	98,648	71,721	26,927
Book value not exceeding acquisition cost:			
Equity securities	2,778	2,918	(140)
Debt securities			
Government and municipal bonds	11,411	11,479	(68)
Corporate bonds	4,719	4,768	(49)
Other	-	-	-
Other	1,146	1,165	(19)
Sub-total	20,054	20,330	(276)
Total	¥118,702	¥92,051	¥26,651

(2) Other securities (available-for-sale securities) sold during fiscal years 2016 and 2015:

For the year ended March 31, 2016:

	Millions of yen		
	Sales amount	Total gains	Total losses
Equity securities	**¥4,190**	**¥2,571**	**¥99**
Debt securities			
Government and municipal bonds	**27,456**	**115**	**143**
Corporate bonds	**38,575**	**43**	**43**
Other	**2,051**	**3**	**17**
Other	**-**	**-**	**-**
Total	**¥72,272**	**¥2,732**	**¥302**

For the year ended March 31, 2016:

	Thousands of U.S. dollars		
	Sales amount	Total gains	Total losses
Equity securities	**$37,182**	**$22,815**	**$879**
Debt securities			
Government and municipal bonds	**243,642**	**1,020**	**1,269**
Corporate bonds	**342,311**	**382**	**382**
Other	**18,200**	**27**	**151**
Other	**-**	**-**	**-**
Total	**$641,335**	**$24,243**	**$2,680**

For the year ended March 31, 2015:

	Millions of yen		
	Sales amount	Total gains	Total losses
Equity securities	¥3,300	¥741	¥12
Debt securities			
Government and municipal bonds	32,673	190	50
Corporate bonds	6,626	116	17
Other	1,529	5	20
Other	119	-	-
Total	¥44,247	¥1,052	¥99

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

Short-term loans payable as of March 31, 2016 and 2015, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Bank loans with average interest rate of 1.48% and 1.49% per annum as of March 31, 2016 and 2015, respectively	**¥33,252**	¥41,443	**$295,075**
Unsecured 0.71% bonds due June 13, 2016	**¥10,000**	-	**$88,739**

Long-term debts as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Loans principally from banks and insurance companies due through 2025 with average interest rate of 0.7% and 0.82% per annum as of March 31, 2016 and 2015, respectively	**¥126,722**	¥159,749	**$1,124,519**
Unsecured 0.71% bonds due June 13, 2016	**-**	10,000	**-**
Subtotal	**126,722**	169,749	**1,124,519**
Less-Portion due within one year	**(33,692)**	(44,329)	**(298,979)**
Total	**¥93,030**	¥125,420	**$825,539**

Annual maturities of long-term loans payable and bonds payable as of March 31, 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars
2017	**¥33,692**	**$298,980**
2018	**42,856**	**380,300**
2019	**41,228**	**365,853**
2020	**6,312**	**56,012**
2021	**522**	**4,632**
2022 and thereafter	**2,112**	**18,742**
Total	**¥126,722**	**$1,124,519**

Lease obligations as of March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S.dollars
	2016	2015	**2016**
Lease obligations due within one year as of March 31, 2016	**¥861**	¥1,016	**$7,640**
Lease obligations due after one year as of March 31, 2016	**1,254**	1,065	**11,128**
Total	**¥2,115**	¥2,081	**$18,768**

Annual maturities of lease obligations as of March 31, 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars
2017	**¥861**	**$7,640**
2018	**1077**	**9,557**
2019	**85**	**754**
2020	**48**	**426**
2021	**31**	**275**
2022 and thereafter	**13**	**115**
Total	**¥2,115**	**$18,768**

The following assets as of March 31, 2016 and 2015 were pledged as collateral for certain loans:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Property, plant and equipment	**¥36,799**	¥35,435	**$326,551**
Total	**¥36,799**	¥35,435	**$326,551**

To raise working capital efficiently, the FHI Group has entered into the commitment-line contracts. The maximum amount that can be made available under these contracts is ¥125,904 million (US$1,117,260 thousand) as of March 31, 2016. At the end of the fiscal year under review, there were no borrowings under the commitment line.

