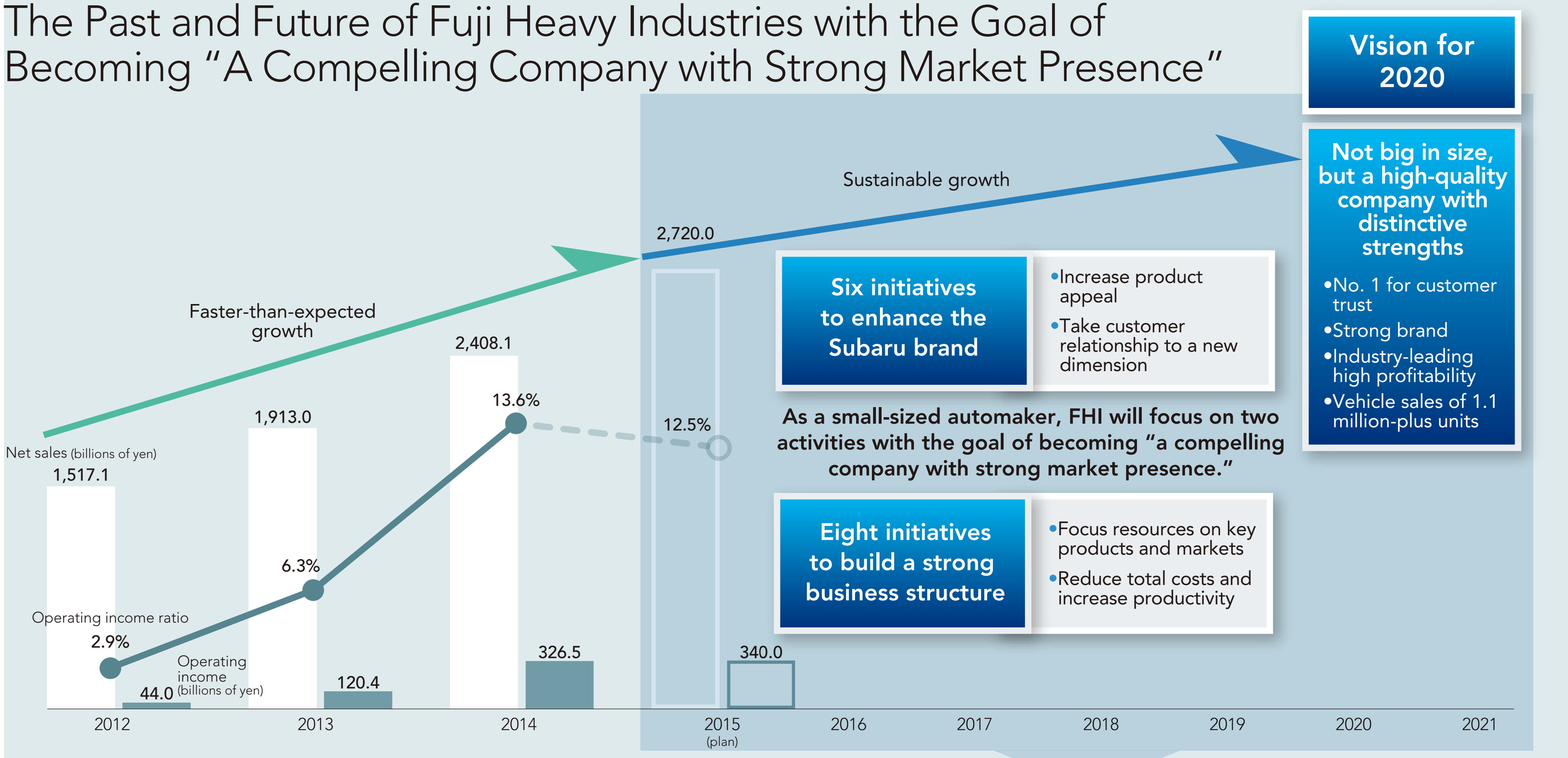
SUBARU

Annual Report 2014

For the year ended March 31, 2014

The Past and Future of Fuji Heavy Industries with the Goal of Becoming "A Compelling Company with Strong Market Presence"



Years ended March 31

Motion-V → **Prominence 2020**

Targets achieved ahead of schedule in FYE March 2014

Pursue the goal of sustainable growth and development by boosting competitiveness and building a solid business platform

Quantitative Targets

Targets for FYE March 2016	Actual results for FYE March 2014
Sales volume **850,000 units** (Shipment-based incl. OEM and CKD products)	Sales volume **850,000 units**
Consolidated operating income **120 billion yen**	Consolidated operating income **326.5 billion yen**
Consolidated operating margin **6% level**	Consolidated operating margin **13.6%**

Key Issues Remaining

- Compliance with future environmental regulations
- Production capacity shortages
- Responding to the needs of new customers
- Sensitivity to currency fluctuations

Reasons for Developing

- Main goals of Motion-V achieved ahead of schedule
- Significant changes in business conditions following faster-than-expected growth (stepping into a new stage)
- Growing need for accelerated response to changes in the business environment, such as tighter environmental regulations
- Resetting of management objectives with a view to further growth

Three-Year Business Operation / Profit Plan
(FYE March 2015—FYE March 2017)

Net sales	**8 trillion yen**
Operating income	**1 trillion yen**
Operating income ratio	**12.5%**
R&D expenses	**250 billion yen** (159%)
Capital expenditures	**330 billion yen** (171%)
Depreciation and amortization	**200 billion yen** (122%)

( ): vs. previous 3-year period

Confidence in Motion

Confidence in Motion is a unified global brand statement that encapsulates the aim of the Subaru brand. Confidence reflects our approach towards reliable automobile manufacturing dating back to the Subaru 360 and the relationship of trust that we have built with customers by providing enjoyment and peace of mind. In Motion expresses Subaru's resolve to enhance customer trust by proactively staying abreast of changing trends. Through Confidence in Motion, Subaru aims to meet customer expectations for the freedom and fulfillment enabled by Subaru's uniquely satisfying driving experience.

Contents

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.

Consolidated Financial and Non-Financial Highlights

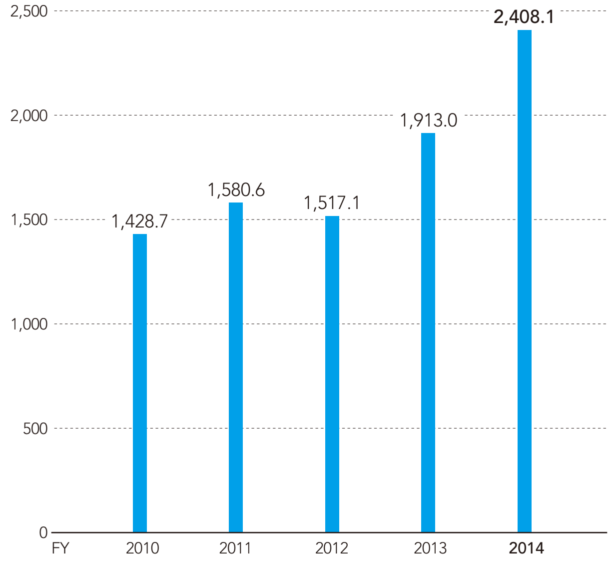
FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

(Billions of yen)

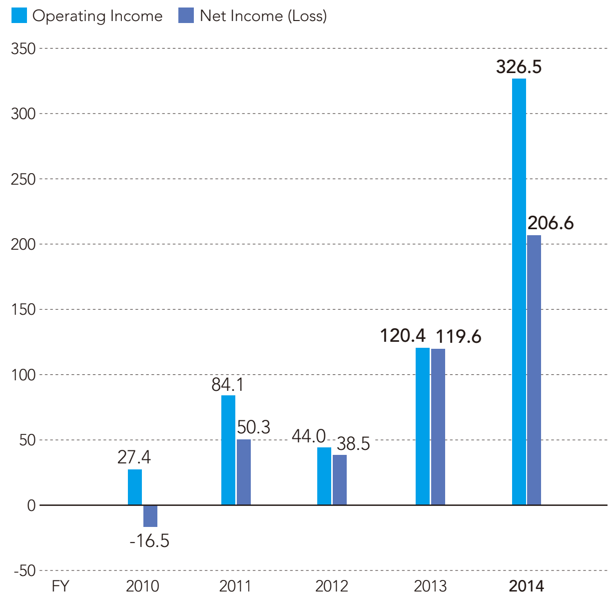
	2010	2011	2012	2013	2014
For the Year:					
Net sales	¥1,428.7	¥1,580.6	¥1,517.1	¥1,913.0	**¥2,408.1**
Operating income	27.4	84.1	44.0	120.4	**326.5**
Net income (loss)	(16.5)	50.3	38.5	119.6	**206.6**
Capital expenditures	56.1	43.1	54.3	70.2	**68.5**
Depreciation expenses	57.1	49.8	53.7	55.9	**54.9**
R&D expenses	37.2	42.9	48.1	49.1	**60.1**
Automobiles sales volume (thousand units)	563	657	640	724	**825**
Exchange rate (¥/$, non-consolidated)	93	86	79	82	**100**
At Year-End:					
Total assets	1,231.4	1,188.3	1,352.5	1,577.5	**1,888.3**
Net assets	381.9	414.0	451.6	596.8	**770.1**
Interest-bearing debt	367.6	330.6	341.0	307.2	**269.7**
Number of employees	27,586	27,296	27,123	27,509	**28,545**
Financial Ratios:					
ROE (%)	—	12.7	8.9	22.9	**30.4**
ROA[1] (%)	2.3	7.0	3.5	8.2	**18.8**

1. ROA was calculated as "operating income / (average of assets at the beginning and end of the term)"

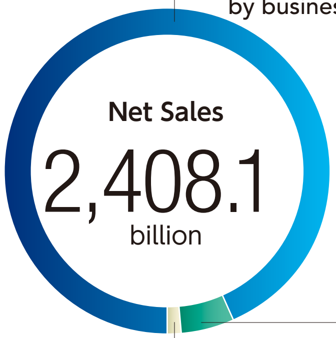
Net Sales (Billions of yen)



Operating Income & Net Income (Loss) (Billions of yen)



Percentage by business

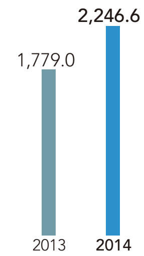


SUBARU Automotive Business

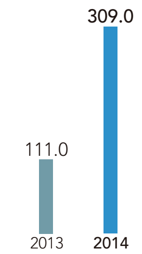
93.3%

Global sales volume of completed automobiles stood at a record high 825 thousand units, up 101 thousand units, or 13.9%, year on year. Overall net sales for the Automotive Business stood at ¥2,246.6 billion, up ¥467.7 billion, or 26.3%, year on year, partly affected by the correction of appreciation in the value of the yen in foreign exchange. Segment income increased to ¥309.0 billion, up ¥198.0 billion, or 178.4%, year on year.

Net Sales
(Billions of yen)



Operating Income
(Billions of yen)

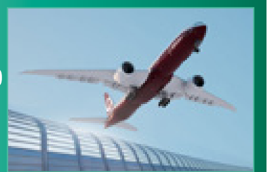


Points

- Sales growth was mainly due to increase in sales volume, primarily in Japanese and U.S. markets, and improvement in exchange rates.
- Increase in costs, such as miscellaneous expenses, was offset by increase in sales volume and progress in reducing prime costs.

Aerospace Company

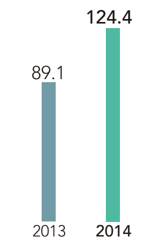
5.2%



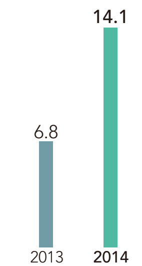
© The Boeing Company

Net sales overall rose to ¥124.4 billion, up ¥35.3 billion, or 39.6%, year on year due to an increase in sales of products to the Ministry of Defense and growth in production volume of Boeing 777 and Boeing 787 products for the commercial sector. Segment income increased to ¥14.1 billion, up ¥7.3 billion, or 107.5%, year on year.

Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



POINT

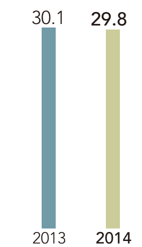
- Sales increased both for defense and commercial demand, and exchange rate differences also contributed.

Industrial Products Company

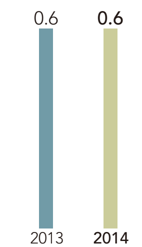
1.2%

Although sales of pumps and general purpose engines for civil engineering and construction in Japan and sales of general purpose engines in North America and Asia expanded, net sales fell to ¥29.8 billion, down ¥0.4 billion, or 1.2% year on year, due to such factors as a decline in sales of leisure-related engines in North America. Segment income also declined to ¥0.6 billion, down ¥10 million, or 1.3%, year on year.

Net Sales
(Billions of yen)



Operating Income
(Billions of yen)



POINT

- Although sales of products in Japan and Asia such as engines increased, sales of leisure-related engines in North America declined.

Under our new mid-term management vision "Prominence 2020," we are striving to realize sustainable growth as a compelling company with strong market presence.

Yasuyuki Yoshinaga
Representative Director of the Board, President and CEO

- Recording best full-year consolidated results two years in a row
- Creating a new mid-term management vision with the aim of becoming "a prominent company" in the eyes of customers
- Pursuit of further improvement for our brand value concentrating on six initiatives, including overall performance of products, safety, the environment and quality/service
- Implement Subaru way to develop better products by listening sincerely to the voices of our customers and thinking thoroughly
- Increase tolerance to changes in the business environment and realize sustainable growth while maintaining an industry-leading profit margin
- Focusing on strengthening human resource development and management to realize mid- to long-term growth
- Building a growth foundation for the future through proactive investments

Recording best full-year consolidated results two years in a row

At Fuji Heavy Industries (FHI), we developed a "Motion-V" mid-term management plan for the five-year period from FYE March 2012 to 2016 and had been working to achieve growth. This was part of our effort to implement our corporate philosophy of being a compelling company with strong market presence. This effort is centered on the idea of "Customers First." As a result of this effort, in FYE March 2014, FHI was able to achieve the main numerical targets set forth in Motion-V two years ahead of schedule.

In our FYE March 2014, consolidated results reached a record high for two years in a row, the number of vehicles sold 825,000 units (an increase of 13.9 percent compared with the previous fiscal year), with net sales posted at 2,408.1 billion yen (up 25.9 percent), operating income at 326.5 billion yen (up 171.1 percent) and net income at 206.6 billion yen (up 72.8 percent). The operating margin also increased from 6.3 percent to 13.6 percent.

Foreign exchange effects due to the correction of the strong yen are most certainly behind these substantial increases. It is true that exchange rate differences account for approximately 170 billion yen in the 206.1 billion yen year-on-year increase that pushed operating income up. However, even excluding the foreign exchange factor, thanks to an improved sales mix and progress in cost reduction, we were able to absorb increases in SG&A expenses, R&D expenses, and other outlays, achieving approximately 36 billion yen more revenue, and thus demonstrating a remarkable enhancement in profitability in FHI's core competencies as compared to the previous fiscal year. It is our goal to achieve sustainable growth while continuing to post some of the industry's highest operating margin levels by further improving our capability as a company.

For FYE March 2015, automobile unit sales and consolidated net sales are projected to be 916,000 units (representing a year-on-year increase of 11 percent) and 2,720 billion yen (a 13 percent increase) respectively as we plan to lift unit sales both in Japan and overseas, mostly in North America. Regarding profit, as the vehicle sales growth and cost reduction progress are expected to cover increases in SG&A and R&D expenses, FHI forecasts operating income of 340 billion yen (a 4.1 percent increase year on year) and net income of 215 billion yen (also a 4.1 percent increase). Global unit sales, net sales and all profit figures are projected to reach all-time highs in FHI history. (Foreign exchange rates: 100 yen per US dollar, 135 yen per euro.)

Regarding dividends for FYE March 2014, in light of the full-year business results, FHI revised the year-end dividend per share to 33 yen from the previous forecast of 20 yen, an increase of 13 yen, which includes a commemorative dividend of 5 yen to celebrate the 60th anniversary of the company's establishment. Combined with the interim dividend of 20 yen per share, the annual dividend for FYE 2014 will be 53 yen per share, an increase of 38 yen from 15 yen of the previous year.

Creating a new mid-term management vision with the aim of becoming "a prominent company" in the eyes of customers

Although it was a great achievement to attain the targets of Motion-V two years in advance, many issues still remain. First of all, it is the most urgent issue to

Summary

(Billions of yen)

Financial results full year for the FYE March 2014	Net sales	Operating income	Net income	Consolidated automobile units	Dividend
Actual results	2,408.1	326.5	206.6	825,100	¥53.00
(YoY)	(+495.2)	(+206.1)	(+87.0)	(+100,600)	(¥38.00)

(Billions of yen)

Financial projections full year for the FYE March 2015	Net sales	Operating income	Net income	Consolidated automobile units	Dividend
Plan	2,720.0	340.0	215.0	916,000	¥56.00
(YoY)	(+311.9)	(+13.5)	(+8.4)	(+90,900)	(¥3.00)

eliminate supply inefficiencies due to the increase in automobile unit sales beyond expectations. Secondly, it is also an issue to respond to increasingly environmental regulations in more and more regions of the world. Also, we believe it will be important going forward to meticulously grasp, improve and enhance the level of satisfaction of these customers with respect to Subaru because a massive quantity of new customers purchased Subaru vehicles across the world during this period.

To address these issues appropriately, FHI announced and launched the new mid-term management vision "Prominence 2020" in May 2014 without waiting for the final fiscal year of Motion-V.

We are not big in size as an automobile manufacturer, and to continue sustainable growth in the future, it is, of course, important for us to concentrate our resources on our core competencies and offer automobiles with Subaru's unique appeal. But it is also important, after a customer has purchased a vehicle and driven it, for the quality of the car, its performance and the after-sales service to make her/him feel that Subaru is really excellent and that she/he wants to drive another Subaru for the next purchase. To achieve this, we must never be content with mere "good" or "very good" ratings from Subaru users, but rather work to become "a prominent company" in their minds with an evaluation of "outstanding."

"Prominence 2020" takes its name from such a concept. Of course, it is not to say that FHI will arbitrarily develop "prominent" automobiles without consulting anyone else. We want to become "a prominent company" in the hearts and minds of our customers by providing our products the way customers really want them and by providing high-quality services that will raise their level of satisfaction.

Pursuit of further improvement for our brand value concentrating on six initiatives, including overall performance of products, safety, the environment and quality/service

Based on this concept, our new mid-term management vision targets "Not big in size, but a high-quality company with distinctive strengths" as FHI want to be in 2020 and more specifically, "No. 1 in customer trust," "Strong brand," "Industry-leading high profitability" and "Vehicle sales of 1.1 million–plus units a year." To achieve this, FHI will focus on enhancing the Subaru brand and building a strong business structure.

To enhance the Subaru brand, FHI will concentrate on six initiatives to further increase brand value: overall performance of our products, safety, design, environment, quality-service and communication. For example, regarding overall performance, we will not compromise on basic drivability and feel, and by incorporating our new "Subaru Global Platform" designs, we will further enhance "Enjoyment and Peace of Mind," which make up the identity of Subaru vehicles. For safety, while envisioning future automated driving thanks to the evolution of the "EyeSight" drive support system, FHI aims to become the No. 1 brand for overall safety with "All-Around Safety" protecting all passengers and pedestrians. For design, we will work to embody "Enjoyment and Peace of Mind" in our "Dynamic & Solid" concept for designs that are instantly recognizable as Subaru's.

With regard to the environment, FHI aims to achieve the highest level of environmental performance for both internal combustion engines and all-electric engines in order to meet environmental regulations in the United States and other major markets. For quality and service, FHI seek to become a trusted brand that continues to be chosen happily by customers. In particular, in the United States, where our automobile unit sales are increasing rapidly, it is an extremely urgent issue to build service networks and facilities. To achieve this, in November 2013, we introduced programs that partially support dealership capital investment for service garages and pits by Subaru of

Six Initiatives to Enhance the Subaru Brand

America, our U.S. sales subsidiary. As a result, we received applications from many dealerships, and many are in the process of being established.

And as for customer communications, we would like to introduce a kind of new communication style that has the concept of "Life is More Enjoyable with Subaru," which is based on a closer relationship to customers only possible with a unique brand like Subaru's.

Implement Subaru way to develop better products by listening sincerely to the voices of our customers and thinking thoroughly

The "Customers First" philosophy that carried on as a tradition through the years is the strongest trigger to realize brand value enhancements. For example, FHI's manager in charge of development (project general manager – PGM) who leads all processes of development of a new vehicle, visits actual Subaru users in major markets to listen to their opinions and desires firsthand in the course of advancing ongoing projects and to convey them to product planning and development staff.