8. Derivative transactions

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

The fair value information of derivative financial instruments as of March 31, 2016 and 2015 was as follows:

Derivative transactions to which hedge accounting is not applied

(1) Foreign currency contracts:

As of March 31, 2016

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Fair value	Valuation gain (loss)	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:						
Sell-						
U.S. dollar	**¥287,156**	**¥7,975**	**¥7,975**	**$2,548,194**	**$70,769**	**$70,769**
Euro	**3,254**	**(44)**	**(44)**	**28,876**	**(390)**	**(390)**
Canadian dollar	**22,516**	**(772)**	**(772)**	**199,805**	**(6,851)**	**(6,851)**

As of March 31, 2015

	Millions of yen		
	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:			
Sell-			
U.S. dollar	¥313,502	(¥2,955)	(¥2,955)
Euro	4,488	55	55
Canadian dollar	23,102	175	175

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

Derivative transactions to which hedge accounting is applied

(1) Interest rate contracts:

Accounting treatment: Exception processing of interest rate swap

Hedge item: Long-term loans payable

As of March 31, 2016

	Millions of yen			Thousands of U.S. dollars		
	Notional Amount	Over 1 year	Fair value	Notional Amount	Over 1 year	Fair value
Interest rate swap contracts:						
Receive floating rate pay fixed rate	**¥3,000**	**¥1,000**	**¥-**	**$26,622**	**$8,874**	**$-**

As of March 31, 2015

	Millions of yen		
	Notional Amount	Over 1 year	Fair value
Interest rate swap contracts:			
Receive floating rate pay fixed rate	¥10,105	¥3,000	(*)

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

9. Property, Plant and Equipment

Property, plant and equipment as of March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Buildings and structures	**¥381,255**	¥348,685	**$3,383,219**
Machinery, equipment and vehicles	**540,376**	526,302	**4,795,244**
Vehicles and equipment on operating leases, net	**11,221**	13,181	**99,574**
Other	**312,028**	318,806	**2,768,906**
Subtotal	**1,244,880**	1,206,974	**11,046,943**
Accumulated depreciation	**(886,905)**	(882,752)	**(7,870,308)**
Accumulated impairment loss	**(25,992)**	(26,528)	**(230,650)**
Land	**193,698**	188,392	**1,718,857**
Construction in progress	**46,951**	28,611	**416,639**
Total	**¥572,632**	¥514,697	**$5,081,480**

10. Unexecuted Balance of Overdraft Facilities and Lending Commitments

The unexecuted balance of overdraft facilities and lending commitments at a consolidated subsidiary (Subaru Finance Co., Ltd.) as of March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Total overdraft facilities and lending commitments	**¥4,800**	¥4,800	**$42,595**
Less amounts currently executed	**801**	497	**7,108**
Unexecuted balance	**¥3,999**	¥4,303	**$35,487**

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

11. Pension and Severance Plans

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

As of March 31, 2016, the Company and 53 of its consolidated domestic subsidiaries, which add up to a total of 54 companies, have lump-sum retirement payment plans. Within the FHI Group, there are also 24 defined contribution plans, and 5 defined benefits pension plans. In addition, there are 5 single-employer employees' welfare pension funds subject to the provisions of Article 33 of "Accounting Standard for Retirement Benefits."

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

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

Movement in retirement benefit obligation, except plans applied simplified method

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at the beginning of the period	**¥107,397**	¥102,819	**$953,030**
Cumulative effects of changes in accounting policies	**-**	(2,481)	**-**
Restated balance	**107,397**	100,338	**953,030**
a. Service cost	**6,115**	5,508	**54,264**
b. Interest cost	**1,161**	1,397	**10,303**
c. Actuarial loss (gain)	**7,769**	4,520	**68,941**
d. Benefits paid	**(5,791)**	(4,366)	**(51,389)**
e. Amortization of prior service cost	**152**	-	**(1,349)**
f. Other	**(472)**	-	**4,188**
Balance at the end of the period	**¥116,331**	¥107,397	**$1,032,310**

Movements in plan assets, except plans applied simplified method

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at the beginning of the period	**¥99,140**	¥87,069	**$879,759**
a. Expected return on plan assets	**1,836**	1,913	**16,292**
b. Actuarial loss (gain)	**4,254**	4,961	**37,750**
c. Contributions paid by the employer	**4,288**	8,330	**38,051**
d. Benefits paid	**(3,601)**	(3,133)	**(31,955)**
Balance at the end of the period	**¥105,917**	¥99,140	**$939,897**

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at the beginning of the period	**¥6,072**	¥5,880	**$53,882**
a. Increase due to the change of scope of consolidation	**-**	-	**-**
b. Retirement benefit cost	**722**	730	**6,407**
c. Benefits paid	**(357)**	(482)	**(3,168)**
d. Contributions paid by the employer	**(39)**	(29)	**(346)**
Balance at the end of the period	**¥6,398**	¥6,072	**$56,775**

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
a. Funded retirement benefit obligations	**¥106,762**	¥97,944	**$947,396**
b. Plan assets	**(106,162)**	(99,346)	**(942,071)**
Sub total	**600**	(1,402)	**5,324**
c. Unfunded retirement benefit obligations	**16,212**	15,706	**143,864**
a+b+c. Total Net liability (asset) for retirement benefits	**16,812**	14,304	**149,188**
d. Net defined benefit liability	**18,586**	17,963	**164,930**
e. Net defined benefit asset	**(1,774)**	(3,659)	**(15,742)**
d+e. Total Net liability (asset) for retirement benefits	**¥16,812**	¥14,304	**$149,188**

Retirement benefit costs

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
a. Service cost	**¥6,115**	¥5,508	**¥54,264**
b. Interest cost	**1,161**	1,397	**10,303**
c. Expected return on plan assets	**(1,836)**	(1,913)	**(16,292)**
d. Net actuarial loss amortization	**2,346**	2,377	**20,818**
e. Past service costs amortization	**60**	58	**532**
f. Additional retirement payments	**215**	379	**1,908**
g. Retirement benefit cost of the plan applying the simplified method	**722**	703	**6,407**
h. Other	**22**	-	**195**
Total retirement benefit costs for the fiscal year ended	**¥8,805**	¥8,509	**$78,135**

Adjustments for retirement benefit (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
a. Past service costs	**(¥92)**	¥249	**$816**
b. Actuarial gains and losses	**(1,150)**	4,032	**(10,205)**
Total	**(¥1,242)**	¥4,281	**(¥11,021)**

Accumulated adjustments for retirement benefit (before tax effect)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
a. Past service costs that are yet to be recognized	**¥246**	¥154	**$2,183**
b. Actuarial gains and losses that are yet to be recognized	**17,963**	16,813	**159,402**
Total	**¥18,209**	¥16,967	**$161,585**

Plan assets

Plan assets comprise:

	Percentage	
	2016	2015
a.Bonds	**49%**	51%
b.Equity securities	**13%**	14%
c.Cash and deposit	**28%**	25%
d.Other	**10%**	10%
Total	**100%**	100%

Long-term expected rate of return

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

Actuarial assumptions

The principal actuarial assumptions

	2016	2015
a. Attribution of expected benefit obligation	Benefit formula method	Benefit formula method
b. Discount rate	Primarily 0.6%	0.8%–1.4%
c. Long-term expected rate of return	Primarily 2.1%	1.4%–3.5%
d. Amortization of actuarial gain/loss	Primarily 16 years (amortized by the straight-line method starting from the following fiscal year, over a period shorter than the average remaining service periods of the eligible employees)	Primarily 16 years (amortized by the straight-line method starting from the following fiscal year, over a period shorter than the average remaining service periods of the eligible employees)
e. Amortization of past service cost	10 to 19 years	10 to 19 years

Defined contribution pension plan

The amount required to contibute to defined contribution plans was 4,844 million (US$42,953 thousand) and 4,414milllion for fiscal years 2016 and 2015 respectively which included the multi-employer pension plan of contributory defined benefit employees' welfare pension funds settled as defined contribution plans.

Certain information concerning the multi-employer pension plan, which requires contributions that are expensed as they become due as pension and severance costs, was as follows:
(1) Overall funded status of the multi-employer pension plan (mainly as of March 31, 2016 and 2015)

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Plan assets	**¥49,530**	¥83,089	**$439,524**
Projected benefit obligation	**58,015**	94,207	**514,819**
Funded status	**(¥8,485)**	(¥11,118)	**($75,295)**

(2) Contributions by the Company and its consolidated domestic subsidiaries as a percentage of total contributions to the multi-employer pension plan for fiscal years 2016 and 2015 respectively: 6%

Other than the above, ¥26,943 million (US$239,090 thousand) and ¥27,203 million of postretirement benefit plan obligation for fiscal years 2016 and 2015 respectively is included in "Other" of accrued expense and long-term liabilities in some American subsidiaries.