In April 2014, when we announced the new Outback in the U.S., a dealership executive praised it as "wonderful" and "remarkably reflecting the opinions of actual users." In fact, this model was planned and developed based on what Outback customers in the U.S. actually said to our PGM, who went onsite many times to listen to their voices about how they felt about the pros and cons of previous models.

FHI is only able to develop and manufacture automobiles in a limited segment of the market. (This is in contrast to large manufacturers with a broad lineup of models to offer.) But this is the very reason we listen sincerely to the opinions of our customers for each and every model to provide them with vehicles that take those opinions into careful consideration. With each employee keeping in mind and putting into practice the "Customers First" principle, FHI is confident of its ability to make "prominent" automobiles from the viewpoint of the customer.

Increase tolerance to changes in the business environment and realize sustainable growth while maintaining an industry-leading profit margin

Building a strong business structure is another important activity in the new mid-term management vision. In order for FHI to realize sustainable growth while maintaining one of the highest profit margins in the industry, we need to push forward more strongly than ever our strategy. That strategy is "Focus resources on key products and markets" and "Reduce total costs and increase productivity" in order to increase tolerance to changes in the business environment.

For example, our product strategy is to enhance our product lineup focusing on the XUV/SUV segment, where Subaru is strong, and full model change for key models, while continually introducing new products. FHI's market strategy is to aim for automobile unit sales of 1.1 million–plus units globally with North America as the top-priority market, followed by Japan and China together as the secondary market. Our production strategy entails successive increases in capacity when needed, assuming an expansion to 1.07 million units annually. SIA, our manufacturing subsidiary in the U.S., is working to lift its production capacity from the current 200,000 units to 310,000 units annually in 2016, with the further objective of up to 400,000 units in 2020 depending on market conditions. FHI will maintain domestic production capacity while increasing overseas production to around 40 percent of total capacity to reduce foreign exchange sensitivity.

In our total cost reduction initiative, we have adopted a rational design structure. And we are working to achieve a total cost reduction of 20 percent through such efforts as using the Subaru Global Platform for standardizing components and for reducing the number of parts, carrying out productivity improvement activities with suppliers and striving for optimum unit costs in Japan and the United States. In this way we are absorbing the costs of environmental regulations needed to refine our brand and to improve our product. Also, in addition to efforts aimed at bringing down direct material costs, FHI kick-started companywide activities to improve overall manufacturing productivity including development, logistics, sales and indirect costs, as well as investment efficiency, by 20 percent. FHI will reform operating processes and build an IT infrastructure required to reach this goal.

Regarding our alliance strategy, FHI will further develop our collaborative efforts with Toyota Motor Corporation, which so far have resulted in successful projects such as contract production of the Camry in North America as well as engineer exchanges and joint development of the BRZ/86. Aiming to boost our mid- to long-term competitiveness, cooperation in product and technology development will be conducted, leveraging mutual strengths. Currently, discussions are ongoing about examining specific forms of cooperation in environmental fields including vehicle electrification.

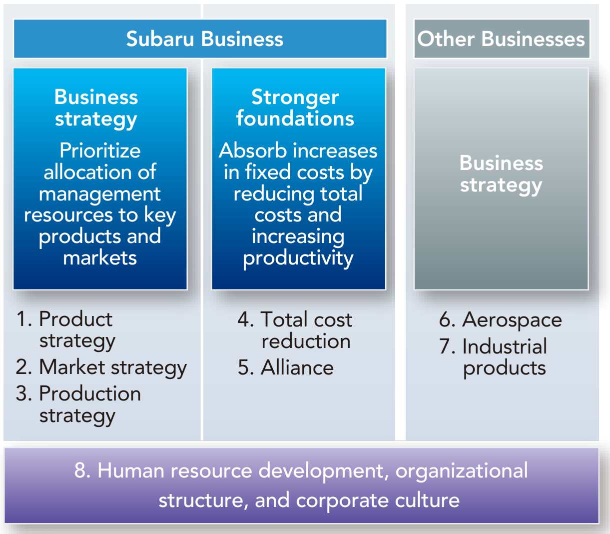
Focusing on strengthening human resource development and management to realize mid- to long-term growth

The most important area of concentration is reforming human resource development, our organizational culture and corporate culture. For Subaru to be "a prominent company" in the eyes of customers, each employee who has a key role in FHI's business and the organization that relies on them must advance to the next level.

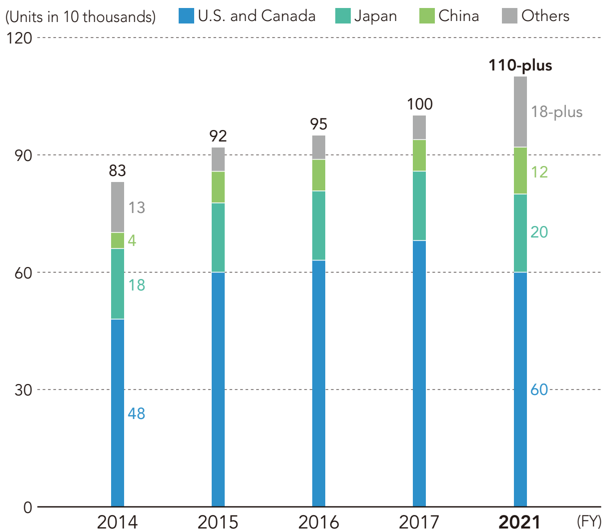
In this regard, FHI is promoting new internal projects dealing with reforming human resource development, our organizational culture and corporate culture, as well as further strengthening human resources. This includes advancing the leveraging of young people and women. Specifically, we will move forward with human resource development based on the slogan "Every employee with tenacity." We will focus on the themes "Global human resource development" to aim high and engage with a wide range of work, "Development of specialists" who strive to grasp essentials, and "Creativity enhancement" to strive to offer greater value by taking up challenges in new domains.

Also, FHI is focusing its energies on strengthening its business management system to maximize human resource capabilities and foster a corporate culture that encourages individuality, creativity and taking on challenges. In particular, our business management

Eight Initiatives to Build a Strong Business Structure



Consolidated Global Unit Sales Forecast



Production Capacity Expansion Plan

(Unit: 10 thousand vehicles)

	FYE2014 Production capacity	FYE2014 Proportion of total	FYE2017 Production capacity	FYE2017 Proportion of total	FYE2021 Production capacity	FYE2021 Proportion of total
Japan: Gunma Plants (Main Plant and Yajima Plant)	60	77%	63	66%	65	61%
Overseas: US (SIA Plant)	17	22%	31	32%	40	37%
Overseas: Malaysia CKD	0.5	1%	2	2%	2	2%
Production capacity (standard operations)	78		96		107	

system is regarded as an important issue to support sustainable growth. We will strengthen our middle management at all business locations both in Japan and overseas, foster the next generation of leaders who will be charged with managing FHI in the future and build strong managers who will drive mid- to long-term growth.

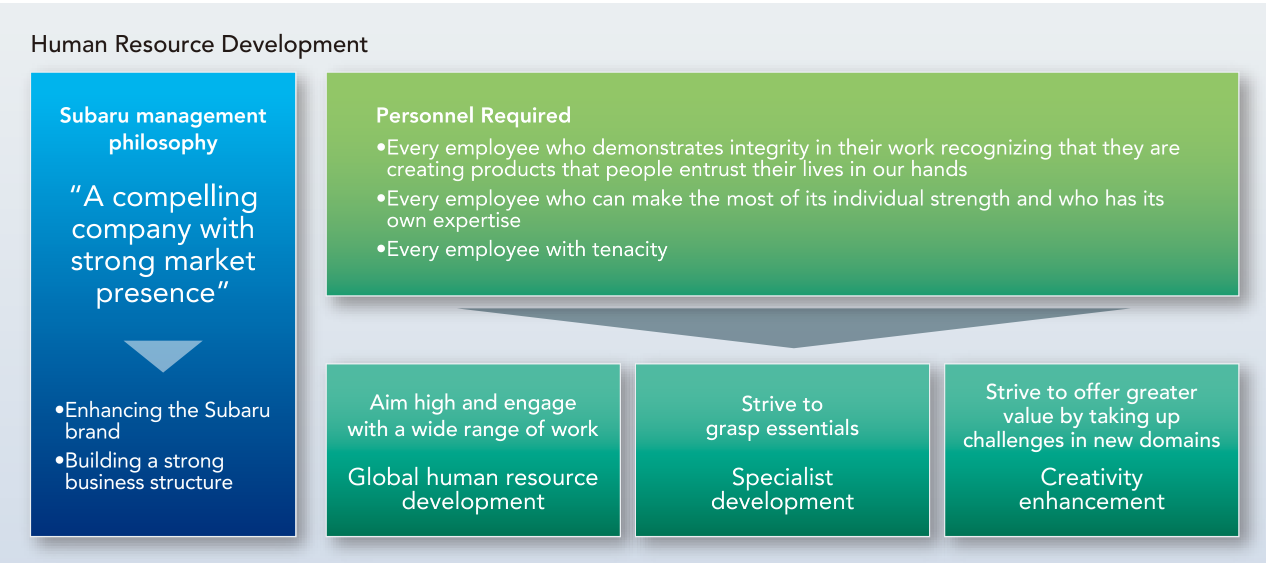
Initiatives relating to human resource development and organizational culture are important for the pursuit of safety, environmental initiatives and corporate governance, as well as for our CSR management, and we will proactively promote them, including the promotion of diversity.

Building a growth foundation for the future through proactive investments

In our new mid-term management vision, FHI aims to ultimately achieve, through these important activities, global automobile unit sales of 1.1 million-plus vehicles and net sales of 3 trillion-plus yen in FYE March 2021. Under our mid-term three-year consolidated profit plan for FYE March 2015 to FYE March 2017, we forecast total net sales of 8 trillion yen, operating income of 1 trillion yen and operating margin of 12.5 percent. These three years are set to be a period of proactively expanding research and development budgets and investing in facilities to build a foundation for future growth, and we expect fixed costs will increase as we expand proactive investments. However, we plan to absorb these costs and maintain our level of profits by adding value to products and reducing total costs. Please note that for this three-year consolidated revenue plan, the assumed foreign exchange rate is 95 yen per US dollar, which makes these targets very challenging.

FHI will steadily execute this new mid-term management vision and, as "a compelling company with strong market presence," bring about sustainable growth while securing our industry-leading high operating margin.

Thank you for your ongoing support and feedback going forward.



Yasuyuki Yoshinaga

Representative Director of the Board, President and CEO

We will promote proactive investments while strengthening our financial position to realize sustainable growth.

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

Three virtuous cycles support improvement in profitability

In FYE March 2014, FHI posted a record high operating profit of 326.5 billion yen. A main cause of this increase of 206.1 billion over the previous year was a correction of the strong yen. However, we are happy from a management point of view that we were able to achieve a 36 billion yen increase in profits through our core business of manufacturing, such as by increasing unit sales and reducing costs. The main causes of this remarkable improvement can be placed into three categories as follows:

The first is our product strategy. FHI targeted the United States and other advanced countries for product development focused on the XUV/SUV segments, in which Subaru can deliver high added value. This "selection and concentration" strategy paid off, resulting in great increases in unit sales mostly in the North American market in FYE March 2014.

The second category is cost reduction. As strong sales continue, FHI has managed to secure a profit per vehicle sold, as planned, by controlling selling costs and through continual initiatives to reduce the cost price and enhance productivity.

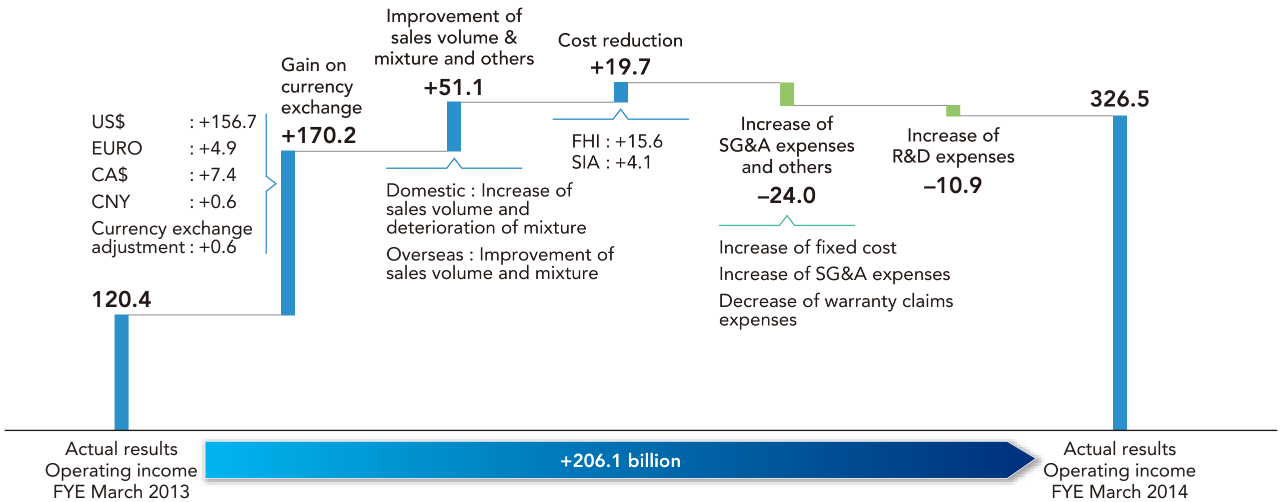
The third category is our high factory operating rate. We have been working to efficiently increase and strengthen production capacity to meet the growth in sales, and we succeeded in maintaining an operating rate slightly above 100 percent. This brought the benefit of reducing fixed cost burdens at each factory.

We think the virtuous cycle created by these three factors described above resulted in a 13.6 percent operating margin for FYE March 2014, one of the highest in the industry.

A certain amount of cash flows maintained even during periods of proactive investments for the future

Next, I will explain our finances. FHI's cash flows in FYE March 2014 amounted to 279.1 billion yen, but this includes special temporary factors. One of these is an almost 50 billion yen cash inflow due to the sale of Polaris stock, a U.S. company of which FHI was the

FYE March 2014: Analysis of Increase and Decrease in Operating Income Changes (consolidated) (Billions of yen)

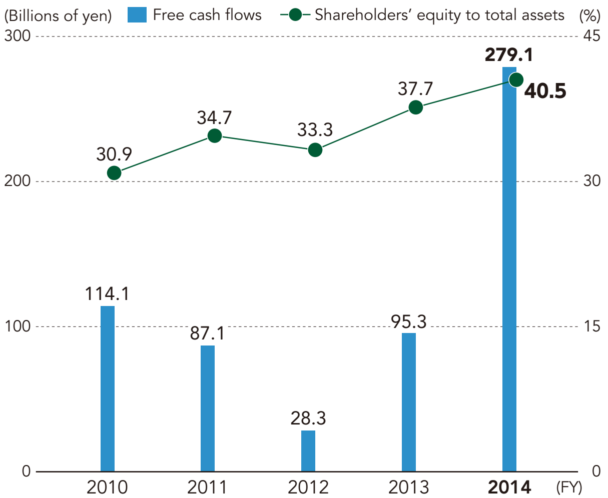


largest shareholder. Another factor is an unrecorded expense of approximately 90 billion yen cash-out for corporate tax due to net operating loss carryforwards from the previous term. Our actual "free cash flow" excluding these special factors is about 140 billion yen.

In FYE March 2015, the cash-out amount will greatly inflate because of the interim payment of about half the annual corporate and other taxes for the previous fiscal year. In addition, FHI slated the three year period starting from FYE March 2015 as the time for advance investments to build a new foundation for growth based on the new mid-term management vision. We expect R&D expenses to increase by 60 percent during this three-year period compared to the previous three years, with capital investment hiked by 70 percent. In all, it is a very aggressive investment expansion.

For this reason, a huge constriction in free cash flows will be inevitable compared to FYE March 2014. However, a certain amount of free cash flows can be maintained even during times of outflows for investment because proactive investments will likely bring about an expansion in sales.

Free Cash Flows & Shareholders' Equity to Total Assets



A certain latitude is allowed for the dividend payout ratio to avoid drops in dividend amount per share

FHI's basic dividend policy was always to provide stable and continuous payouts while considering performance-linked benefits. We have allocated a large proportion of profits to retained earnings because of insufficient retained earnings in our financial position until now. We did not vary from our basic dividend policy thanks to our attainment of a shareholders' equity ratio in the 40 percent level in FYE March 2014. However, we announced that the payout ratio would be between 20 and 40 percent to more solidly link dividends to performance. This leeway in dividend payout ratio is to absorb a drop in dividends within this 20-point range whereby a 20 percent level is set as the basis for the income increase and a maximum of 40 percent is set for the income decrease. So if results suffered because of a temporary factor, the dividend amount initially indicated would be maintained to the extent possible and, while this would keep dividends from falling, if profits increased, so would dividends.

Moreover, we expect ROE (Return On Equity) to go down in the future because these increases in results and other factors will likely push shareholders' equity further up. FHI does not directly base dividend payout determinations on ROE. However, we want to return profits to shareholders while always keeping in mind ROE and retained earnings levels.

Although we are not large among automobile manufacturers, we concentrate our limited resources on limited markets and products. We can expect great returns as demonstrated by our current high profitability level of 13.6 percent if our management team can conduct operations in the right direction. With our new mid-term management vision "Prominence 2020," FHI aims to achieve sustainable growth through steadfast, proactive and future-oriented investment and the securing of a fundamentally high level of profitability. Thank you for your understanding and ongoing support for the future.

Financial policy

- Prioritize allocation of cash flows to investment for sustainable growth.
- Implement a well-balanced strategy with attention to investment efficiency, financial health, and shareholder returns.

Shareholder returns

- Profits are returned to shareholders basically in the form of dividends with business results for each term, investment plans, and the business environment taken into account.
- Basic policy is to provide continuous dividend payments which are linked to business performance of the company.
- Decide dividends for each fiscal year in view of circumstances, based on a consolidated dividend payout ratio of 20–40%.

CSR at Subaru

We practice CSR activities that are based on our management strategy under our business philosophy of aiming to become "a compelling company with strong market presence" to deliver the shared values of "Enjoyment and Peace of Mind" to all of our stakeholders, including our customers. We also seek the realization of a sustainable society by reflecting opinions from all of our stakeholders in our management strategy.

FHI's Eight CSR Action Items

- **Customers and Products**
  Provide society useful and optimally safe products and services that earn customers' satisfaction and confidence.
- **Employees**
  Respect the diversity, individuality, and personality of employees and ensure that work environments are as safe and comfortable as possible.
- **Environment**
  Address environmental issues proactively in recognition of their importance for all mankind.
- **Compliance**
  Respect laws and moral standards; engage in fair, transparent, and free competition; and conduct business equitably. Honor confidentiality, carefully protecting and managing data, particularly personal information.
- **Information Disclosure**
  Communicate transparently with stockholders and other stakeholders, disclosing corporate information proactively and fairly.
- **Social Contribution**
  Maintain proactive social action programs as a good corporate citizen.
- **Procurement**
  Conduct procurement appropriately and work with suppliers to promote corporate social responsibility.
- **Corporate Governance**
  Make it a key responsibility of management to ensure that appropriate CSR policies are adopted throughout the corporate group, and undertake appropriate initiatives to address any emergencies that may arise.

Subject and Period of CSR Report

The report covers performance of Fuji Heavy Industries, Ltd., together with its Group member companies both domestic and overseas for the period of FY2014 (from April 2013 to March 2014) and a number of undertakings before and up to the release of the report. The departments and titles etc. of the people introduced in this report are correct as of the time of writing.

Efforts to Raise Customer Satisfaction Levels

Putting Customers First with the SUBARU Declaration

In October 2011, SUBARU issued the SUBARU Declaration, which specified the goal of being chosen by customers for "Enjoyment and Peace of Mind" and summarized the attitude and actions needed for sales divisions in Japan to achieve this goal. Sharing the same goal, our dealers in Japan have also posted their own SUBARU Declaration and are engaging in initiatives to implement them.

Subaru Declaration

- We aim to be No. 1 by being the automobile brand that offers customers "Enjoyment and Peace of Mind."
- All Subaru employees will present "Enjoyment and Peace of Mind" as brand values to customers and offer them the highest level of service.




Customer Satisfaction Survey

Evaluation through In-house Survey: SUBARU Customer Questionnaire

Our goal is to build up relationships with our customers by offering the "Enjoyment and Peace of Mind" stated in the SUBARU Declaration so that they continue to choose SUBARU over the long-term. We conduct the SUBARU Questionnaire directed at customers who bought a vehicle at one of our dealers. At SUBARU, we take the comments and requests of customers that we learn from the results of the survey seriously, and we have continued to make improvements at each of our dealers.