12. Income Taxes

The Company and its consolidated subsidiaries were subject to a number of taxes based on income, which in the aggregate resulted in a normal statutory income tax rate of approximately 32.9% and 35.4% for fiscal years 2016 and 2015, respectively.

A reconciliation of the statutory income tax rates in Japan to the Company's effective income tax rates for fiscal years 2016 and 2015 were as follows:

	2016	2015
Statutory income tax rate in Japan	32.9%	35.4%
Increase (reduction) in taxes resulting from:		
Adjustment of deferred tax assets in the end of fiscal year 2016 by change of the tax rate	0.5%	0.7%
Deduction of research and development expense	(3.1)%	(3.6)%
Entertainment expenses not qualifying for deduction	0.1%	0.1%
Changes in valuation allowance and tax benefits realized from loss carry forwards	(1.7)%	(0.5)%
Adjustment to past corporate income taxes payable and corporate income taxes refundable	0.0%	0.2%
Equity in earnings of affiliates	0.0%	0.1%
Difference of applicable tax rate in subsidiaries	0.6%	(0.3)%
Other	0.2%	0.3%
Effective income tax rate	29.5%	32.4%

Significant components of the deferred tax assets and liabilities as of March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Deferred tax assets:			
Accrued expenses	**¥28,427**	¥18,569	**$252,258**
Provision for product warranties	**17,324**	17,549	**153,731**
Net defined benefit liability	**14,173**	13,534	**125,770**
Depreciation and amortization expenses	**10,554**	10,938	**93,655**
Long-term accounts payable-other	**10,593**	10,919	**94,001**
Provision for bonuses	**7,456**	7,241	**66,164**
Unrealized profit on inventories	**24,451**	25,954	**216,976**
Loss on valuation of inventories	**3,230**	2,079	**28,663**
Net operating loss carryforwards	**-**	860	**-**
Other	**25,089**	31,253	**222,637**
Total deferred tax assets	**141,297**	138,896	**1,253,856**
Valuation allowance	**(8,714)**	(20,018)	**(77,327)**
Total deferred tax assets, net of valuation allowance	**132,583**	118,878	**1,176,529**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**(4,280)**	(8,668)	**(37,980)**
Depreciation and amortization expenses	**(14,167)**	(11,246)	**(125,717)**
Reserve for reduction entry	**(1,862)**	(2,072)	**(16,523)**
Net defined benefit asset	**(966)**	(1,006)	**(8,572)**
Other	**(22,845)**	(17,980)	**(202,724)**
Total deferred tax liabilities	**(44,120)**	(40,972)	**(391,517)**
Net deferred tax assets	**¥88,463**	¥77,906	**$785,012**

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Current assets—Deferred tax assets	**¥90,893**	¥78,789	**$806,576**
Investments and other assets—Deferred tax assets	**16,339**	13,113	**144,991**
Current liabilities—Deferred tax liabilities (Other current liabilities)	**-**	-	**-**
Long-term liabilities—Deferred tax liabilities	**(18,769)**	(13,996)	**(166,554)**
Total net deferred tax assets	**¥88,463**	¥77,906	**$785,012**

(Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates)

(Fiscal 2015)

On March 31, 2015, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2015 to March 31, 2016 and on or after April 1, 2016 are changed from 35.4% for the fiscal year ended March 31, 2015 to 32.9% and 32.1%, respectively, as of March 31, 2015.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥2,375 million (US$19,747 thousand) as of March 31, 2015, deferred income tax expense recognized for the fiscal year ended March 31, 2015 increased by ¥2,826 million (US$23,497 thousand), evaluation differences of other securities increased by ¥765 million (US$6,361 thousand) and accumulated adjustments for employee retirement benefits increased by ¥529 million (US$4,398 thousand).

(Fiscal 2016)

On March 29 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2017 and on or after April 1, 2017 are changed from 32.1% for the fiscal year ended March 31, 2016 to 30.7% and 30.5%, respectively, as of March 31, 2016.

Due to these changes in statutory income tax rates, net deferred tax assets (after deducting the deferred tax liabilities) decreased by ¥2,983 million (US$26,471 thousand) as of March 31, 2016, deferred income tax expense recognized for the fiscal year ended March 31, 2016 increased by ¥2,916 million (US$25,876 thousand), evaluation differences of other securities increased by ¥224 million (US$1,988 thousand) and accumulated adjustments for employee retirement benefits increased by ¥291 million (US$2,582 thousand)

13. Net Assets

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

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

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

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

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

At the annual shareholders' meeting held on June 28, 2016, the shareholders approved cash dividends amounting to ¥56,216 million (US$498,855 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2016. Such appropriations are recognized in the period in which they are approved by the shareholders.

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

¥Minus 644 million (US$ Minus 5,715 thousand) and ¥ 988million as "Provision for loss on construction contracts" is included in "Cost of sales" for fiscal years 2016 and 2015, respectively.

15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for fiscal years 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Freightage and packing expenses	**¥27,023**	¥34,856	**$239,799**
Advertising expenses	**87,666**	81,538	**777,939**
Sales incentives	**98,505**	82,597	**874,124**
Salaries and bonuses	**54,008**	49,894	**479,262**
Research and development expenses	**101,499**	83,104	**900,692**
Other	**110,832**	105,389	**983,512**
Total	**¥479,533**	¥437,378	**$4,255,329**

16. Extraordinary income

(Fiscal 2016)

Reversal of allowance for doubtful accounts

Reversal of allowance for doubtful account includes ¥29,624 million (US$262,880 thousands) of the allowance for receivables of the initial investment fees associated with the AH-64D combat helicopter for the Japan Ministry of Defense was released because the lawsuit against the Government of Japan over the claims of the initial investment fees was concluded.

Other extraordinary income

Other extraordinary income includes 18,561 million yen (US$164,708 thousand) of interest receivable recognized due to the conclusion of the lawsuit against the Government of Japan over the claims of the initial investment fees associated with the AH-64D combat helicopter for the Japan Ministry of Defense.

17. Finance Leases

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

Information as Lessor

(1) The details of lease investment assets as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Obligation of lease fee receivable	**¥25,716**	¥28,762	**$228,201**
Estimated residual value	**363**	342	**3,221**
Interest expense portion	**(4,547)**	(5,006)	**(40,350)**
Lease investment assets	**¥21,532**	¥24,098	**$191,073**

(2) Lease revenue related to lease investment assets

Amounts of collections on lease receivable after the fiscal year ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Within 1 year	**¥7,878**	¥8,399	**$69,909**
1 to 2 years	**6,804**	7,065	**60,378**
2 to 3 years	**5,374**	5,949	**47,688**
3 to 4 years	**3,705**	4,273	**32,878**
4 to 5 years	**1,851**	2,793	**16,426**
Over 5 years	**¥104**	¥283	**$923**

18. Operating Lease

Information as Lessee

The future minimum lease/rent payments, excluding the portion of interest thereon, as of March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Operating leases:			
Due within one year	**¥2,937**	¥2,439	**$26,063**
Due after one year	**20,570**	14,030	**182,536**
Total	**¥23,507**	¥16,469	**$208,599**

Information as Lessor

The future minimum lease/rent payments receivable, excluding the portion of interest thereon, as of March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Operating leases:			
Due within one year	**¥158**	¥190	**$1,402**
Due after one year	**74**	92	**657**
Total	**¥232**	¥282	**$2,059**

19. Contingent Liabilities

Contingent liabilities as of March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
As guarantor of third-party indebtedness from financial institutions	**¥44,059**	¥45,214	**$390,975**

Expenses with regard to the modified agreement contents between the U.S. subsidiary of Takata Co., Ltd. and NHTSA (The National Highway Traffic and Safety Administration of the United States) dated May 4, 2016, Notification “Extended schedule of the recalls of airbag inflators manufactured by Takata Co., Ltd.” released by MLIT (The Ministry of Land, Infrastructure, Transport and Tourism of Japan) dated May 27, 2016, and recalls in the other regions including China and Australia required by the U.S. and Japanese authorities are not accrued in the consolidated financial statements for the fiscal year ended March 31, 2016, since the amounts of these expenses can not be estimated reasonably at present.

Expenses with regard to recall of airbag inflators manufactured by Takata Co., Ltd. which can be reasonably estimated were accrued in the consolidated financial statements for the fiscal year ended March 31, 2016.

FHI group notified the regulators to take corresponding actions in North American Market on May 25, 2016 and decided to do it in Japan and the other regions including China and Australia by the end of June 2016, that cover a part of contingent liabilities mentioned above. See Note24 “Subsequent events” for more detail.