FY2014 saw continuous improvements in customer satisfaction levels. These improvements included specific achievements in the "Overall rating of the dealer you used" category in which the positive response rate consisting of "Extremely satisfied" and "Satisfied" accounted for 84.7% (82.2% in FY2013).

By supporting mobility that is fun and safe for our customers, and realizing the tenets of the SUBARU Declaration going forward, we aim to build up relationships whereby customers continue to choose SUBARU over the long term.

Number of valid response to the SUBARU Questionnaire

- FY2014: 80,362 responses/year
- FY2013: 67,383 responses/year

Evaluation through External Survey

In the second Japanese Customer Service Index (JCSI) survey conducted by Service Productivity & Innovation for Growth (SPRING) in FY2014, SUBARU won the No.1 rating for customer satisfaction among the 13 automotive companies and brands included in the Automobile Dealership Division of the survey.


Customer Satisfaction (CS) Activities Focusing on Dealers

We are offering support and promotional services to SUBARU dealerships, which form our point of contact with customers, to continuously raise the level of customer satisfaction, which underpins our brand image.

We provide feedback on customer opinions and requests obtained from SUBARU Questionnaires to SUBARU dealers and related departments, and work to improve products, quality, sales and after-sales service.

Training Human Resources at Dealerships to Deliver "Enjoyment and Peace of Mind"

We work to develop human resources through a range of training programs so that all staff at SUBARU dealerships in Japan put the SUBARU Declaration into practice and can perform in a way that gives satisfaction to customers.

We also work to train staff outside of Japan, making use of in-country training, training in Japan and online learning.

Number of Trainees Enrolled in Dealer Education Program in Japan

	2013 (first half)	2013 (last half)	Total
Manager, sales	1,145	1,073	2,218
Technical staff, other	1,285	953	2,238
Total	2,430	2,026	4,456

*Includes business trip training, etc.

International CS Initiatives

With the goal of achieving uniformly high after-sales service around the world and helping SUBARU customers drive with peace of mind, the SUBARU Customer Center works with importers around the world to help them and their dealers enhance their educational systems and overall structures.

We are building a corporate structure that can deliver customers service that meets their needs while ensuring that our importers and dealers worldwide offer service worthy of SUBARU's "Confidence in Motion."

Fiscal 2014 Initiatives

•**Educational**

We offer STEP (Subaru Technician Education Program), which provides technical education to our overseas service technicians.

Service Advisor Education Program material (extract)

A scene from Service Advisor Education

•**Structural**

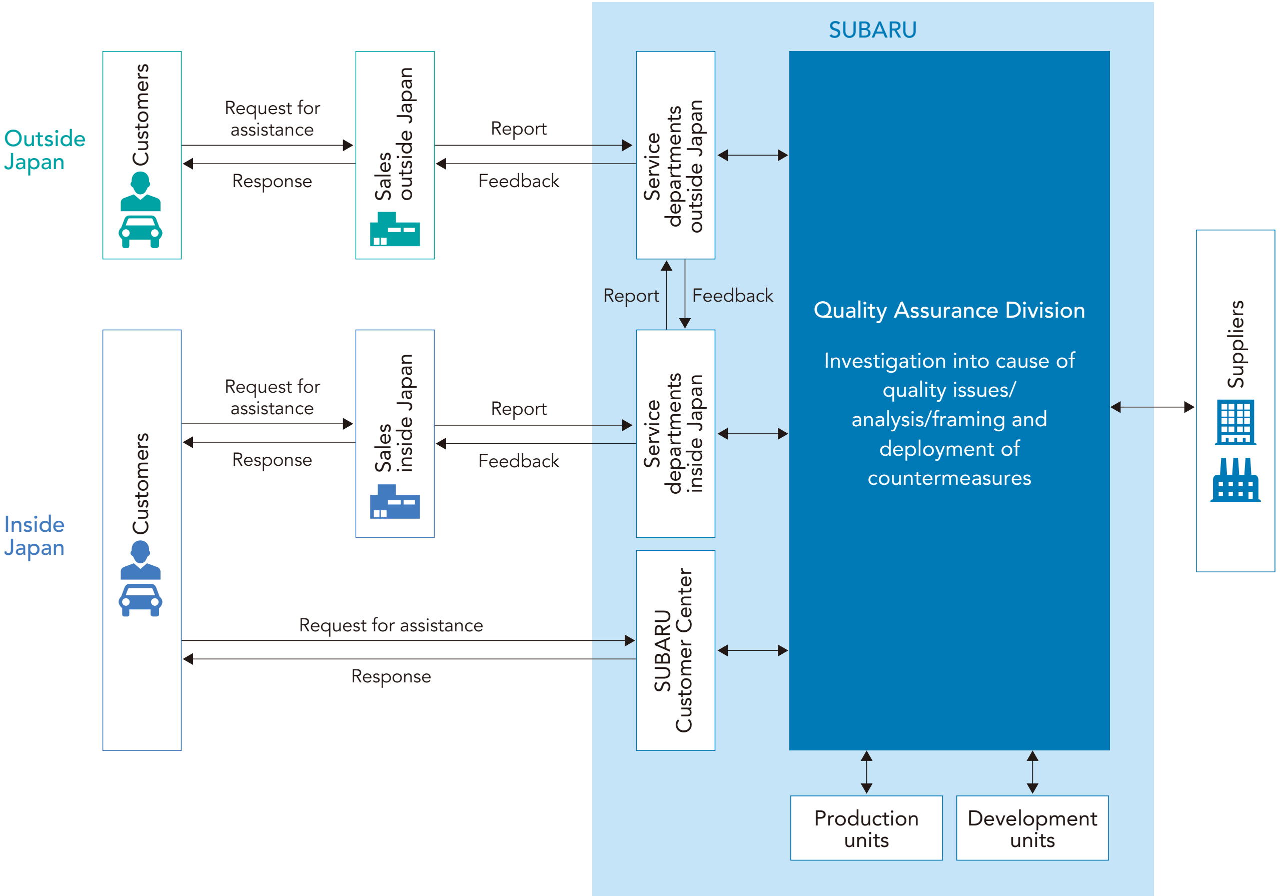
We hold the regional meetings in addition to twice-yearly conferences for leading overseas dealerships held in Japan.

Quality Management

Creating a System Aimed at Improving Quality

At SUBARU, we have established a quality improvement system centered on the Quality Assurance Division in order to analyze after-sales quality defects and customer requests to develop and produce even higher quality. We collect customers' opinions from around the world and identify quality issues. In addition to investigating the cause of the quality issues, we frame countermeasures, which we deploy to the relevant in-house department and/or supplier.

Quality Improvement System



Efforts at the Aerospace Company

Quality Management System Based on Aerospace Industry Standards

FHI's Aerospace Company has built a quality management system that conforms to the JIS Q9100 quality management system standard for the aerospace industry. The International Aerospace Quality Group (IAQG), to which the world's aircraft manufacturers belong, formulated this management standard.

FHI is one of the Council members of the Japan Aerospace Quality Group (JAQG) under which Japan's aerospace companies take part in IAQG activities, and we have contributed to the creation of management standards and the establishment of operating regulations for the management system certification program.

Efforts Aimed at Improving Quality

FHI's Aerospace Company engages in a range of activities aimed at improving quality and preventing errors.

In addition to examining customer satisfaction and product quality from diverse angles at "Quality Meetings" held four times a year, the Aerospace Company has designated November as the "Quality Month" for each year, engaging in activities that include lectures and distribution of educational leaflets to all employees. The lecture for FY2014 was entitled The Fundamentals and Principles of Countermeasures to Human Error and was presented by Ryutaro Kawano, Professor of Medical Safety and Director of the Medical Simulation Center, School of Medicine, Jichi Medical University. More than 500 people were involved including employees from assistant manager level and above, the company president and suppliers. The Aerospace Company has also established an Improvement Suggestion System that aims to foster a year-round climate that allows employees to demonstrate their creativity independently and quality to be improved.

Making Safe Vehicles

Pursuing Safety Based on the Concept of ALL-AROUND SAFETY

SUBARU has worked to build cars with the concept that everyone should enjoy comfortable mobility with peace of mind all the time. The pursuit of safety is one important theme in achieving this.

SUBARU ALL-AROUND SAFETY, the basic concept for this, means that we aim for safety under all environments. SUBARU people are working to improve all aspects of safety under a variety of conditions, including Active Safety that assumes accidents may occur and prevents them, Pre-crash Safety that supports the driver's driving operations and includes hazard avoidance by the vehicle itself if needed to avoid a collision with the aim of helping reduce damage in the event of a collision, and Passive Safety to minimize damage in the event of an accident.

FY2014 Car Assessment Results

The U.S.' IIHS[1] named the IMPREZA and XV Crosstrek as the 2014 TOP SAFETY PICK,[2] with the "EyeSight" equipped LEGACY, OUTBACK and FORESTER receiving the highest score of "Superior" in the Front Crash Prevention Test, which began in 2013, and becoming the 2014 TOP SAFETY PICK+,[3] the highest overall award.

Also, ANCAP[4] gave WRX the highest rank of Five Stars.

FY2013 Commendations

IIHS

- IMPREZA, XV Crosstrek and WRX are named 2014TSP
- EyeSight equipped LEGACY, OUTBACK and FORESTER are named 2014TSP+

ANCAP

WRX receives Five Stars

1. Insurance Institute for Highway Safety
2. The IIHS, in vehicle safety information publications, designates a vehicle as TOP SAFETY PICK if it received the score of "Good" in four of its five tests, namely the Offset Frontal Test, Rear Crash Test, Side Crash Test, Roof Strength Test and Small Overlap Front Test, and the score of "Acceptable" or higher in one of the tests.
3. In addition to satisfying the TOP SAFETY PICK requirements, if a vehicle receives the score of "Basic" or higher in the Front Crash Prevention Test, it is named TOP SAFETY PICK+.
4. ANCAP is an independent organization composed of the transportation authority of Australia and New Zealand that has been providing safety assessments since 1993.

Occupational Health and Safety

Philosophy of Occupational Health and Safety

In line with the Corporate Philosophy, we consider occupational health and safety to be a critical responsibility of management. Our Health and Safety Philosophy is, "We make health and safety the first priority in all of our work." Based on this philosophy, all managers and employees work to ensure health and safety in their workplaces while continuously striving to make a working environment more pleasant and comfortable for all.

Health and Safety Philosophy
"We make health and safety the first priority in all of our work."

Basic Policy of Health and Safety

Aiming for zero incidents of occupational accidents, traffic accidents, diseases, and fire disasters, all employees recognize the importance of health and safety and strive to improve equipment, environments, and work methods, while raising the level of management and awareness in order to create safe and comfortable workplaces.

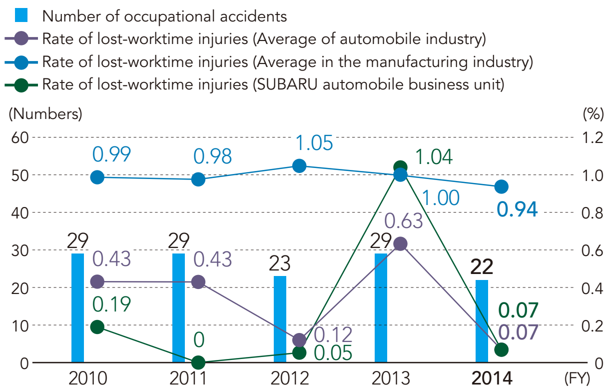
Aiming for Zero Industrial Accidents

At the start of each fiscal year, each FHI business site conducts a Health and Safety Kickoff Meeting that aims to raise awareness about preventing industrial accidents, road safety, and health management. With the ultimate goal of zero industrial accidents for the year, the general manager of each site talks to workplace leaders about the health and safety policies and initiatives for the fiscal year.

In addition, each site establishes activity targets and plans and promotes initiatives to achieve them so that employees constantly maintain awareness about preventing accidents while going about their day-to-day work.

In FY2014, there were 22 incidents of industrial accidents. The lost-worktime injury rate, which indicates the severity of accidents, was 0.07, equal to the average for the automobile manufacturing industry as a whole. In FY2015, we are aiming for zero industrial accidents with a focus on "Compliance with rules on standard working hours" and "Implementing hazard prediction for non-routine work."

Occurrence of Industrial Accidents and Rate of Lost-Worktime Injuries



Work-Life Balance Initiatives

Promoting Work-Life Balance (Work-Life Balance Approach)

FHI aims to create a group of highly engaged, autonomous human resources, and we believe that it is important to establish an environment that allows each individual among our diverse employees to fully express their unique abilities.

We work on promoting diversity in work styles as well as enhancing our schemes in order to respect the diversity of our employees and achieve work-life balance.

Diversity Initiatives

Promoting Diversity

For our company to continue offering customers value not found in competing products, each FHI employee needs to be able express his or her abilities as an individual with unique values. For this reason, FHI values differences in gender, nationality, culture, and lifestyles of employees and strives to create workplace environments in which everyone finds it easy to work.

Supporting Employees with Disabilities

At FHI, we strive to create workplace environments in which people with disabilities can truly shine. To achieve this goal, we leverage the ideas and opinions of our employees with disabilities and their family members.

In FY2014, we established SUBARU Bloom Co., Ltd. as an initiative to increase employment of people with disabilities. The company plans to be accredited as a special subsidiary under the Act on Employment Promotion etc., of Persons with Disabilities.

As of March 31, 2014, FHI employed 168 persons with disabilities, mainly in manufacturing work. The percentage of employees with disabilities for FY2014 was 1.57%, which was below the legally mandated rate of 2.0%. Going forward, FHI and SUBARU Bloom will work to hire more people with disabilities and make our workplace environments even more conducive to their employment with the aim of meeting the legally mandated rate.

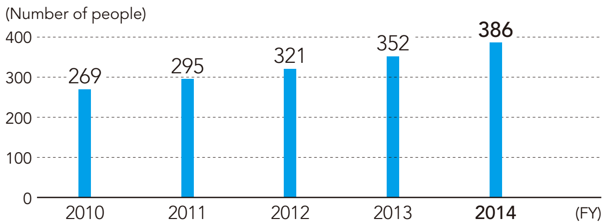
The height of automatic door switches and work stations is set at a level that is convenient for those using wheelchairs.

Senior Partner Program: Reemployment for Employees over 60-year-old

We introduced the "Senior Partner Program" in 2003 to rehire employees after the 60-year-old retirement age. This reemploys the aged and better strengthens our human resources. In addition to meeting the demands of the "Revised Law Concerning Stabilization of Employment of Older Persons" since April 2013, we have revised the existing system so that retired workers can put their experience and skills to further use, and have devised a system whereby those who wish to work beyond retirement age can do so at FHI and at our associated group companies.

We have been improving the work environment so that the reemployed will be able to work more comfortably. We will promote re-hiring senior people after their retirement at 60 to use their experience and abilities for fostering a new generation of workers.

Number or Workers Over the Age of 60



Global Human Resources Initiatives

FHI recruits both new graduates and mid-career employees regardless of their nationality, and we employ non-Japanese nationals as permanent and temporary employees.

At our Gunma Manufacturing Division, we welcome employees from Brazil, Peru, China, and many other countries. Even people whose conversational Japanese is advanced may have difficulty with complex instructions about manufacturing processes or specialized vocabulary. For this reason, we produce manuals in a wide variety of languages and offer interpretation services as needed.

We also provide employees opportunities to receive language training and engage in extended training programs overseas, helping them enhance their communication with people from other countries and understand cultures different from their own.

In FY2014 the Gunma Manufacturing Division accepted Chinese interns under the Foreign Trainee Internship Program. At the end of FY2014, 183 interns were actively involved, bringing energy to workplaces and helping in production activities.

Manual written in Portuguese

Human Resource Development

Human Resource Development (HRD) Philosophy

We offer a variety of training programs aimed at developing highly engaged, autonomous human resources, which is the human resources ideal based on our HRD Philosophy. Among our level-based training programs, the Startup Program helps all employees who have risen to a higher level adapt to their new responsibilities and focuses on logical problem solving.

With the goal of helping employees obtain and enhance business skills, we also offer training programs for each type of position within the company. We offer support for employees to attend business school. With a view to accelerating our global HRD, we have also established programs to facilitate foreign language acquisition and training in companies overseas.

HRD Philosophy

We seek to realize the SUBARU human resources ideal of highly engaged and autonomous employees by helping employees develop the ability to identify and solve problems themselves.

Initiatives to Transmit Skills

We opened the SUBARU Technical School (STS) in 2006 with the goal of training young technicians to become future leaders. By transmitting to the next generation technical expertise and work methods that are tailored to all skill levels and reflect the highest standards of safety and excellence, STS is helping to ensure the high quality of SUBARU products going forward.

We provide training that matches the skill levels of trainees, who consist of employees ranging from new graduates to those in their mid-twenties. In FY2014, 421 students took and completed courses, bringing the cumulative number of successful trainees to 2,087.

Basic Skills Training at STS

Comment from a Trainee

Training in Skills that Cannot be Learnt from Textbooks Alone

I learnt so much knowledge of immediate use on the job and skills that cannot be learnt from textbooks alone from veteran instructors. In training sessions, I tested my skills against fellow students who were both friends and rivals and was able to feel that every day was fulfilling.

I want to utilize the knowledge, skills and valuable experience I gained at the SUBARU Technical School in my workplace.

Koji Watanabe
No. 1 Trim Section, No. 1 Manufacturing Department, SUBARU Manufacturing Division

Fair Evaluations and Support for Development of Skills

Mechanisms for the upgrading of skills aimed at growth based on fair personnel evaluations are essential to develop the autonomous human resources that FHI is aiming for.

To this end, FHI positions and utilizes its personnel system which is made up of occupational skill certification programs, performance assessment system, goal management system, personnel rotations, and the education and training systems as a tool for the development of human resources. In addition to objectively evaluating job outcomes and performance levels for skills through the operation of the personnel system, supervisors and their subordinates share the challenges necessary for growth. Under the goal management system, all FHI employees have an interview with their supervisors three times a year (goal setting, interim confirmation, outcome confirmation).

Environmental Management

Organization

Established to implement the Environmental Policy and Voluntary Plan for the Environment, FHI's environmental management organization comprises two main entities that cross corporate divisions: the Company-wide Environmental Management System (EMS) and the Environmental Committee.

Serving as the head of the Company-wide EMS and the chairperson of the Environmental Committee, the director responsible for environmental issues conducts environmental reviews twice a year. We proactively implement environmental protection activities, comprehensively managing our progress and continuously revising the direction of future efforts.

Environmental Management Organization

FHI Environmental Committee

- **Production Environment Committee**
  - Zero-Emissions Division
  - Global Warming Prevention Division
  - Pollution Prevention Division
- Domestic Affiliated Companies Division
- **Sales, Service, and Logistics Division**
  - Logistics Division
  - Sales and Service Division

FHI Company-wide EMS

- Gunma Manufacturing Division
- Tokyo Office
- Saitama Manufacturing Division
- Utsunomiya Manufacturing Division
- Head Office

5 Subsidiaries in Japan
Yusoki Kogyo Co., Ltd.
Fuji Machinery Co., Ltd.
Ichitan Co., Ltd.
Kiryu Industrial Co., Ltd.
SUBARU Logistics Co., Ltd.

44 Subaru Authorized Dealers in Japan

4 North American Subsidiaries
Subaru of Indiana Automotive, Inc. (SIA)
Subaru of America, Inc. (SOA)
Subaru Canada, Inc. (SCI)
Subaru Research & Development, Inc. (SRD)

Summary of 5th Voluntary Plan for the Environment (FY2013 to FY2017)

FHI has established the 5th Voluntary Plan for the Environment for the period FY2013 to FY2017. Based on our Environmental Policy, we have set even higher environmental protection targets while adding new environmental measures to ensure compliance with laws and regulations and to foster cooperation on environmental issues within the automobile industry. Based on this plan, we will contribute to society through our products, striving always to produce even greener products at green plants and offices and delivering them to customers via green logistics and green dealers.

Our entire Group shares this plan and works together to ameliorate and eliminate environmental problems on a continuous basis. Our environmental initiatives introduced here are categorized into four groups: global warming countermeasures, resource recycling, pollution prevention and reduction of hazardous chemical usage, and environmental management.