20. The Amount of Discount of Export Bill

The amount of discount of export bill as of March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
The amount of discount of export bill	**¥1,718**	¥2,928	**$15,245**

21. Transfer of Financial Assets to Special Purpose Company

The balance of financial assets transferred to special purpose company as of March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance of financial assets transferred to special purpose company(loan receivable of Automobiles and accounts receivable-trade of Aerospace)	**¥4,508**	¥5,037	**$40,004**

22. Segment Information

(1)General information about reportable segments

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

The Company places Automobile at the center of the whole businesses, and introduces an internal company system into Aerospace and Industrial products divisions. This framework makes clearer the responsibility of each division and accelerates business execution. The Company manages the subsidiaries on the basis of this classification. Therefore, the business segments consist of Automobile, Aerospace, Industrial products, and Other which does not belong to any division.

Automobile segment manufactures and sells vehicles and related products. Aerospace segment manufactures aircrafts, parts of space-related devices. Industrial products segment manufactures and sells Robin engines and related products.

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

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

Segment income are calculated based on operating income.

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

(3)Information on sales, income, assets and other items by reportable segments for the fiscal years ended March 31, 2016 and 2015 was summarized as follows

	Millions of yen		Thousands of U.S. dollars
Net Sales:	**2016**	2015	**2016**
Automobiles			
Outside customers	**¥3,039,424**	¥2,698,974	**$26,971,550**
Inter-segment	**4,752**	4,236	**42,169**
Sub-total	**3,044,176**	2,703,210	**27,013,719**
Aerospace			
Outside customers	**152,786**	142,801	**1,355,808**
Inter-segment	**-**	-	**-**
Sub-total	**152,786**	142,801	**1,355,808**
Industrial products			
Outside customers	**32,570**	29,029	**289,023**
Inter-segment	**185**	207	**1642**
Sub-total	**32,755**	29,236	**290,665**
Other (*1)			
Outside customers	**7,478**	7,109	**66,359**
Inter-segment	**17,889**	15,744	**158,745**
Sub-total	**25,367**	22,853	**225,104**
Total	**3,255,084**	2,898,100	**28,885,296**
Adjustment (*2)	**(22,826)**	(20,187)	**(202,556)**
Consolidated total (*3)	**¥3,232,258**	¥2,877,913	**$28,682,740**

	Millions of yen		Thousands of U.S. dollars
Segment income:	**2016**	2015	**2016**
Automobiles	**¥543,609**	¥400,874	**$4,823,933**
Aerospace	**18,201**	18,912	**161,514**
Industrial products	**82**	779	**728**
Other (*1)	**2,894**	1,884	**25,681**
Total	**564,786**	422,449	**5,011,856**
Adjustment (*2)	**803**	596	**7,126**
Consolidated total (*3)	**¥565,589**	¥423,045	**$5,018,981**

Segment assets:	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Automobiles	**¥2,298,942**	¥1,944,178	**$20,400,586**
Aerospace	**220,786**	186,292	**1,959,233**
Industrial products	**35,961**	32,926	**319,114**
Other (*1)	**61,445**	59,735	**545,257**
Total	**2,617,134**	2,223,131	**23,224,190**
Adjustment (*2)	**(24,724)**	(23,417)	**(219,398)**
Consolidated total (*3)	**¥2,592,410**	¥2,199,714	**$23,004,792**

Other Items:	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars 2016
Depreciation and amortization:			
Automobiles	**¥67,229**	¥65,342	**$596,584**
Aerospace	**3,668**	4,583	**32,549**
Industrial products	**507**	429	**4,499**
Other (*1)	**1,534**	1,467	**13,613**
Total	**72,938**	71,821	**647,245**
Adjustment (*2)	**-**	-	**-**
Consolidated total (*3)	**¥72,938**	¥71,821	**$647,245**
Investment to equity-method affiliates:			
Automobiles	**¥711**	¥589	**$6,309**
Aerospace	**-**	-	**-**
Industrial products	**768**	775	**6,815**
Other (*1)	**-**	-	**-**
Total	**1,479**	1,364	**13,125**
Adjustment (*2)	**-**	-	**-**
Consolidated total (*3)	**¥1,479**	¥1,364	**$13,125**
Increase of property, plant and equipment and intangible fixed assets:			
Automobiles	**¥160,048**	¥122,689	**$1,420,250**
Aerospace	**6,902**	4,509	**61,248**
Industrial products	**726**	985	**6,442**
Other (*1)	**662**	7,163	**5,875**
Total	**168,338**	135,346	**1,493,815**
Adjustment (*2)	**-**	-	**-**
Consolidated total (*3)	**¥168,338**	¥135,346	**$1,493,815**

Note: *1. "Other" means the category which is not included into any reportable segments. It consists of garbage collection vehicles, specialized vehicles, real estate lease, etc.