The 5th Voluntary Plan for the Environment

Global Warming Countermeasures

- Launched hybrid cars in the market in 2013
- Introduces horizontally-opposed direct injection turbo engines
- Made horizontally-opposed diesel engines compliant with Euro 6
- Fully conformed fuel economy and greenhouse gas standards worldwide
- Improved fuel economy by 30% compared to previous models
- Promoted Eco Driving Assist Devices
- Implemented CO_2 emissions reduction initiatives in domestic and overseas plants

Resource Recycling

- Continued collection of used bumpers
- Maintained zero emission from production sites in Japan and overseas
- Designed new vehicles to be highly recyclable, aiming for 95% recycling rate by 2015

Pollution Prevention and Reduction of Hazardous Chemical Usage

- Added models achieving emission levels 75% lower than 2005 gasoline standards
- Reduced VOCs and substances on the PRTR
- Developed technologies to enhance fuel economy, improved and reduce emissions, and reduce noise
- Complied with laws and regulations in each region (e.g. EU directives)
- Continued initiatives to reduce to zero environmental accidents or claims that exceed legal standards in each country

Environmental Management

- Developed EyeSight (Ver. 3), with significant evolution in advanced safety functions

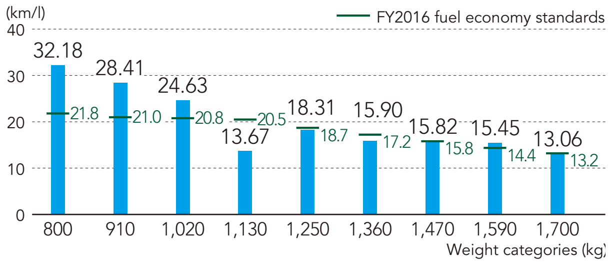
- Expanded implementation of Supplier CSR Guidelines to business partners of the Aerospace and Industrial Products Companies
- Promoted Group-wide ISO 14001 certification, including affiliates
- Publicly disclosed wide range of environmental information
- Supported maintenance of Eco Action 21 certification by domestic dealers
- Publicly disclosed Life Cycle Assessment (LCA) data
- Implemented greening initiatives that respected biodiversity

Environmental Data Highlights

Fuel Economy Standards

- Japan: Meeting the FY2016 fuel economy standards in 5 of the 9 weight categories
- U.S.: Meeting the 2013 Model Year Corporate Average Fuel Economy (CAFE) Standards and Greenhouse Gas (GHG) Standards

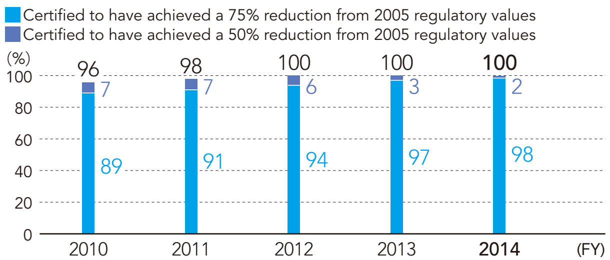
Status of Achievements for the FY2016 Fuel Economy Standards



Increases in the Number of Models Certified to be Low-Emission Vehicles

- Cars with 75% reduction from the 2005 emissions standards increased to account for 98% of car production quantity
- All vehicles certified as low-emission vehicles (certified to have achieved at least a 50% reduction from the 2005 emissions standards)

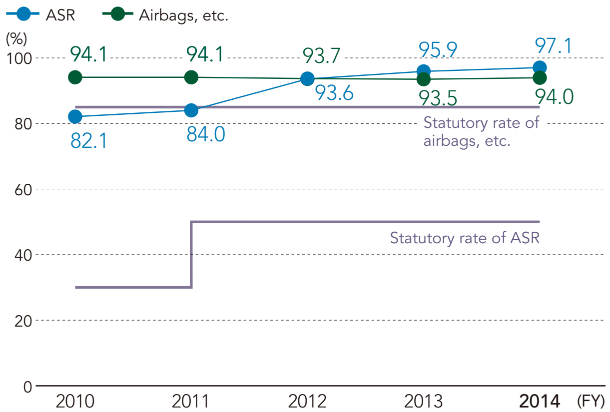
Percentage of Low-Emission Gasoline-Powered Passenger Cars



Automobile Recycling

- Automotive Shredder Residue (ASR) recycling rate was 97.1% (compared with the FY2015 legal standard of 70%)
- Monthly record on zero landfill, achieved in May 2011, maintained
- Airbag recycling rate of 94.0% achieved (compared with legal standard of 85%)
- Entire amount of recovered CFCs suitably treated

Statutory Rate and Recycling Rate of ASR and Airbags, etc.



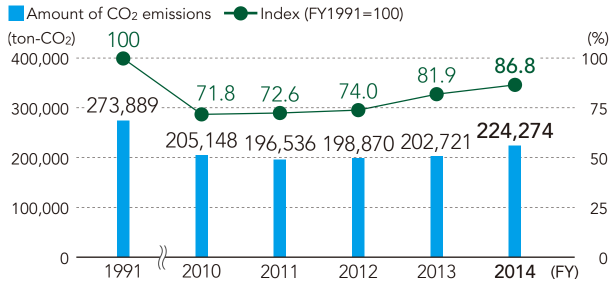
Legally mandated recycling rates
ASR: 30% (FY2006–FY2010) Airbags: 85%
50% (FY2011–FY2015)
70% (FY2016–)

FY2014 Environmental Performance

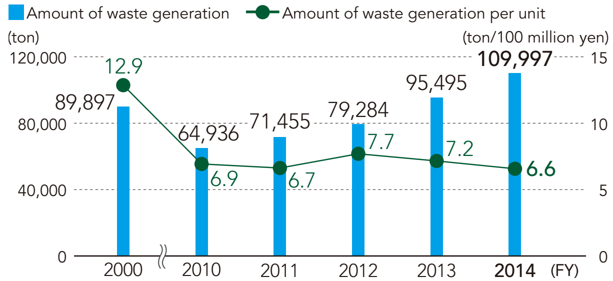
- CO_2 emissions and waste generation increased from the previous fiscal year due to higher production volumes.

*Sites covered: Gunma Manufacturing Division, Tokyo Office, Saitama Manufacturing Division and Utsunomiya Manufacturing Division

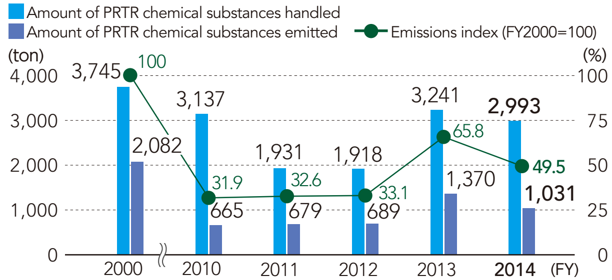
CO_2 Emissions



Waste Generation (includes scrap metal sold)



PRTR Chemical Substances



Thorough Implementation of Compliance Activities

Compliance Philosophy

Basic Compliance Policy

FHI views compliance to be a key responsibility of management and firmly believes that only through company-wide implementation of compliance can our business have a strong foundation. FHI strives to engage in fair and just corporate activities that comply with laws and regulations, our own internal rules, and the standards of society.

Corporate Code of Conduct and Conduct Guidelines

FHI has established a Corporate Code of Conduct and Conduct Guidelines as standards to help ensure compliance with laws and regulations. They are explained in detail in the Compliance Manual, which is given to all FHI executives and employees to help them maintain compliance in their daily actions.

Compliance Manual

Compliance System and Administration

Compliance System / Organization and Administration

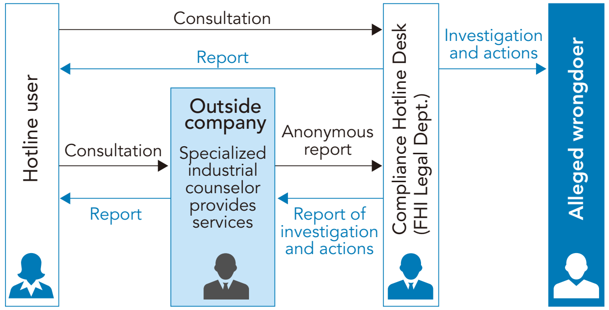
A company-wide committee established to promote corporate compliance, the Compliance Committee conducts deliberations and discussions, renders determinations, and encourages the exchange of information on key compliance issues. Every year, each department plans its own compliance program, continuously and autonomously implementing compliance initiatives.

Compliance Hotline

In addition to discussing with their supervisors any compliance issues they encounter, FHI Group employees have the option of using the Compliance Hotline and reporting issues directly to the Hotline Desk located within FHI.

After receiving information via mail, telephone, or email, employees assigned to the Hotline Desk research situations and take appropriate actions based on FHI's internal rules. The names and departments of those making reports are kept strictly confidential to prevent reprisals. Since April 2008, a company external to the FHI Group has provided services to the Hotline Desk, allowing the Compliance Hotline to extend its hours and helping to ensure the confidentiality of the names and departments of those making reports. The result has been greater ease of use for all employees making use of the hotline. In FY2014, there were 53 consultations with the Compliance Hotline.

Compliance Hotline (Flow from consultation to solution)



Personal Information Protection Initiatives

To comply with the Personal Information Protection Act, FHI has reviewed its internal systems and rules and publicly disclosed its privacy policy.

Since Subaru dealers in Japan handle a wide range of customer information, we have reviewed the compliance of each of the 44 dealers, including affiliated companies, with our rules and created a Personal Information Protection Handbook for Subaru Dealers. In this way, we are working to ensure that all employees understand the importance of protecting personal information.

Handbook for SUBARU Dealer Staff

Information Disclosure

Information Disclosure Philosophy

By disclosing information about our corporate strategy and activities in a fair, proper, and timely manner, FHI seeks to increase the transparency of management and increases the understanding of FHI on the part of our stakeholders, thereby building with them a relationship of trust.

Information Disclosure on Our Website

Our website includes an Investor Relations section that provides up-to-date IR information. We also distribute the latest financial reports and other IR-related information by email to those who register. Currently more than 900 people take advantage of this free email service. We also provide an Investor Relations site designed specifically for smartphone access.

Also, our IR site was ranked 1st in the industry in the "Fiscal 2013 Listed Company Website Quality Ranking" hosted by Nikko Investor Relations Co., Ltd. for seven years in a row (about 3,600 companies evaluated), and also positioned 1st in the industry in the "Investor Relations Site Ranking in 2014" by Gomez Consulting Co., Ltd. for eight consecutive years.

Webpage "Investor Relations"

"FINANCIAL REPORT" for all our shareholders

Plant Tours for Shareholders

We hold plant tours for shareholders to allow them to experience our actual production workplaces and gain a deeper understanding of our production policies and activities.

We also hold Q&A sessions after the tours to facilitate communication between our executives and shareholders and to receive our shareholders' valuable opinions and insights, which we feed back into our continuous improvement efforts.

For fiscal 2013, 49 groups with 87 individuals participated at the Yajima Plant on the grounds of our Gunma Manufacturing Division in March 2014. Some of the comments we received from participating investors include "I got to know a lot more about SUBARU and feel more affinity to the company" and "it was very interesting to see more things that can't ordinarily be seen."

Plant tour for shareholders in FY2014

Procurement

Our Approach to Procurement

In keeping with our Corporate Philosophy, FHI strives to procure parts, materials, and equipment that offer excellent quality, environmental performance, and cost performance. To realize this goal, it is necessary for us to establish relationships with our business partners based on equality, trust, mutual benefit, and dedication to continuous improvement.

Fundamental Procurement Policy

FHI has been promoting procurement activities under the following basic policy.

- **Compliance & Green Procurement**
  We engage in procurement activities in a way to harmonize man, society and the environment and conduct transactions paying due care to observe legal and societal rules and to protect the environment.
- **Establish Best Partnership**
  We establish “WIN-WIN” relationships with suppliers through transactions based on mutual trust under the doctrine of good faith.
- **Fair and Open Way of Selecting Suppliers**
  In selecting suppliers, the door is wide-open to all firms, domestic and overseas, for fair and equitable business to procure goods and services most excellent from six perspectives: quality, cost, delivery, technical development, management and environment.

Promoting Fair Trade

FHI strictly observes the Antimonopoly Act, the Act against Delay in Payment of Subcontract Proceeds, Etc., to Subcontractors, and other laws and regulations related to procurement. We are also engaged in fair trade programs in support of the Fair Trade Guidelines for the Automotive Industry issued by the Ministry of Economy, Trade and Industry in June 2007. As part of these efforts, we offer a hotline for business partners in our supply chain to call in should they have any questions or concerns about FHI's fair trade practices.

Even for employees, FHI provides legal and regulatory training for those in charge of procurement and transmits notices and alerts on our intranet to ensure that business is conducted properly.

Revision of CSR Guidelines for Suppliers

Based on the CSR Guidelines for Suppliers issued by Japan Automobile Manufacturers Association, Inc. (JAMA), we have created the SUBARU Supplier CSR Guidelines by incorporating our CSR policy for the business partners of SUBARU Automotive Business. We expect these guidelines will help our partners to conduct further CSR activities and expand such activities jointly with their own business partners.

Until now, FHI implemented the Supplier CSR Guidelines in the SUBARU Automotive Business and Industrial Products Company, however, in FY2014, we revised their content creating a standardized version for all partners companywide, including the Aerospace Company. We have always expected our partners to implement and promote CSR activities that include their suppliers.

SUBARU Supplier CSR Guidelines

From FY2014, FHI began to investigate partners with regard to conflict minerals. We will continue to conduct CSR procurement going forward.

Promotional System for Appropriate Business Practices and CSR Procurement

In the past, the procurement departments of the Subaru Automobile Business, Aerospace Company, and Industrial Products Company participated in the Procurement Environmental Committee, which strived to solve environmental issues that arose in the area of procurement. In FY2012, the committee changed its name to the Purchasing Committee and expanded its mission to include both environmental and CSR issues.

The policy of the Purchasing Committee is to facilitate fair procurement practices and encourage CSR at suppliers, thereby helping to ensure fair trade with business partners and cooperative CSR-based procurement throughout the FHI supply chain.

Communication with Partners

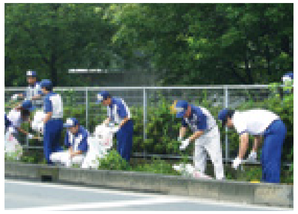
In an effort to communalize with partners our mid- to long-term management strategies and our sales, production and procurement policies, FHI has been hosting “Purchasing Policy Briefings” every spring. We also periodically exchange information by participating in “Cooperation Meetings” comprised of our partners.

Once a year, FHI hosts “General Cooperation Meetings” as a venue to speak directly to partners. Those meetings are followed by awards bestowed to those partners that have particularly contributed to technology and quality.

Efforts in Japan

Traffic Safety Campaign

Each of our business sites cooperates with the police and the Safe Driving Supervisor Association and hosts driving training sessions, such as a safe motorbike driving demonstration by police motorcyclists. We raise awareness of traffic safety and road accident prevention through activities that include sticking reflective materials that help prevent nighttime traffic accidents to utility poles and events such as offering traffic safety guidance services in the school zones around the business sites.



Left: Activity to stick reflective materials that help prevent nighttime traffic accidents to utility poles
Right: Traffic safety support near schools

Traffic Safety Awareness Campaign

FHI has begun operating our "SUBARU Kids" to promote awareness of traffic safety among young people.

As a member of the traffic society we actively promote awareness among employees at each of our offices and plants by providing accident prevention meetings before long holiday seasons and other occasions.

"SUBARU Kids" site for children
http://www.fhi.co.jp/kids/ (Available only in Japanese)

Facility Tours at the SUBARU Visitor Center

First open to the public on July 15, 2003, the Subaru Visitor Center welcomes people who visit the Yajima Plant for tours of the facility and other reasons. Inside, visitors can view historic SUBARU models and cars that set world records, as well as learn more about SUBARU's unique technologies and environmental initiatives. In FY2014, 95,963 people came to see the facilities.

SUBARU Visitor Center

For a Plant Tour application (10 to 200 people) and detailed information on the Visitor Center, please refer to the link below.
http://www.subaru.co.jp/about/showroom/vc/
(Available only in Japanese)

TOPICS

President & CEO Yasuyuki Yoshinaga Gives Visiting Lecture on "Let's Live through our Individuality" at University Campus

In October 2013, a lecture meeting was held at the Tama campus of Chuo University aimed at getting students to study with a broad global perspective, and Yasuyuki Yoshinaga, FHI President & CEO took the rostrum. Mr. Yoshinaga gave a presentation about the "individuality" of SUBARU reached through personal experience and business strategy. All in all about 1,100 people listened to his speech, and a lively Q&A session was also held.

In addition, with SUBARU cars on display outdoors, as well as the offer of EyeSight experiences, many students stopped and listened to explanations from FHI staff.

The 600-person capacity classroom was full and live video was also provided in the classroom next door

Outdoor displays and EyeSight experiences were also on offer

Efforts outside of Japan

Efforts by Subaru of America Inc. (SOA)

Water Blues Green Solutions—Call to Action for a Sustainable Water Future

With national partner Penn State University Broadcasting, Subaru is helping to promote awareness of the role that green infrastructure can play in creating a sustainable water future. The interactive documentary, Water Blues Green Solutions is to drive development of strategies addressing issues of flooding, drought, and pollution by adopting new ways of thinking about how to protect, restore and preserve our rivers and sources of drinking water.

Efforts by Subaru of Indiana Automotive, Inc. (SIA)

Innovation Challenge Award

SIA received the 2013 Innovation Challenge Award for Zero Waste. The Campbell Institute/Stewardship Action Council Innovation Challenge honors organizations for their achievement in the planning and/or implementation of an innovative program which addresses specific key environmental, health or safety topics. The 2013 Challenge focused on zero waste and off-the-job public/private partnership.

Efforts by Subaru Canada, Inc. (SCI)

Ronald McDonald House Toronto

SCI was presented with a lovely gift to recognize our ongoing efforts in supporting the House. This special gift of art was created by children staying at the House using syringes as a means of therapeutic and artistic expression.

Efforts by Subaru Research & Development, Inc. (SRD)

2013 SRD-CA Site Tour

The site tour was held on Saturday, May 18, 2013. It involved six-year old children and their parents. It was noted that the parents, mainly the fathers, were very interested in the tour! There was a presentation about SRD, a vehicle demonstration and also an Eyesight demonstration.

Efforts by Subaru of China, Ltd.

Donating Vehicles for Earthquake Relief in Ya'an, Sichuan Province, China

After a severe earthquake struck Sichuan Province on April 20, 2013, Subaru of China, Ltd. donated five Forester automobiles to five government entities in Ya'an, a city hit especially hard by the disaster: the Bifengxia Panda Base, the Lushan County Forestry Bureau, the Lushan County Education Bureau, the Tianquan County Sanitation Bureau, and the Tianquan County Agriculture Bureau. These entities are using the vehicles in a variety of relief projects, such as repairing and constructing housing, fortifying the structures of schools and other buildings, transporting victims, and delivering medicine and other relief supplies.

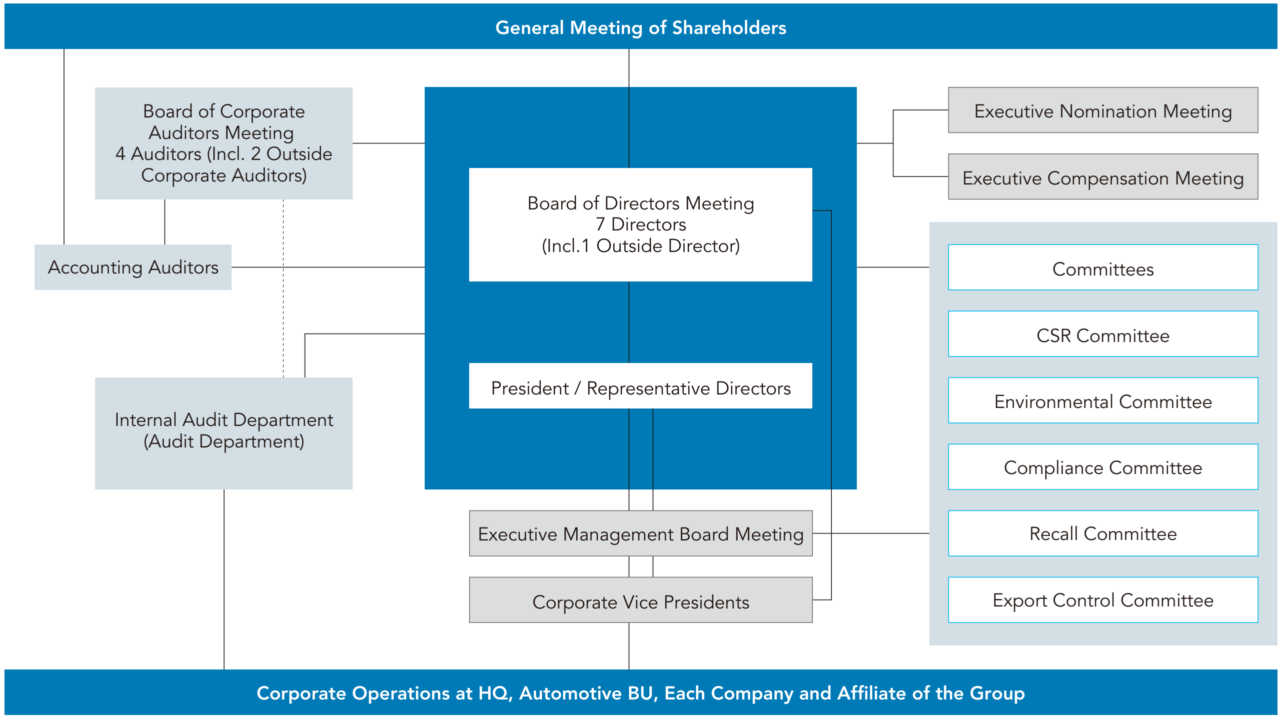
Corporate Governance

Corporate Governance System

Since June 1999, FHI has employed an executive officer system that clarifies the managerial responsibilities of executives in each division. In June 2003, we reduced the term of directors and executive officers from two years to one. Moreover, since June 2004, based on a decision of the Board of Directors, the Executive Nomination Meeting is responsible for the selection of corporate officer candidates, and the Executive Compensation Meeting is responsible for evaluating the performance and determining the compensation of executives.