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

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

Related Information

(1)Products and services information

Products and services information is not shown since the same information is in the segment information.

(2)Information about geographic areas

[1]Sales for the fiscal years ended March 31, 2016 and 2015 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Sales: (*1)			
Japan	**¥605,401**	¥652,894	**$5,372,269**
North America	**2,104,498**	1,730,947	**18,675,109**
[United States] (*2)	[**1,972,797**]	[1,607,897]	[**17,506,407**]
Europe	**126,201**	123,250	**1,119,895**
Asia	**237,297**	238,749	**2,105,750**
Other	**158,861**	132,073	**1,409,717**
Consolidated total	**¥3,232,258**	¥2,877,913	**$28,682,740**

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

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

[2]Property, plant and equipment for the fiscal years ended March 31, 2016 and 2015 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Property, plant and equipment: (*1)			
Japan	**¥440,019**	¥412,623	**$3,904,685**
North America	**131,654**	101,042	**1,168,285**
[United States] (*2)	[**130,978**]	[100,274]	**[1,162,286]**
Europe	**462**	481	**4,100**
Asia	**-**	-	**-**
Other	**498**	551	**4,419**
Consolidated total	**¥572,633**	¥514,697	**$5,081,489**

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

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

[3]Major customers Information

Information about major customers is not shown because outside sales for major customers accounted for less 10% of operating revenue on the consolidated statements of income for the fiscal years ended March 31, 2016 and 2015.

Information on Impairment Loss in Fixed Assets by Reportable segments

Impairment loss in fixed assets by reportable segments for the fiscal years ended March 31, 2016 and 2015 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Impairment loss in fixed assets:			
Automobiles	**¥11**	¥38	**$98**
Aerospace	**-**	-	**-**
Industrial products	**-**	-	**-**
Other	**11**	-	**98**
Total	**-**	38	**-**
Adjustment	**-**	-	**-**
Total	**¥11**	¥38	**$98**

Information on Amortization of Goodwill and Unamortized Balance by Reportable segments

Information on amortization of goodwill and unamortized balance by reportable segments for the fiscal years ended March 31, 2016 and 2015 was summarized as follows:

Goodwill

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Amount written off of current period:			
Automobiles	**¥241**	¥266	**$2,139**
Aerospace	**-**	-	**-**
Industrial products	**-**	-	**-**
Other	**241**	-	**2,139**
Total	**-**	266	**-**
Corporate and elimination	**-**	-	**-**
Total	**¥241**	¥266	**$2,139**
Balance at the end of current period:			
Automobiles	**¥2,090**	¥2,472	**$18,546**
Aerospace	**-**	-	**-**
Industrial products	**-**	-	**-**
Other	**2,090**	-	**18,546**
Total	**-**	2,472	**-**
Corporate and elimination	**-**	-	**-**
Total	**¥2,090**	¥2,472	**$18,546**

Information on Negative Goodwill by Reportable segments

No items to be reported.

23. Fair Value of Investment and Rental Property

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

The consolidated balance sheet amounts, principal changes during fiscal 2016 and 2015, fair value at the end of fiscal 2016 and 2015 were as follows:

As of March 31, 2016

	Millions of yen			
	Consolidated balance sheet amounts			Fair value as the end of the fiscal year
	beginning balance	Increase(decrease) during the year	ending balance	
Investment and rental property	**¥29,248**	**(¥5)**	**¥29,243**	**¥40,173**
Properties that include portions used as investment and rental property	**¥15,228**	**(¥733)**	**¥14,495**	**¥22,775**