Also, the execution of important business operations is decided and supervised by the board of directors and audited by the board of corporate auditors. The board of directors consists of seven members with one of them invited from the outside as an independent member to enhance governance. The board of corporate auditors consists of four members with two of them invited from the outside for higher objectivity to monitor business management. In addition, we will take various measures to further strengthen internal control, and will also disclose information fairly and in a timely manner in order to increase management transparency.

System of Corporate Governance



Internal Controls System

Internal controls are an indispensable mechanism for achieving corporate objectives, and management is responsible for establishing them and maintaining their effectiveness and efficiency. At FHI, the Corporate Planning Department (which plays a central role in the common functions of each business) and other company-wide departments maintain close links with other departments and companies to enhance risk management.

In addition, the Audit Department performs planned audits of each department and Group company. To support internal controls, FHI has created a system and organization to ensure compliance, which is the foundation of risk management. Further, in compliance with the Standards for Management Assessment and Audit Concerning Internal Control Over Financial Reporting issued by the Business Accounting Deliberation Council of the Financial Services Agency on February 15, 2007, we work to continuously strengthen the internal controls system of the entire Group so as to achieve the following:

1. Effective and efficient operations
2. Reliable financial reporting
3. Compliance with laws and regulations in all business activities
4. Safeguarding of assets

Executive Compensation

As approved by the Ordinary General Meeting of Shareholders in June 2006, the total amount of yearly compensation paid to directors and corporate auditors is limited to ¥600 million and ¥100 million, respectively. The compensation paid to directors must be approved by the Board of Directors and is divided into a fixed amount (based on position, the business environment, and other factors) and a performance-based amount (based on consolidated ordinary income for the fiscal year under review, the business environment, and other factors). In fiscal 2013, compensation for directors and corporate auditors was as follows:

Classification	Number	Total compensation (millions of yen)		
		Basic compensation		
		Fixed amount	Performance-based amount	
Directors (excluding outside directors)	7	241	221	462
Corporate auditors (excluding outside corporate auditors)	4	35	–	35
Outside executive officers	3	44	–	44
Total	14	320	221	541

Note: This table includes two corporate auditors who retired by the end of the fiscal year. As of March 31, 2013, the Company maintains eight directors (including one outside director) and four corporate auditors (including two outside corporate auditors).

Risk Management

We define risk as uncertain elements with the potential for negative impact on our business operations. While there are many types of risk, we call those risks that are particularly dangerous to our business operations and that we cannot handle through regular decision-making channels "crisis-level risks" and categorize them as follows: natural disaster, accident, internal human factors, external human factors, social factors (domestic, overseas), and compliance.

We have created manuals for dealing with each type of emergency, which delineate what communication channels are to be used once a risk is recognized, how to form crisis management headquarters, and other methods to follow to respond optimally to the situation.

FHI emergency response procedure manual and crisis management (disaster prevention) guidelines

Location-Specific Business Continuity Plans (BCPs)

With the goal of minimizing any reduction of service to customers and preventing loss of market share and corporate value, we have created a BCP for each business unit to maintain business operations or restore them as quickly as possible in the event of an emergency. Should our resources (employees, physical assets, monetary assets) be affected by an emergency, we will leverage our remaining resources to minimize the shutdown of priority operations and restore all operations to their original state as quickly as possible. We have also established an Emergency Response Policy, in accordance with which we strive to maintain operations in the event of an emergency.

Emergency Response Policy

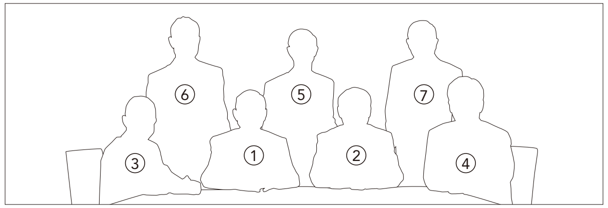
1 Give first priority to people's survival and physical safety.

2 Minimize loss of stakeholder interests and corporate value.

3 Act always with honesty, fairness, and transparency, even in an emergency.

Director of the Board

Director 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 & 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

Akira Mabuchi ③
Director of the Board
Corporate Executive Vice President

April 1979 Joined the Company
April 2005 Corporate Vice President, Senior General Manager of Subaru Engineering Division, and General Manager of Engineering Administration Department
June 2007 Corporate Senior Vice President and Chief General Manager of Subaru Engineering Division
April 2009 Corporate Senior Vice President and Chief General Manager of Strategy Development Division
June 2010 Director of the Board and Corporate Executive Vice President

Naoto Muto ④
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 ⑤
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 ⑥
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

Toshio Arima ⑦
Outside Director

June 2011 Outside Director

Executive Officers

Corporate Executive Vice President

Shuzo Haimoto　Hisashi Nagano　Masahiro Kasai

Corporate Senior Vice President

Hidetoshi Kobayashi　Yasuo Kosakai　Tomomi Nakamura
Kazuo Hosoya　Masaki Okawara

Corporate Vice President

Yasunobu Nogai　Masashi Takahashi　Masami Iida
Toshio Masuda　Satoshi Maeda　Hiromi Tsutsumi
Shoichiro Tozuka　Toshiaki Okada　Toshiaki Tamegai
Hiroki Kurihara　Tetsuo Onuki

Auditors

Standing Corporate Auditor

Nobushige Imai　Masakazu Kimura　Norio Saito

Corporate Auditor

Takatoshi Yamamoto

Outside Directors

The Company has appointed Toshio Arima to the position of outside director. Possessing considerable experience as an executive and a high degree of expertise in the area of CSR, Mr. Arima offers sound advice to and ensures the independent monitoring of the Board of Directors and other bodies. The Company has appointed Nobushige Imai to the position of outside auditor. Mr. Imai is fully qualified for this position owing to the wealth of management experience and knowledge he acquired as an executive in the financial industry, and he has the character and ability needed to undertake audits in an objective manner. In addition, the Company has appointed Takatoshi Yamamoto to the position of outside auditor. Mr. Yamamoto is fully qualified for this position owing to the wealth of knowledge of corporate activities he gained as a securities analyst and the corporate management experience he gained as an executive in the manufacturing industry. Further, since they possess exemplary backgrounds and no conflict with the interests of ordinary shareholders can be foreseen, the Company has appointed Mr. Arima and Mr. Yamamoto as independent directors under Tokyo Stock Exchange (TSE) regulations.

Consolidated Ten-Year Financial Summary

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

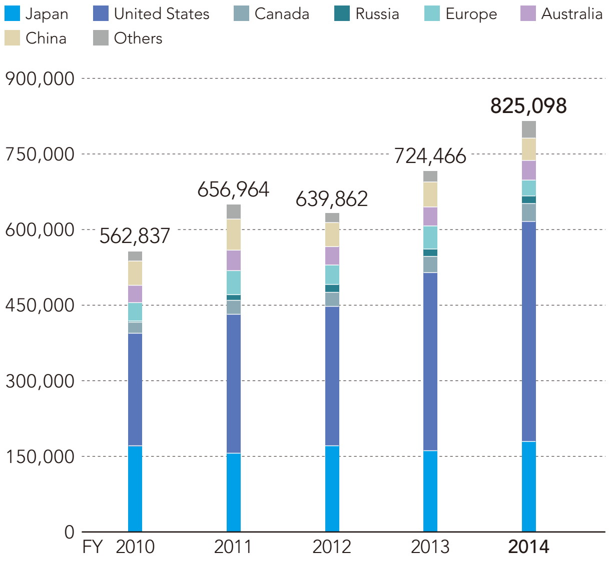
(Millions of yen) (Thousands of U.S. dollars[1])

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2014
For the year:											
Net sales	¥ 1,446,491	¥ 1,476,368	¥ 1,494,817	¥ 1,572,346	¥ 1,445,790	¥ 1,428,690	¥ 1,580,563	¥ 1,517,105	¥ 1,912,968	¥2,408,129	$23,398,066
Cost of sales	1,107,718	1,125,293	1,142,674	1,217,662	1,164,564	1,152,763	1,241,427	1,222,419	1,501,809	1,728,271	16,792,372
Gross profit	338,773	351,075	352,143	354,684	281,226	275,927	339,136	294,686	411,159	679,858	6,605,694
Selling, general and administrative expenses	296,756	292,736	304,237	309,004	287,029	248,577	255,001	250,727	290,748	353,369	3,433,434
Operating income (loss)	42,017	58,339	47,906	45,680	(5,803)	27,350	84,135	43,959	120,411	326,489	3,172,260
Income (loss) before income taxes and minority interests	21,066	28,674	45,589	31,906	(21,517)	(443)	63,214	52,879	93,082	328,865	3,195,346
Net income (loss)	18,238	15,611	31,899	18,481	(69,933)	(16,450)	50,326	38,453	119,588	206,616	2,007,540
Comprehensive income	—	—	—	—	—	(13,416)	34,900	44,474	152,009	210,757	2,047,775
At year-end:											
Net assets[2]	¥ 474,616	¥ 467,786	¥ 495,703	¥ 494,423	¥ 394,719	¥ 381,893	¥ 413,963	¥ 451,607	¥ 596,813	¥ 770,071	$ 7,482,229
Shareholders' equity	471,149	465,522	494,004	493,397	393,946	380,587	412,661	450,302	595,365	765,544	7,438,243
Total assets	1,357,459	1,348,400	1,316,041	1,296,388	1,165,431	1,231,367	1,188,324	1,352,532	1,577,454	1,888,363	18,347,873
Ratio of shareholders' equity to total assets (%)	34.7%	34.5%	37.5%	38.1%	33.8%	30.9%	34.7%	33.3%	37.7%	40.5%	
Per share: (in yen and U.S. dollars)											
Net income (loss):											
Basic	¥ 23.27	¥ 20.66	¥ 44.46	¥ 25.73	¥ (91.97)	¥ (21.11)	¥ 64.56	¥ 49.27	¥ 153.23	¥ 264.76	$ 2.57
Diluted	23.27	20.66	44.44	25.73	—	—	—	—	—	—	—
Net assets	604.51	649.41	687.81	687.02	505.59	488.58	528.88	576.97	762.87	980.98	9.53
Other information:											
Depreciation/amortization	¥ 71,010	¥ 80,073	¥ 81,454	¥ 87,164	¥ 74,036	¥ 65,785	¥ 56,062	¥ 58,611	¥ 61,544	¥ 61,486	$ 597,415
Capital expenditures (addition to fixed assets)	147,759	119,289	126,329	118,869	95,153	89,077	67,378	67,035	94,986	98,537	957,414
Research and development expenses	52,962	46,893	50,709	52,020	42,831	37,175	42,907	48,115	49,141	60,092	583,871
Number of shares issued (thousands of shares)[3]	782,865	782,865	782,865	782,865	782,865	782,865	782,865	782,865	782,865	782,865	
Number of shareholders[3]	34,558	46,367	42,920	44,484	40,839	39,223	34,240	33,139	28,890	51,386	
Number of employees[3]:											
Parent only	12,703	11,998	11,752	11,909	12,137	12,483	12,429	12,359	12,717	13,034	
Consolidated	26,989	26,115	25,598	26,404	27,659	27,586	27,296	27,123	27,509	28,545	

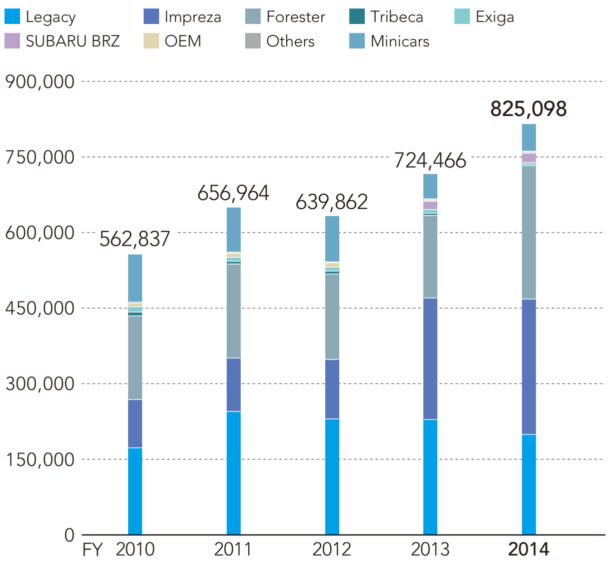
1. U.S. dollar figures have been translated from yen, for convenience only, at the rate of ¥102.92 to US$1.00, the approximate rate of exchange at March 31, 2014.
2. Prior year amounts have been reclassified to conform to the current year presentation.
3. As of March 31

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)

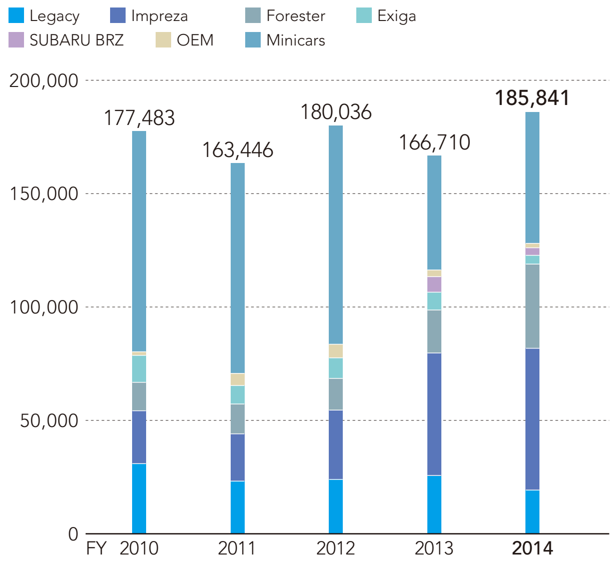
	2010	2011	2012	2013	2014
Domestic units:					
Legacy	28,862	22,673	22,812	24,207	18,961
Impreza	21,721	20,184	29,122	53,250	61,071
Forester	11,879	12,685	13,803	18,044	36,572
Exiga	10,789	7,859	8,020	7,392	3,853
SUBARU BRZ	—	—	249	6,711	3,380
OEM	1,523	4,430	5,844	2,778	1,857
Others	323	303	303	368	453
Passenger cars	75,097	68,134	80,153	112,750	126,147
Minicars	96,175	89,971	92,189	50,372	55,454
Domestic total	171,272	158,105	172,342	163,122	181,601
Overseas units by region:					
U.S.	227,028	278,959	280,356	357,569	441,799
Canada	22,828	28,059	28,239	32,644	36,013
Russia	1,563	11,320	15,860	14,719	15,314
Europe	37,340	48,244	39,075	46,382	31,756
Australia	34,992	41,150	36,928	38,120	39,515
China	48,938	62,412	48,323	50,185	44,807
Others	18,876	28,715	18,739	21,725	34,293
Overseas total	391,565	498,859	467,520	561,344	643,497
Overseas units by model:					
Legacy	146,099	225,388	210,194	207,460	182,712
Impreza	74,998	87,066	90,149	190,864	210,828
Forester	156,288	176,453	157,833	147,679	231,173
Tribeca	7,564	5,643	5,702	4,243	2,561
SUBARU BRZ	—	—	38	10,100	15,822
OEM	5,994	3,865	3,372	591	256
Others	622	444	232	407	145
Overseas total	391,565	498,859	467,520	561,344	643,497
Grand total	562,837	656,964	639,862	724,466	825,098

Non-consolidated Automobile Sales (Number of units)

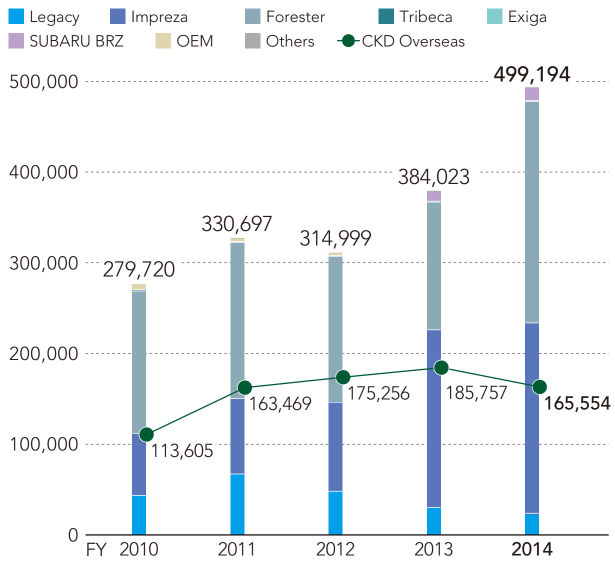
	2010	2011	2012	2013	2014
Domestic units:					
Legacy	30,927	23,212	23,968	25,424	**19,272**
Impreza	23,316	20,859	30,566	54,306	**62,519**
Forester	12,542	13,160	13,990	18,951	**37,124**
Exiga	11,893	8,150	8,477	7,845	**3,869**
SUBARU BRZ	—	—	585	6,850	**3,334**
OEM	1,575	5,313	5,993	2,953	**1,944**
Passenger cars	80,253	70,694	83,579	116,329	**128,062**
Minicars	97,230	92,752	96,457	50,381	**57,779**
Domestic total	177,483	163,446	180,036	166,710	**185,841**
Export units:					
Legacy	43,937	67,926	48,304	30,559	**22,817**
Impreza	69,386	83,921	100,350	198,232	**213,666**
Forester	159,463	174,541	162,199	142,745	**247,362**
Tribeca	318	—	331	222	**—**
Exiga	526	374	232	407	**145**
SUBARU BRZ	—	—	211	11,542	**15,118**
OEM	5,994	3,865	3,372	316	**86**
Others	96	70	—	—	**—**
Export total	279,720	330,697	314,999	384,023	**499,194**
U.S. retail sales[1]					
Legacy	86,330	131,873	146,806	164,680	**160,340**
Impreza	46,611	44,395	41,196	89,195	**130,567**
Forester	77,781	85,080	76,196	76,347	**123,591**
Tribeca	5,930	2,472	2,791	2,075	**1,598**
SUBARU BRZ	—	—	—	4,144	**8,587**
U.S. total	216,652	263,820	266,989	336,441	**424,683**
CKD[2] overseas	113,605	163,469	175,256	185,757	**165,554**
(SIA protion)	113,605	163,469	175,256	183,729	**159,266**
SIA production units[3]					
Legacy	100,149	159,215	164,968	177,471	**161,204**
Tribeca	4,197	5,558	5,661	3,713	**2,307**

1. U.S. Retail Sales are the aggregate figures for the calendar year from January through December.
2. Completely Knocked Down
3. SIA Production Units are the aggregate figures for the calendar year from January through December until 2009.

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



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



The Fuji Heavy Industries Ltd. Group

The Fuji Heavy Industries Ltd. ("FHI") Group is engaged in production and sales activities across a wide range of business sectors. These activities are conducted under four business divisions: Automobiles (the Group's core operating domain, which accounts for over 90% of consolidated net sales), Aerospace, Industrial Products and Other.

On a consolidated settlement of accounts basis, FHI and 77 subsidiaries (a year-on-year increase of four) as well as 2 equity-method affiliated companies (a year-on-year decrease of four) were included in the scope of the FHI Group's consolidation as of March 31, 2014, the end of fiscal 2014 ("the fiscal year under review").

Overview

Business Environment

During fiscal 2014, the economic circumstances surrounding the FHI Group displayed signs of a modest recovery due to strong capital investment in Japan as well as an improved export environment from a correction of the strong yen and an increase in individual consumption and production led by last-minute demand prior to the increase in the consumption tax rate. In the global economy, despite a loss of growth momentum in emerging markets, a steady recovery was demonstrated mainly driven by advanced countries.

In the automotive industry, annual unit sales in Japan reached the 5,690,000 level, exceeding the previous year, thanks to effects from the introduction of new models and last-minute demand prior to the increase in the consumption tax rate despite a reversal of the effects from the eco-car subsidy system implemented last year, among other factors. Overseas unit sales benefited from an expansion in demand in the United States, the most important market for the FHI Group.

In this environment, the FHI Group continued to work to realize its growth strategy as outlined in its mid-term management plan "Motion-V (Five)" (fiscal 2012–fiscal 2016). This year, efforts to improve products, marketing and dealership quality bore fruit enabling an expansion in sales of the Forester and other Subaru brand vehicles mostly in Japan and North America. Moreover, we launched the first Subaru brand hybrid vehicle "SUBARU XV HYBRID" which was a big hit with customers as a fun to drive hybrid, among other positive results also achieved.

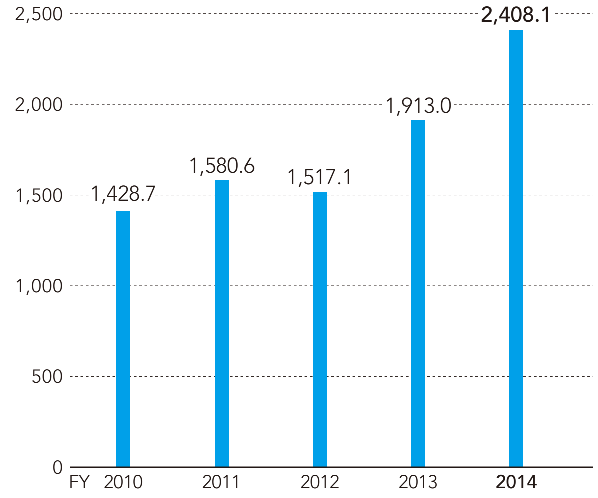
Performance Review

In light of the above factors, the FHI Group recorded historically high levels of net sales as well as all income categories for the second consecutive fiscal year. Consolidated results were affected by such factors as our introduction of characteristically "Subaru" products; the expansion of unit sales, centered on the Japanese and U.S. market; high levels of operation at manufacturing plants; progress on efforts to reduce cost of sales; and correction of the strong yen. This allowed us to achieve the main numerical targets of the mid-term management plan "Motion-V" two fiscal years ahead of schedule. Consolidated performance during the fiscal year under review was as follows.

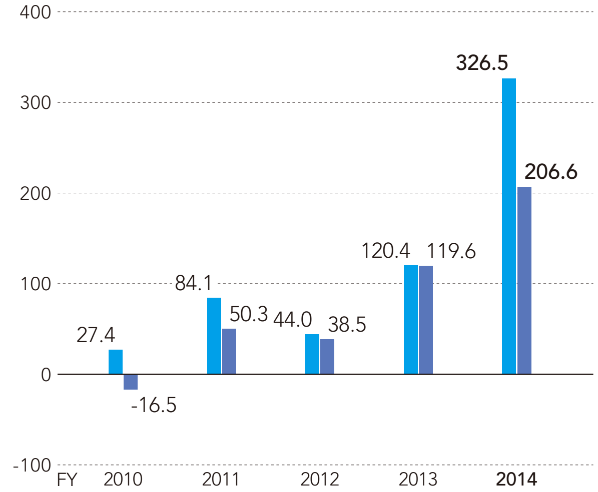
Net sales amounted to ¥2,408.1 billion, up ¥495.2 billion year on year, or 25.9%, owing to such factors as a correction in the strong yen and as higher automobile unit sales in Japan and overseas.

Operating income came to ¥326.5 billion, an increase of ¥206.1 billion, or 171.1%, compared with the previous fiscal year, reflecting an improved sales mix and progress on reducing cost of sales in addition to foreign exchange rate differences.

Net Sales (Billions of yen)
Years ended March 31



Operating Income (Loss)/Net Income (Loss) (Billions of yen)
Years ended March 31



Net income was up ¥87.0 billion, or 72.8%, from the previous fiscal year, to ¥206.6 billion, mainly due to the posting of an extraordinary loss as allowance for doubtful accounts despite having recorded extraordinary income from the sale of stock.

Cost of Sales, Expenses and Operating Income

Operating Income

Operating income, as mentioned above, rose ¥206.1 billion, or 171.1%, year on year to ¥326.5 billion. This fiscal year, revenue decreasing factors, namely a ¥24.0 billion increase in overhead costs and a ¥10.9 billion increase in experimentation and research expenses, were greatly outweighed by revenue increasing factors mostly ¥170.2 billion in exchange rate differences, a ¥51.1 billion improvement in sales mix associated with the rise in automobile unit sales and ¥19.7 billion in progress on the cost reduction. Consequently, the operating margin increased from 6.3% in the previous year to 13.6%.

Compared with the previous fiscal year, operating income this year increased as much as ¥35.9 billion owing to factors other than exchange rate including improved sales mix associated with the rise in automobile unit sales and the progress on the cost reduction despite a significant contribution from the effects of exchange rate differences. Our strengths as a manufacturer were fortified.

Income before Income Taxes and Minority Interests, and Net Income

Income before income taxes and minority interests rose ¥235.8 billion, or 253.3%, compared with the previous fiscal year, to ¥328.9 billion.

This fiscal year, the FHI Group recorded extraordinary income of ¥47.1 billion as gain from sales of investment securities resulting from the sale of shares of Polaris Industries Inc. (USA), which was the recipient of engines in our Industrial Products business segment in the third quarter. However, in the fourth quarter, we posted an extraordinary loss of ¥29.6 billion as an allowance for doubtful accounts stemming from the dismissal of our lawsuit filed at the Tokyo District Court against the Japanese government which consisted of a claim for initial expenses* relating to the AH-64D attack helicopter for the Ministry of Defense. The FHI Group rejects the Court's decision and filed an appeal at the Tokyo High Court on March 13, 2014, however, in the likelihood that the original judgment stands, an allowance for doubtful accounts was recorded.

Net income after total income taxes and minority interests rose ¥87.0 billion, or 72.8%, compared with the previous fiscal year, to ¥206.6 billion.

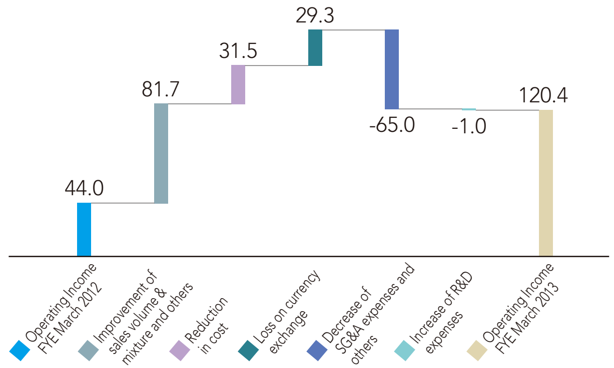
*Initial expenses: A fixed amount irrespective of the number of units to be manufactured for design costs, special tool and implement costs, technology partnership costs and other outlays mainly at the initial phases of manufacturing expended only for the making of specified military devices and components. Specifically, this amount also includes the amount spent by the FHI Group for conversions to Japanese specifications.

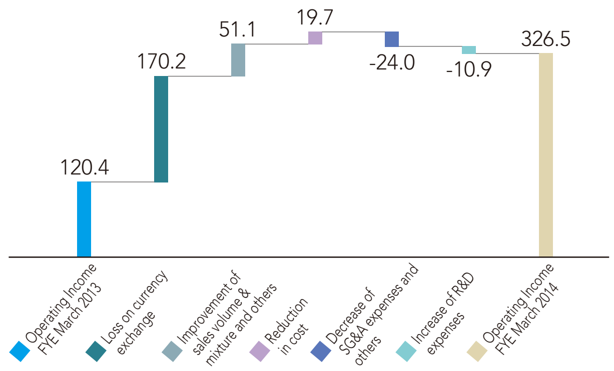
Segment Information

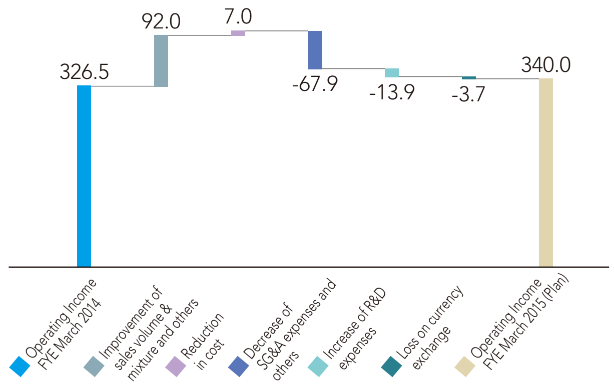
Automobiles Division

Net sales for this division stood at ¥2,246.6 billion, an increase of ¥467.7 billion, or 26.3%, year on year. Segment income also increased ¥198.0 billion, or 178.4%, year on year to ¥309.0 billion. The number of units sold worldwide increased by 101 thousand units, or 13.9%, year on year to 825 thousand units, a historical high for the second consecutive fiscal year, and the correction of the strong yen resulted in higher income and profits.

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







Domestic Market

Unit sales of passenger and mini vehicles increased by 18 thousand units, or 11.3%, year on year, to 182 thousand units.

Unit sales of passenger vehicles rose by 13 thousand units, or 11.9%, year on year to 126 thousand units. In addition to strong sales of the Impreza mostly with the onboard "EyeSight (ver.2)" advanced drive support system, the positive performance of the Forester, launched the year before last, also contributed to unit sales outweighing the drop in Legacy unit sales due to the outdated model.

Unit sales of mini vehicles were up 5 thousand units, or 10.1%, year on year to 55 thousand units. The passenger car model Stella performed well and the Pleo+ (plus), launched the year before last, contributed to unit sales.

Overseas Market

Overseas unit sales amounted to 643 thousand units, an increase of 82 thousand units, or 14.6%, year on year. In all regions, the Forester surpassed last year's results posting favorable sales, and the Impreza and SUBARU XV demonstrated sales growth in the U.S. and other markets.

By region, units sold in North America increased 88 thousand units, or 22.4%, to 478 thousand units. In Europe and Russia, sales volume fell 14 thousand units, or 23.0%, to 47 thousand. China saw a decrease of 5 thousand units, or 10.7%, to 45 thousand units, while year-on-year unit sales in Australia climbed 1 thousand units, or 3.7%, to 40 thousand units, with other regions up 13 thousand units, or 57.9%, to 34 thousand units.

Aerospace Division

Net sales in this division increased ¥35.3 billion, or 39.6%, compared to the previous fiscal year to ¥124.4 billion. Segment income also rose ¥7.3 billion, or 107.5%, year on year to ¥14.1 billion.

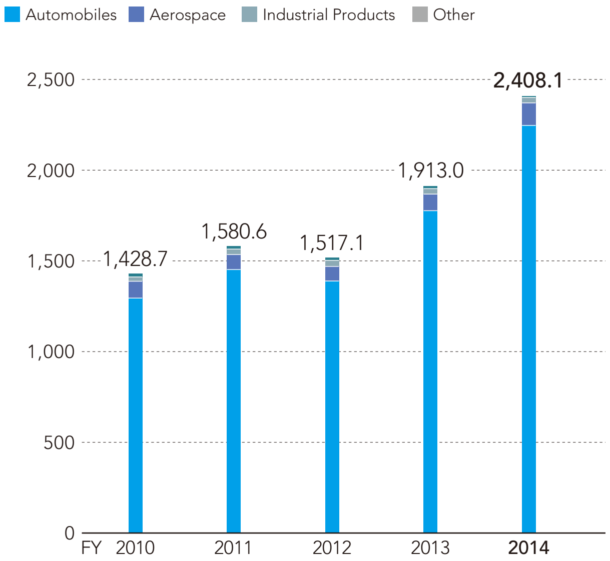
Sales of products to the Ministry of Defense exceeded that of the previous fiscal year due to an increase in sales of the transport aircraft C-2 and the attack helicopter AH-64D. On the other hand, sales to the commercial sector increased over the previous fiscal year thanks to the correction of the strong yen and a surge in production of the Boeing 777 and Boeing 787, among others.

Industrial Products Division

Net sales in the Industrial Products division were down ¥0.4 billion, or 1.2%, from the previous fiscal year, to 29.8 billion.

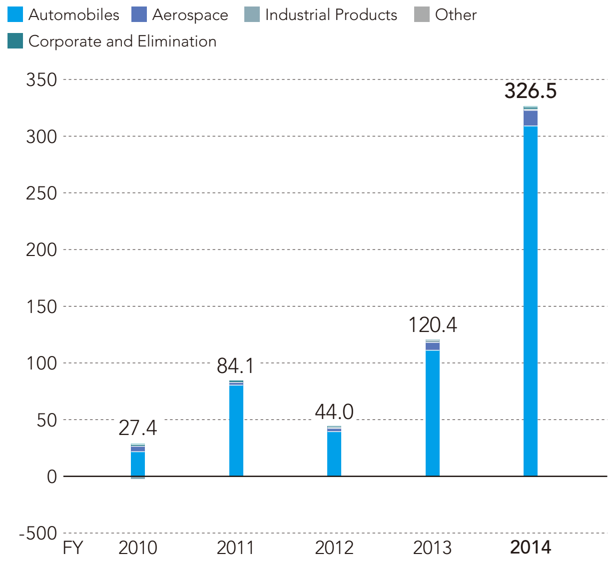
Net Sales by Segment (Billions of yen)

Years ended March 31



Operating Income by Segment (Billions of yen)

Years ended March 31



Net Sales by Segment (Billions of yen)

	2010	2011	2012	2013	2014
Automobile	¥1,294.5	¥1,452.2	¥1,389.1	¥1,779.0	¥2,246.6
Aerospace	93.2	82.8	80.3	89.1	124.4
Industrial Products	23.9	30.1	33.6	30.1	29.8
Other	17.1	15.5	14.2	14.7	7.3
Total	¥1,428.7	¥1,580.6	¥1,517.1	¥1,913.0	¥2,408.1

Operating Income by Segment (Billions of yen)

	2010	2011	2012	2013	2014
Automobile	¥21.7	¥80.4	¥39.4	¥111.0	¥309.0
Aerospace	4.8	2.3	2.9	6.8	14.1
Industrial Products	(2.4)	(0.1)	0.5	0.6	0.6
Other	2.6	1.5	1.0	1.6	2.1
Elimination and Corporate	0.7	0.1	0.2	0.4	0.6
Total	¥27.4	¥84.1	¥44.0	¥120.4	¥326.5

Segment income also decreased ¥0.01 billion, or 1.3%, year on year to ¥0.6 billion.

This result was mainly due to lower sales of leisure-related engines in North America, despite gains in sales of pumps and general purpose engines for civil engineering and construction in Japan and sales of general purpose engines in North America and Asia.

Other Division

Net sales in this division were down ¥7.4 billion, or 50.4%, to ¥7.3 billion due partly to the conclusion of the Eco Technologies included in this division at the end of March of last year. Segment income, meanwhile, was up ¥0.5 billion, or 29.7%, from the previous fiscal year, to ¥2.1 billion.

Liquidity and Financing

Financial Position

Total assets as of March 31, 2014 stood at ¥1,888.4 billion, an increase of ¥310.9 billion compared with the previous fiscal year-end.

Of this total, current assets stood at ¥1,273.8 billion, up ¥329.7 billion compared with March 31, 2013. This is primarily due to rises in funds in hand plus securities by ¥233.4 billion that include cash and deposits to manage short-term funds, as well as notes and accounts receivable by ¥57.4 billion. Total property, plant and equipment fell ¥18.8 billion year on year to ¥614.6 billion. This was mainly attributable to a decrease in investment securities of ¥16.3 billion and an increase in allowance for doubtful accounts of ¥29.6 billion.

Total liabilities were up ¥137.7 billion year on year, to ¥1,118.3 billion. The main factors behind this increase were rises in income taxes payable of ¥102.6 billion and in accounts payable with accounts payable-trade and electronically recorded monetary obligations. Note that the fiscal year-end balance of interest-bearing debt decreased ¥37.5 billion to ¥269.7 billion. The debt/equity ratio improved 0.16 of a point from March 31, 2013, to 0.35 from 0.52 at the end of the previous fiscal year, due to an increase in retained earnings and efforts to reduce interest-bearing debt, among other factors.

Net assets totaled ¥770.1 billion, up ¥173.3 billion compared with the end of the previous fiscal year. This was primarily due to an increase in retained earnings of ¥182.6 billion, reflecting the recording of net income in fiscal 2014. As a result, net assets per share as of the end of the fiscal year under review totaled ¥980.98, up ¥218.11 from ¥762.87 as of the year prior.

Cash Flows

In the fiscal year under review, net cash provided by operating activities was ¥313.0 billion compared with ¥166.7 billion in the previous fiscal year. This result was mainly due to a ¥235.8 billion increase year on year to ¥328.9 billion in income before income taxes and minority interests due to an expansion in business.

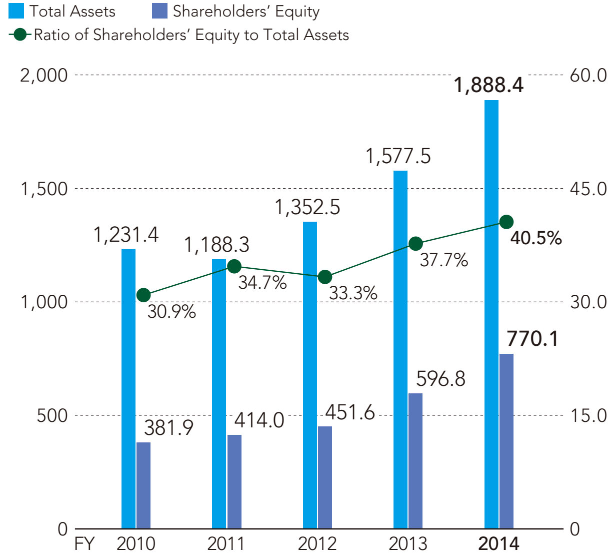
Net cash used in investing activities was ¥33.9 billion in fiscal 2014 compared with ¥71.4 billion used in the previous fiscal year. This figure primarily reflects production capacity increases and expenditures (net) due to acquisition of noncurrent assets up ¥6.9 billion year on year to ¥65.8 billion, with a ¥36.7 billion gain (net) on sales of investment securities (compared to a ¥2.5 billion net expenditure resulting from an acquisition in the previous fiscal year).

As a result, free cash flow amounted to ¥279.1 billion, an increase of ¥183.8 billion from ¥95.3 billion provided in the previous fiscal year.

Net cash used in financing activities totaled ¥63.0 billion in the fiscal year ended March 31, 2014, compared

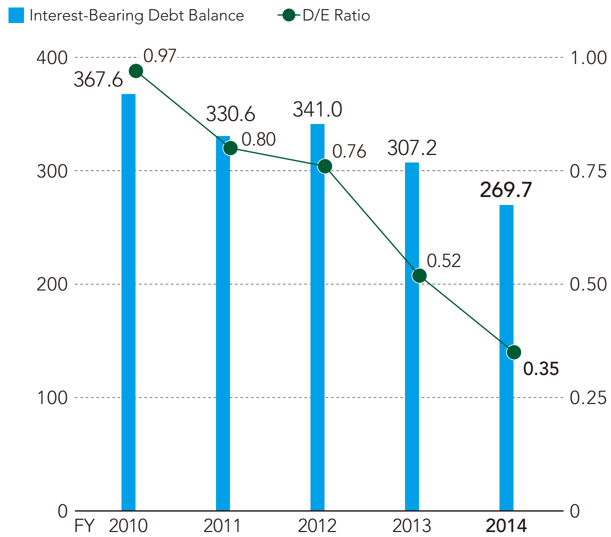
Total Assets, Shareholders' Equity & Ratio of Shareholders' Equity to Total Assets (Billions of yen)

Years ended March 31



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

Years ended March 31



with ¥60.8 billion in the preceding fiscal year. This is mainly attributable to increases of ¥23.2 billion year on year to ¥36.9 billion in expenditures (net) for the repayment of long-term borrowings and of ¥15.9 billion to ¥23.4 billion in 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 ¥557.9 billion, up ¥228.9 billion year on year from the ¥328.9 billion recorded at the end of the previous fiscal year.

Research and Development Expenses

During the year, R&D expenses increased ¥11.0 billion, or 22.3%, year on year, to ¥60.1 billion.