As of March 31, 2016

	Thousands of U.S. dollars			
	Consolidated balance sheet amounts			Fair value as the end of the fiscal year
	beginning balance	Increase(decrease) during the year	ending balance	
Investment and rental property	**$259,544**	**($44)**	**$259,500**	**$356,491**
Properties that include portions used as investment and rental property	**$135,132**	**($6,505)**	**$128,627**	**$202,103**

As of March 31, 2015

	Millions of yen			
	Consolidated balance sheet amounts			Fair value as the end of the fiscal year
	beginning balance	Increase(decrease) during the year	ending balance	
Investment and rental property	¥30,343	(¥1,095)	¥29,248	¥37,704
Properties that include portions used as investment and rental property	¥9,206	¥6,022	¥15,228	¥19,537

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

2. Among changes in the amount of investment, rental property and properties that include portions used as investment and rental property during the fiscal 2016, principal increases were properties acquisitions etc, which amounted to ¥622 million (US$5,520 thousand), and principal decreases were depreciation, which amounted to ¥1,264 million (US$11,217 thousand), loss on sales and retirement, which amounted to ¥265 million (US$2,352 thousand).

Among changes in the amount of investment, rental property and properties that include portions used as investment and rental property during the fiscal 2015, principal increases were properties acquisitions etc, which amounted to ¥7,263 million, and principal decreases were depreciation, which amounted to ¥1,009 million, loss on sales and retirement, which amounted to ¥1,408 million.

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

Profit and loss in fiscal 2016 and 2015 concerning investment and rental property and properties that include portions used as investment and rental property were as follows:

As of March 31, 2016

				Millions of yen
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	**¥3,862**	**¥2,344**	**¥1,518**	**(¥262)**
Properties that include portions used as investment and rental property	**¥855**	**¥1,077**	**(¥222)**	**¥-**

As of March 31, 2016

				Thousands of U.S. dollars
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	**$34,271**	**$20,800**	**$13,471**	**($2,325)**
Properties that include portions used as investment and rental property	**$7,587**	**$9,557**	**($1,970)**	**$-**

As of March 31, 2015

				Millions of yen
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	¥3,868	¥2,167	¥1,701	(¥418)
Properties that include portions used as investment and rental property	¥394	¥1,265	(¥871)	¥-

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

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

24.Subsequent Events

(Quality-related expense (recalls))

On May 25, 2016, FHI group applied for a recall in North American Market in accordance with the modified agreement contents with the U.S. subsidiary of Takata Co., Ltd. and NHTSA (The National Highway Traffic and Safety Administration of the United States) dated May 4, 2016. The estimated amount of expenses related to the recall is ¥18,700 million, and will be booked in the consolidated financial statements for the fiscal year ending March 31, 2017.

In addition, FHI group decided to take actions by the end of June in Japanese Market to respond the Notification “Extended schedule of the recall of airbag inflators manufactured by Takata Co., Ltd.” released by MLIT (Ministry of Land, Infrastructure, Transport and Tourism of Japan) dated May 27, 2016 and in other

regions including China and Australia in light of actions taken in North American Market and Japanese Market. The estimated amount of expenses related to the recall is ¥11,800 million, and will be booked in the consolidated financial statements for the fiscal ending March 31, 2017.
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(The acquisition of the treasury stock)

Fuji Heavy Industries Ltd. (FHI) resolved at its Board of Directors meeting held on May 12, 2016 to repurchase of its own shares pursuant to the provisions of Article 156 of the Companies Act that are applied by the reading of terms under the provisions of Article 165, Paragraph 3 of that Act.

1 Reason for the repurchase of its own shares

FHI will repurchase its own shares to improve shareholder value and capital efficiency.

2 Details of the repurchase

(1) Class of shares to be repurchased: Common stock issued by FHI

(2) Total number of shares to be repurchased: Up to 15,000,000 shares

Proportion of the total number of shares issued and outstanding, excluding treasury stock: 1.92%

(3) Total value of shares to be repurchased: Up to 48.0 billion yen

(4) Period of repurchase: From May 13 to September 30, 2016

(5) Other: Shares repurchased are planned to be cancelled

25.Other

No items to be reported.

KPMG

あずさ監査法人

Independent Auditor's Report

To the Board of Directors of FUJI HEAVY INDUSTRIES LTD.:

We have audited the accompanying consolidated financial statements of FUJI HEAVY INDUSTRIES LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in net assets and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of FUJI HEAVY INDUSTRIES LTD. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 29, 2016
Tokyo, Japan