Our vehicle R&D development, a core activity of the FHI Group, produced new models such as the Levorg and WRX, expanded and globally promoted products equipped with the advanced prevention and safety technology "EyeSight" and propelled the evolution of next-generation versions. The EyeSight ver. 3, with more advanced performance than the original, will be installed in the Levorg, slated for launch in the next fiscal year, and the new Legacy.

Capital Expenditures and Depreciation

Capital expenditures fell ¥1.7 billion, or 2.4%, compared with the previous fiscal year, to ¥68.5 billion mainly for the formulation and expansion of production and R&D facilities and the sales network in the Automobiles Division. Depreciation decreased ¥1.0 billion, or 1.7%, year on year, to ¥54.9 billion.

Basic Policy Regarding the Distribution of Profits

FHI views the interest of shareholders as a critical task for management. Regarding the return of profits to shareholders, 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 of each fiscal year.

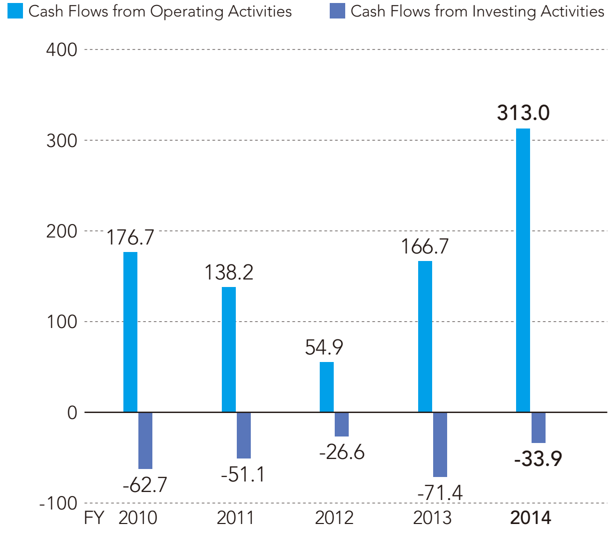
At fiscal year end, FHI distributed a total dividend of ¥33.00 per share, which includes a regular dividend of ¥28.00 per share plus a 60th anniversary commemorative dividend of ¥5.00 per share. This is the result of an annual dividend of ¥53.00 per share including the interim dividend of ¥20.00 per share, which is an increase of ¥38.00 per share from the ¥15.00 per share paid out in the previous fiscal year. We plan to increase this level for the upcoming fiscal year, to an annual dividend of ¥56.00 per share (comprising interim and year-end dividends of ¥28.00 per share).

Outlook

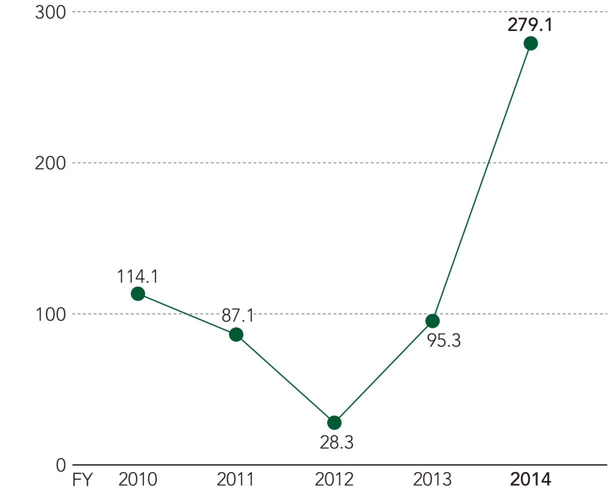
FHI established its new mid-term management vision entitled "Prominence 2020," a fresh start for the corporate group. For its initial fiscal year, ending March 31, 2015, the plan calls for the introduction of the new Levorg in addition to the complete model changes made to the Legacy, Outback and WRX, as well as a new all-time-high consolidated unit sales figure of 916 thousand units, an increase of 91 thousand units, or 11.0%, compared with the previous fiscal year. Along with the unit sales target, we are also aiming to post new historical records for net sales and all income categories.

At present (July 2014), targets for the consolidated financial results of the fiscal year ending March 31, 2015 are as follows. For net sales, FHI plans to achieve ¥2,720.0 billion, representing an increase of ¥311.9 billion, or 13.0%,

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

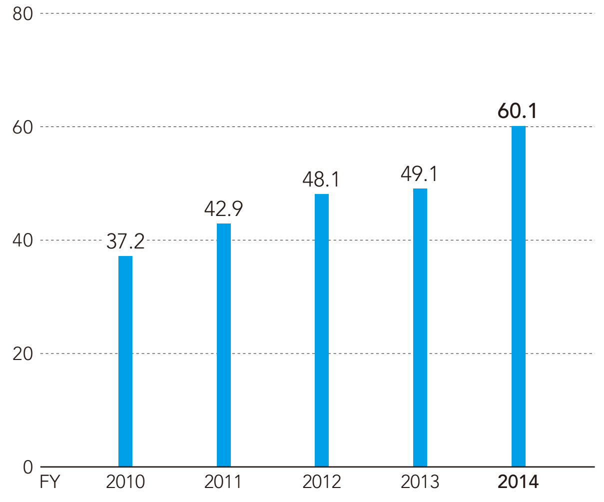


Free Cash Flow (Billions of yen)
Years ended March 31



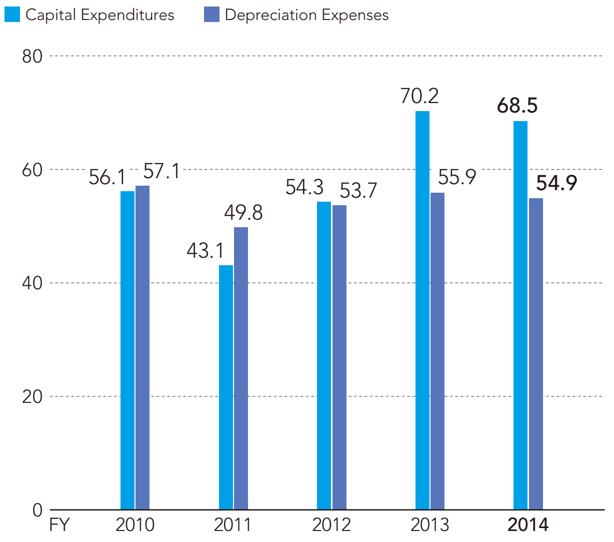
Research and Development Expenses (Billions of yen)

Years ended March 31



Capital Expenditures, Depreciation Expenses (Billions of yen)

Years ended March 31



compared with the previous fiscal year from increasing unit sales in Japan and overseas. Moreover, for operating income, despite increases in R&D expenses and SG&A expenses, we anticipate posting ¥340.0 billion, an increase of ¥13.5 billion, or 4.1%, year on year thanks to an improvement in sales mix resulting from an increase in automobile unit sales, a decrease in cost of sales and other cost reduction effects. Net income is slated to climb ¥8.4 billion, or 4.1%, to ¥215.0 billion. These forecasts are based on average annual exchange rates of ¥100 to U.S. $1 (previously ¥100 to U.S. $1) and ¥135 to €1 (previously ¥133 to €1).

Note: Performance forecasts and medium- to long-term management strategies are based on information available to management as of the date of this report. Accordingly, actual results may differ materially due to a variety of factors.

Forecast for Consolidated Results (Billions of yen)

	2014 (Results)	2015	Change
Net sales	2,408.1	2,720.0	311.9
Japan	672.1	703.2	31.2
Overseas	1,736.1	2,016.8	280.7
Operating income	326.5	340.0	13.5
Income before income taxes and minority interest	328.9	324.0	(4.9)
Net income	206.6	215.0	8.4
Exchange rate (in yen)			
¥/$	10.0	10.0	0
¥/€	13.3	13.5	0.2

Forecast for Global Automobile Sales (Thousand units)

	2014 (Results)	2015	Change
Japan:			
Passenger cars	126.1	143.7	17.6
Minicars	55.5	51.2	(4.3)
Subtotal	181.6	194.9	13.3
Overseas:			
United States	441.8	490.2	48.4
Canada	36.0	40.4	4.4
Russia	15.3	19.3	4.0
Europe	31.8	40.3	8.5
Australia	39.5	40.1	0.6
China	44.8	57.3	12.5
Other	34.3	33.5	(0.8)
Subtotal	643.5	721.1	77.6
Total	825.1	916.0	90.9

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 FHI Group as of June 24, 2014, the enumerated risks include forward-looking statements, but do not encompass every possible risk posed to the FHI 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 FHI 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 FHI Group's ratio of overseas net sales stood at 72.1% in the fiscal year ended March 31, 2014. 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 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 (gain) on valuation of derivatives and have a major impact on non-operating expenses.

(3) Dependence on Certain Businesses

The FHI Group is mainly comprised of the Automobiles, Aerospace and Industrial Products 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 FHI 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 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 Suppliers for Raw Materials and Components

The FHI 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 FHI Group works to protect its intellectual property through the use of patents 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 protection is limited. Such factors could impact the Group's profitability.

(7) Product Defects

The FHI Group places the highest priority on the safety of the products it develops, manufactures and sells. However, completely avoiding defects and recalls regarding all products and services is impossible. The substantial costs associated with a major recall could significantly affect the Group's business performance and financial position. In addition, although the Group purchases product liability insurance, the risk of incomplete coverage exists.

(8) Retirement Benefit Obligations

The FHI Group's employee retirement benefit costs and obligations are calculated based on the following assumptions: retirement benefit obligation discount rates and the expected 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 FHI 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 automobile safety. 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 major earthquakes, typhoons or other natural disasters, diseases, wars, terrorist attacks or other events could impede the FHI 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, 2014)

Company Name
Fuji Heavy Industries Ltd.

Established
July 15, 1953

Paid-in Capital
¥153,795 million

Number of Employees
13,034 (consolidated: 28,545)

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

Head Office
Subaru Building, 7-2, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8316, Japan
Phone: +81-3-3347-2111 Fax: +81-3-3347-2338

Investor Relations Office
Subaru Building, 7-2, Nishi-Shinjuku 1-chome, Shinjuku-ku, Tokyo 160-8316, Japan
Phone: +81-3-3347-2655 Fax: +81-3-3347-2295

Relocated to the address below from August 17, 2014

Head Office
Ebisu Subaru Bldg., 1-20-8, Ebisu, Shibuya-ku, Tokyo 150-8554
Phone: +81-3-6447-8000 Fax: +81-3-6447-8184

Investor Relations Office
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.	97.7%	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 Research & Development, Inc.		Research and development of automobiles
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, 2014)

Common Stock Authorized
1,500,000,000 shares

Common Stock Issued
782,865,873 shares

Number of Shareholders
56,899

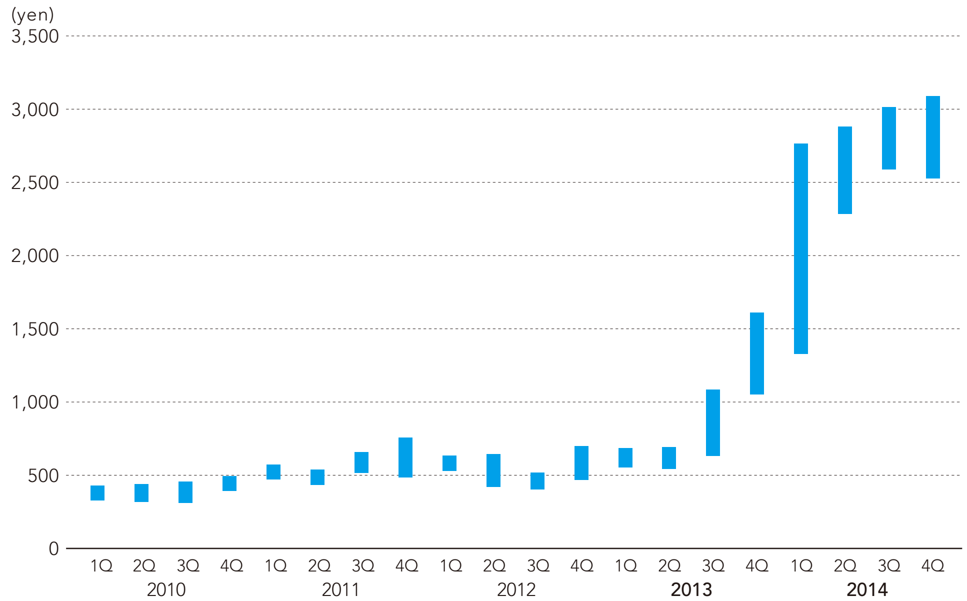
Stock Exchange Listing
Tokyo Stock Exchange

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)	40,712	5.20
Japan Trustee Services Bank, Ltd. (Trust account)	34,833	4.45
Mizuho Bank, Ltd.	24,378	3.11
THE BANK OF NEW YORK MELLON SA/NV 10	21,296	2.72
Suzuki Motor Corporation	13,690	1.75
SSBT OD05 OMNIBUS ACCOUNT – TREATY CLIENTS	13,457	1.72
FHI's Client Stock Ownership	11,585	1.48
BBH BOSTON CUSTODIAN FOR BLACKROCK GLOBAL ALLOCATION FUND, INC. 620313	10,528	1.34
Nippon Life Insurance Company	10,352	1.32

Quarterly Common Stock Price Range (Tokyo Stock Exchange)



	2010	2011	2012	2013	2014
High	493	758	697	1,609	3,015
Low	311	435	402	545	1,330

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, 2014 and 2013

ASSETS	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 1) 2014
Current assets:			
Cash and deposits (Note 4 and 5)	**¥351,125**	¥285,152	**$3,411,630**
Notes and accounts receivable-trade (Note 5)	**181,646**	124,234	**1,764,924**
Lease investment assets (Note 5 and 19)	**23,633**	22,145	**229,625**
Short-term investment securities (Notes 4, 5 and 6)	**233,766**	66,370	**2,271,337**
Merchandise and finished goods	**159,536**	163,852	**1,550,097**
Work in process	**51,659**	50,498	**501,934**
Raw materials and supplies	**33,008**	35,217	**320,715**
Deferred tax assets (Note 12)	**64,214**	52,947	**623,921**
Short-term loans receivable (Note 5)	**122,681**	96,990	**1,192,003**
Other current assets	**53,375**	47,579	**518,608**
Allowance for doubtful accounts	**(862)**	(951)	**(8,375)**
Total current assets	**1,273,781**	944,033	**12,376,419**
Property, plant and equipment (Notes 7 and 9)	**1,305,951**	1,260,592	**12,688,991**
Accumulated depreciation	**(817,421)**	(786,734)	**(7,942,295)**
Accumulated impairment loss	**(27,717)**	(28,903)	**(269,306)**
Total property, plant and equipment	**460,813**	444,955	**4,477,390**
Investments and other assets:			
Intangible assets	**14,712**	12,751	**142,946**
Investment securities (Note 5 and 6)	**75,647**	91,271	**735,008**
Investments in non-consolidated subsidiaries and affiliated companies	**4,479**	4,552	**43,519**
Net defined benefit assets(Note 11)	**1,222**	-	**11,873**
Deferred tax assets (Note 12)	**18,332**	6,227	**178,119**
Other assets (Note 27)	**72,974**	77,656	**709,037**
Allowance for doubtful accounts (Note 27)	**(33,597)**	(3,991)	**(326,438)**
Total investments and other assets	**153,769**	188,466	**1,494,064**
Total assets	**¥1,888,363**	¥1,577,454	**$18,347,873**

LIABILITIES AND NET ASSETS	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 1) 2014
Current liabilities:			
Notes and accounts payable-trade (Note 5)	**¥279,926**	¥242,743	**$2,719,841**
Electronically recorded obligations-operating (Note 5)	**¥67,637**	¥61,595	**$657,180**
Short-term loans payable (Note 5 and 7)	**59,193**	60,867	**575,136**
Current portion of long-term debts (Note 5 and 7)	**46,617**	45,207	**452,944**
Accrued expenses (Note 5)	**91,921**	83,032	**893,131**
Provision for bonuses	**20,446**	17,865	**198,659**
Provision for product warranties	**39,494**	34,740	**383,735**
Accrued income taxes (Note 5 and 12)	**110,426**	7,828	**1,072,930**
Other current liabilities (Note 5, 7 and 12)	**117,248**	103,154	**1,139,215**
Total current liabilities	**832,908**	657,031	**8,092,771**
Long-term liabilities:			
Long-term debts (Note 5 and 7)	**163,844**	201,083	**1,591,955**
Accrued pension and severance liability (Note 11)	**-**	34,917	**-**
Net defined benefit liability(Note 11)	**22,852**	-	**222,037**
Deferred tax liabilities (Note 12)	**9,827**	19,139	**95,482**
Other long-term liabilities (Note 7)	**88,861**	68,471	**863,399**
Total long-term liabilities	**285,384**	323,610	**2,772,873**
Contingent liabilities (Note 21)			
Net assets: (Note 13)			
Shareholders' equity:			
Capital stock			
Authorized– 1,500,000,000 shares			
Issued — 782,865,873 shares	**153,795**	153,795	**1,494,316**
Capital surplus	**160,071**	160,071	**1,555,295**
Retained earnings	**483,910**	301,357	**4,701,807**
Less－treasury stock, at cost,	**(1,395)**	(1,292)	**(13,554)**
2014— 2,477,430 shares			
2013— 2,435,448 shares			
Total shareholders' equity	**796,381**	613,931	**7,737,864**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**10,629**	27,882	**103,274**
Foreign currency translation adjustment	**(26,661)**	(46,448)	**(259,046)**
Remeasurements of defined benefit plans	**(13,886)**	-	**(134,920)**
Remeasurements of other postretirement benefits	**(919)**	-	**(8,929)**
Total accumulated other comprehensive income	**(30,837)**	(18,566)	**(299,621)**
Minority interests	**4,527**	1,448	**43,986**
Total net assets	**770,071**	596,813	**7,482,229**
Total liabilities and net assets	**¥1,888,363**	¥1,577,454	**$18,347,873**

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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Net sales (Note 2)	**¥2,408,129**	¥1,912,968	**$23,398,066**
Cost of sales (Note 14)	**1,728,271**	1,501,809	**16,792,372**
Gross profit	**679,858**	411,159	**6,605,694**
Selling, general and administrative expenses (Note 2 and 15)	**353,369**	290,748	**3,433,434**
Operating income (loss)	**326,489**	120,411	**3,172,260**
Other income (expenses):			
Interest and dividend income	**2,914**	2,669	**28,313**
Interest expenses	**(2,804)**	(3,336)	**(27,244)**
Equity in earnings of affiliates	**320**	43	**3,109**
Real estate rent	**541**	592	**5,257**
Foreign exchange gains (losses)	**(16,924)**	(15,527)	**(164,438)**
Gain (loss) on valuation of derivatives	**7,414**	(1,714)	**72,037**
Gain (loss) on sales and retirement of noncurrent assets	**(2,696)**	(1,911)	**(26,195)**
Gain (loss) on sales of investment securities (Note 6 and 16)	**47,155**	409	**458,171**
Loss on valuation of investment securities (Note 6)	**(6)**	(61)	**(58)**
Depreciation	**(1,024)**	(977)	**(9,949)**
Impairment loss (Note 9)	**(35)**	(145)	**(340)**
Gain on sales of loans receivable	**-**	325	**-**
Provision of allowance for doubtful accounts(Note 17)	**(29,624)**	-	**(287,835)**
Provision for loss on transfer of business (Note 17)	**-**	(967)	**-**
Other, net (Note 18)	**(2,855)**	(6,729)	**(27,742)**
	2,376	(27,329)	**23,086**
Income (loss) before income taxes and minority interests	**328,865**	93,082	**3,195,346**
Income taxes (Note 12):			
Current	**134,315**	17,566	**1,305,043**
Deferred	**(13,435)**	(44,216)	**(130,538)**
	120,880	(26,650)	**1,174,505**
Income (loss) before minority interests	**207,985**	119,732	**2,020,841**
Minority interests in income (loss)	**1,369**	144	**13,301**
Net income (loss)	**¥206,616**	¥119,588	**$2,007,540**

			U.S. dollars
Per share data (Note 2) :			
Net income (loss) —Basic	**¥264.98**	¥153.23	**$2.57**
—Diluted *	**-**	-	**-**
Net assets	**980.98**	762.87	**9.53**
Cash dividends (Note 13)	**53.00**	15.00	**0.51**

The accompanying notes are an integral part of these statements.
*For the year ended March 31, 2014 and 2013 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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Income (loss) before minority interests	**¥207,985**	¥119,732	**$2,020,841**
Other comprehensive income (Note 3)			
Valuation difference on available-for-sale securities	**(17,253)**	8,916	**(167,635)**
Foreign currency translation adjustment	**19,855**	23,284	**192,918**
Share of other comprehensive income of associates accounted for using equity method	**170**	77	**1,652**
Total other comprehensive income	**2,772**	32,277	**26,934**
Comprehensive income	**210,757**	152,009	**2,047,775**
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	**209,150**	151,865	**2,032,161**
Comprehensive income attributable to minority interests	**1,607**	144	**15,614**

Consolidated Statements of Changes in Net Assets

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Shareholders' equity			
Capital stock			
Balance at the beginning of current period	**153,795**	153,795	**1,494,316**
Balance at the end of current period	**153,795**	153,795	**1,494,316**
Capital surplus			
Balance at the beginning of current period	**160,071**	160,071	**1,555,295**
Changes of items during the period			
Disposal of treasury stock	**0**	-	**-**
Total changes of items during the period	**0**	-	**-**
Balance at the end of current period	**160,071**	160,071	**1,555,295**
Retained earnings			
Balance at the beginning of current period	**301,357**	188,538	**2,928,070**
Effect of changes in accounting policies applied to foreign subsidiaries	**-**	-	**-**
Changes of items during the period			
Dividends from surplus	**(23,424)**	(7,418)	**(227,594)**
Net income (loss)	**206,616**	119,588	**2,007,540**
Disposal of treasury stock	**-**	1	**-**
Other	**(639)**	648	**(6,209)**
Total changes of items during the period	**182,553**	112,819	**1,773,737**
Balance at the end of current period	**483,910**	301,357	**4,701,807**
Treasury stock			
Balance at the beginning of current period	**(1,292)**	(1,259)	**(12,553)**
Changes of items during the period			
Purchase of treasury stock	**(103)**	(35)	**(1,001)**
Disposal of treasury stock	**0**	2	**0**
Total changes of items during the period	**(103)**	(33)	**(1,001)**
Balance at the end of current period	**(1,395)**	(1,292)	**(13,554)**
Total shareholders' equity			
Balance at the beginning of current period	**613,931**	501,145	**5,965,128**
Changes of items during the period			
Dividends from surplus	**(23,424)**	(7,418)	**(227,594)**
Net income (loss)	**206,616**	119,588	**2,007,540**
Purchase of treasury stock	**(103)**	(35)	**(1,001)**
Disposal of treasury stock	**0**	3	**0**
Other	**(639)**	648	**(6,209)**
Total changes of items during the period	**182,450**	112,786	**1,772,736**
Balance at the end of current period	**796,381**	613,931	**7,737,864**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	**27,882**	18,966	**270,910**
Changes of items during the period			
Net changes of items other than shareholders' equity	**(17,253)**	8,916	**(167,635)**
Total changes of items during the period	**(17,253)**	8,916	**(167,635)**
Balance at the end of current period	**10,629**	27,882	**103,275**
Foreign currency translation adjustment			
Balance at the beginning of current period	**(46,448)**	(69,809)	**(451,302)**
Changes of items during the period			
Net changes of items other than shareholders' equity	**19,787**	23,361	**192,256**
Total changes of items during the period	**19,787**	23,361	**192,256**
Balance at the end of current period	**(26,661)**	(46,448)	**(259,046)**
Remeasurements of defined benefit plans			
Balance at the beginning of current period	**-**	-	**-**
Changes of items during the period			
Net changes of items other than shareholders' equity	**(13,886)**	-	**(134,920)**
Total changes of items during the period	**(13,886)**	-	**(134,920)**
Balance at the end of current period	**(13,886)**	-	**(134,920)**
Remeasurements of other postretirement benefits of foreign consolidated subsidiaries			
Balance at the beginning of current period	**-**	-	**-**
Changes of items during the period			
Net changes of items other than shareholders' equity	**(919)**	-	**(8,929)**
Total changes of items during the period	**(919)**	-	**(8,929)**
Balance at the end of current period	**(919)**	-	**(8,929)**
Total accumulated other comprehensive income			
Balance at the beginning of current period	**(18,566)**	(50,843)	**(180,392)**
Changes of items during the period			
Net changes of items other than shareholders' equity	**(12,271)**	32,277	**(119,229)**
Total changes of items during the period	**(12,271)**	32,277	**(119,229)**
Balance at the end of current period	**(30,837)**	(18,566)	**(299,621)**
Minority interests			
Balance at the beginning of current period	**1,448**	1,305	**14,070**
Changes of items during the period			
Net changes of items other than shareholders' equity	**3,079**	143	**29,916**
Total changes of items during the period	**3,079**	143	**29,916**
Balance at the end of current period	**4,527**	1,448	**43,986**
Total net assets			
Balance at the beginning of current period	**596,813**	451,607	**5,798,805**
Changes of items during the period			
Dividends from surplus	**(23,424)**	(7,418)	**(227,594)**
Net income (loss)	**206,616**	119,588	**2,007,540**
Purchase of treasury stock	**(103)**	(35)	**(1,001)**
Disposal of treasury stock	**0**	3	**0**
Other	**(639)**	648	**(6,209)**
Net changes of items other than shareholders' equity	**(9,192)**	32,420	**(89,312)**
Total changes of items during the period	**173,258**	145,206	**1,683,424**
Balance at the end of current period	**770,071**	596,813	**7,482,229**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

FUJI HEAVY INDUSTRIES LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	**2014**
Net cash provided by (used in) operating activities			
Income (loss) before income taxes and minority interests	**¥328,865**	¥93,082	**$3,195,346**
Depreciation and amortization	**61,486**	61,544	**597,415**
Impairment loss	**35**	145	**340**
Increase (decrease) in allowance for doubtful accounts	**29,512**	(55)	**286,747**
Increase (decrease) in provision for bonuses	**2,391**	1,344	**23,232**
Increase (decrease) in provision for product warranties	**3,116**	2,765	**30,276**
Increase (decrease) in provision for loss on construction contracts	**114**	(1,923)	**1,108**
Increase (decrease) in accrued pension and severance liability	-	910	**-**
Increase (decrease) in net defined benefit liability	**(17,692)**	-	**(171,901)**
Increase (decrease) in provision for loss on litigation	**(369)**	369	**(3,585)**
Interest and dividends income	**(2,914)**	(2,669)	**(28,313)**
Interest expenses	**2,804**	3,336	**27,244**
Loss (gain) on valuation of derivatives	**(7,414)**	1,714	**(72,037)**
Equity in (earnings) losses of affiliates	**(320)**	(43)	**(3,109)**
Loss (gain) on sales and retirement of noncurrent assets	**2,696**	1,911	**26,195**
Loss (gain) on sales and valuation of investment securities	**(47,149)**	(348)	**(458,113)**
Decrease (increase) in notes and accounts receivable-trade	**(49,129)**	1,264	**(477,351)**
Decrease (increase) in inventories	**16,095**	(21,194)	**156,384**
Increase (decrease) in notes and accounts payable-trade	**39,814**	48,679	**386,844**
Decrease (increase) in lease investment assets	**(1,488)**	(280)	**(14,458)**
Decrease (increase) in operating loans receivable	**(25,478)**	(14,701)	**(247,551)**
Decrease (increase) in vehicles and equipment on operating leases	**(400)**	(2,528)	**(3,887)**
Increase (decrease) in deposits received	**(2,240)**	299	**(21,764)**
Other, net	**13,963**	8,728	**135,668**
Sub total	**346,298**	182,349	**3,364,730**
Interest and dividends income received	**2,936**	2,694	**28,527**
Interest expenses paid	**(2,742)**	(3,417)	**(26,642)**
Income taxes paid	**(33,468)**	(14,911)	**(325,185)**
Net cash provided by (used in) operating activities	**313,024**	166,715	**3,041,430**
Net cash provided by (used in) investing activities			
Purchase of short-term investment securities	**(12,408)**	(9,760)	**(120,560)**
Proceeds from sales of short-term investment securities	**19,237**	5,166	**186,912**
Purchase of property, plant and equipment	**(67,409)**	(60,852)	**(654,965)**
Proceeds from sales of property, plant and equipment	**1,643**	1,965	**15,964**
Purchase of intangible assets	**(5,446)**	(4,377)	**(52,915)**
Purchase of investment securities	**(28,687)**	(14,503)	**(278,731)**
Proceeds from sales of investment securities	**65,344**	11,954	**634,901**
Payments of loans receivable	**(95,589)**	(94,273)	**(928,770)**
Collection of loans receivable	**97,409**	93,376	**946,454**
Other, net	**(7,997)**	(66)	**(77,701)**
Net cash provided by (used in) investing activities	**(33,903)**	(71,370)	**(329,411)**
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	**(2,893)**	(28,655)	**(28,109)**
Proceeds from long-term loans payable	**8,995**	10,218	**87,398**
Repayment of long-term loans payable	**(45,893)**	(23,937)	**(445,909)**
Proceeds from issuance of bonds	**-**	10,000	**-**
Redemption of bonds	**(10)**	(20,010)	**(97)**
Cash dividends paid	**(23,350)**	(7,392)	**(226,875)**
Repayment of lease obligations	**(1,036)**	(955)	**(10,066)**
Proceeds from stock issuance to minority shareholders	**1,280**	-	**12,437**
Other,net	**(104)**	(35)	**(1,010)**
Net cash provided by (used in) financing activities	**(63,011)**	(60,766)	**(612,233)**
Effect of exchange rate change on cash and cash equivalents	**12,691**	14,964	**123,309**
Net increase (decrease) in cash and cash equivalents	**228,801**	49,543	**2,223,096**
Cash and cash equivalents at beginning of period	**328,947**	258,084	**3,196,143**
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	**122**	21,320	**1,185**
Cash and cash equivalents at end of period	**¥557,870**	¥328,947	**$5,420,424**

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, 2014, which was ¥102.92 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 five consolidated foreign subsidiaries in fiscal year 2014 and eight consolidated foreign subsidiaries in fiscal year 2013, 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 2014 and 73 subsidiaries in fiscal year 2013, respectively.

In addition, one non-consolidated subsidiary and one affiliated company were accounted for by the equity method in fiscal 2014; five non-consolidated subsidiaries and one affiliated company were accounted for by the equity method in fiscal 2013, respectively.

Investments in insignificant non-consolidated subsidiaries 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 minority 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: 2–11years

[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 three or five 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.

In addition, finance lease transactions in which the ownership is not transferred to the lessee on or before March 31, 2008 are recorded as regular rental transactions.

[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 2014 and 2013) 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 "Minority 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 five 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 ¥60,092 million (US$ 583,871 thousand) and ¥49,141 million for fiscal years 2014 and 2013, 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, 2013 to conform to the presentation for the year ended March 31, 2014."

[22] Other Changes in Accounting Policy

(Application of the "Accounting standard for Retirement Benefits")

Effective from the fiscal year ended March 31, 2014, the Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012 (hereinafter, the "Statement No.26")) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, May 17, 2012 (hereinafter, the "Guidance No.25")) except the article 35 of the Statement No.26 and the article 67 of the Guidance No.25 and actuarial gains and losses and past service costs that are yet to be recognized have been recognized and the difference between retirement benefit obligations and

plan assets has been recognized as a net defined benefit liability or a net defined benefit asset.
In accordance with the article 37 of the Statement No.26, the effect of the change in accounting policies arising from initial application has been recognized in remeasurements of defined benefit plans in accumulated other comprehensive income.
As a result of the application, a net defined benefit asset in the amount of ¥1,222 million (US$ 11,873 thousand) and a net defined benefit liability in the amount of ¥22,852 million yen (US$ 222,037 thousand) have been recognized, accumulated other comprehensive income has decreased by ¥13,886 million (US$ 134,920 thousand), at the end of the current fiscal year.
Net assets per share at the end of the current fiscal year has decreased by ¥17.79 (US$ 0.17) effected by this change.

3. Other comprehensive income

Amounts reclassified to net income (loss) in fiscal 2014 and 2013, 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
	2014	2013	**2014**
Valuation difference on available-for-sale securities			
Increase(decrease) during the year	**(¥90,720)**	¥13,203	**($881,461)**
Reclassification adjustments	**47,266**	392	**459,250**
Sub-total, before tax	**(43,454)**	13,595	**(422,211)**
Tax (expense) or benefit	**26,201**	(4,679)	**254,576**
Sub-total, net of tax	**(17,253)**	8,916	**(167,635)**
Foreign currency translation adjustment			
Increase during the year	**19,691**	23,284	**191,324**
Reclassification adjustments	**164**	-	**1,593**
Sub-total, before tax	**19,855**	23,384	**192,917**
Tax (expense) or benefit	**-**	-	**-**
Sub-total, net of tax	**19,855**	23,284	**192,917**
Share of other comprehensive income of associates accounted for using equity method			
Increase during the year	**170**	77	**1,652**
Total other comprehensive income	**¥2,772**	¥32,277	**$26,934**

4. Additional Cash Flow Information

Cash and cash equivalents as of March 31, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and deposits	**¥351,125**	¥285,152	**$3,411,630**
Short-term investment securities	**233,766**	66,370	**2,271,337**
Sub-total	**584,891**	351,522	**5,682,967**
Less maturity over three months	**(27,021)**	(22,575)	**(262,543)**
Cash and cash equivalents	**¥557,870**	¥328,947	**$5,420,424**

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 10 years after March 31, 2014 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-[16] 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, 2014 and 2013 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, 2014

	Millions of yen		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	**¥351,125**	**¥351,125**	**¥-**
Notes and accounts receivable-trade	**181,646**		
Allowance for doubtful accounts (*1)	**(275)**		
	181,371	**181,371**	**-**
Lease investment assets	**23,633**		
Allowance for doubtful accounts (*1)	**(44)**		
	23,589	**27,792**	**4,203**
Short-term loans receivable	**122,681**		
Allowance for doubtful accounts (*1)	**(397)**		
	122,284	**123,209**	**925**
Short-term investment securities, Investment securities and Other securities	**84,077**	**84,077**	**-**
Total Assets	**762,446**	**767,574**	**5,128**
Notes and accounts payable-trade	**279,926**	**279,926**	**-**
Electronically recorded obligations-operating	**67,637**	**67,637**	**-**
Short-term loans payable	**59,193**	**59,193**	**-**
Current portion of long-term loans payable	**42,557**	**42,753**	**(196)**
Current portion of bonds	**4,060**	**4,085**	**(25)**
Accrued income taxes	**110,426**	**110,426**	**-**
Accrued expenses	**91,921**	**91,921**	**-**
Bonds payable	**10,000**	**10,091**	**(91)**
Long-term loans payable	**153,844**	**154,823**	**(979)**
Total Liabilities	**819,564**	**820,855**	**(1,291)**
Derivative transactions (*2)			
hedge accounting is not applied	**(722)**	**(722)**	**-**
hedge accounting is applied	**¥-**	**¥-**	**¥-**

As of March 31, 2014

	Thousands of U.S. dollars		
	Consolidated balance sheet amounts	Fair Value	Difference
Cash and deposits	**$3,411,630**	**$3,411,630**	**$-**
Notes and accounts receivable-trade	**1,764,924**		
Allowance for doubtful accounts (*1)	**(2,672)**		
	1,762,252	**1,762,252**	**-**
Lease investment assets	**229,625**		
Allowance for doubtful accounts (*1)	**(428)**		
	229,197	**270,035**	**40,838**
Short-term loans receivable	**1,192,003**		
Allowance for doubtful accounts (*1)	**(3,857)**		
	1,188,146	**1,197,134**	**8,988**
Short-term investment securities, Investment securities and Other securities	**816,916**	**816,916**	**-**
Total Assets	**7,408,141**	**7,457,967**	**49,826**
Notes and accounts payable-trade	**2,719,841**	**2,719,841**	**-**
Electronically recorded obligations-operating	**657,180**	**657,180**	**-**
Short-term loans payable	**575,136**	**575,136**	**-**
Current portion of long-term loans payable	**413,496**	**415,400**	**(1,904)**
Current portion of bonds	**39,448**	**39,691**	**(243)**
Accrued income taxes	**1,072,930**	**1,072,930**	**-**
Accrued expenses	**893,131**	**893,131**	**-**
Bonds payable	**97,163**	**98,047**	**(884)**
Long-term loans payable	**1,494,792**	**1,504,304**	**(9,512)**
Total Liabilities	**7,963,117**	**7,975,660**	**(12,543)**
Derivative transactions (*2)			
hedge accounting is not applied	**(7,015)**	**(7,015)**	**-**
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, 2013

	Consolidated balance sheet amounts (Millions of yen)	Fair Value	Difference
Cash and deposits	¥285,152	¥285,152	¥-
Notes and accounts receivable-trade	124,234		
Allowance for doubtful accounts (*1)	(165)		
	124,069	124,069	-
Lease investment assets	22,145		
Allowance for doubtful accounts (*1)	(26)		
	22,119	25,340	3,221
Short-term loans receivable	96,990		
Allowance for doubtful accounts (*1)	(586)		
	96,404	97,614	1,210
Short-term investment securities, Investment securities and Other securities	102,796	102,796	-
Total Assets	630,540	634,971	4,431
Notes and accounts payable-trade	242,743	242,743	-
Electronically recorded obligations-operating	61,595	61,595	-
Short-term loans payable	60,867	60,867	-
Current portion of long-term loans payable	45,197	45,424	(227)
Current portion of bonds	10	10	-
Accrued income taxes	7,828	7,828	-
Accrued expenses	83,032	83,032	-
Bonds payable	14,060	14,165	(105)
Long-term loans payable	187,023	188,393	(1,370)
Total Liabilities	702,355	704,057	(1,702)
Derivative transactions (*2)			
hedge accounting is not applied	(8,136)	(8,136)	-
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, 2014 and 2013:

Other securities (available-for-sale securities)	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Certificate of deposit	**¥90,000**	¥-	**$874,466**
Commercial paper	**79,987**	34,995	**777,176**
Money management fund	**50,515**	15,432	**490,818**
Unlisted stocks (excluding over-the-counter stocks)	**4,832**	4,088	**46,949**
Other	**¥3**	¥329	**$29**

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, 2014:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	**¥351,125**	**¥-**	**¥-**	**¥-**
Notes and accounts receivable-trade	**174,668**	**6,978**	**-**	**-**
Lease investment assets	**7,097**	**16,303**	**233**	**-**
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	**11,240**	**8,418**	**1,774**	**3,290**
Corporate bonds	**2,024**	**11,977**	**1,329**	**732**
Other	**169,987**	**384**	**454**	**2,625**
Short-term loans receivable	**¥42,364**	**¥77,592**	**¥2,725**	**¥-**

As of March 31, 2014:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	**$3,411,630**	**$-**	**$-**	**$-**
Notes and accounts receivable-trade	**1,697,124**	**67,800**	**-**	**-**
Lease investment assets	**68,956**	**158,405**	**2,264**	**-**
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	**109,211**	**81,792**	**17,237**	**31,967**
Corporate bonds	**19,666**	**116,372**	**12,913**	**7,112**
Other	**1,651,642**	**3,731**	**4,411**	**25,505**
Short-term loans receivable	**$411,620**	**$753,906**	**$26,477**	**$-**

As of March 31, 2013:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Cash and deposits	¥285,152	¥-	¥-	¥-
Notes and accounts receivable-trade	118,173	6,061	-	-
Lease investment assets	7,052	14,959	134	-
Short-term investment securities, Investment securities and Other securities				
Government and municipal bonds	12,688	5,585	1,138	3,204
Corporate bonds	2,692	7,127	1,675	187
Other	35,559	37	179	2,260
Short-term loans receivable	¥35,605	¥59,510	¥1,875	¥-

[4] Amount of repayment for long-term debt and other interest-bearing debt
As of March 31, 2014:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Short-term loans payable	**¥59,193**	**¥-**	**¥-**	**¥-**
Bonds payable	**4,060**	**10,000**	**-**	**-**
Long-term loans payable	**¥42,557**	**¥150,028**	**¥3,816**	**¥-**

As of March 31, 2014:

	Thousands of U.S. dollars			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Short-term loans payable	**$575,136**	**$-**	**$-**	**$-**
Bonds payable	**39,448**	**97,163**	**-**	**-**
Long-term loans payable	**$413,496**	**$1,457,715**	**$37,077**	**$-**

As of March 31, 2013:

	Millions of yen			
	Within 1 Year	1 to 5 Years	5 to 10 Years	Over 10 years
Short-term loans payable	¥60,867	¥-	¥-	¥-
Bonds payable	10	14,060	-	-
Long-term loans payable	¥45,197	¥158,656	¥28,123	¥244

6. Short-Term Investment Securities and Investment Securities

Information on the value of short-term investment securities and investment securities as of March 31, 2014 and 2013 was as follows:

(1) Other securities (available-for-sale securities):
As of March 31, 2014:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	**¥37,854**	**¥21,503**	**¥16,351**
Debt securities			
Government and municipal bonds	**6,894**	**6,798**	**96**
Corporate bonds	**10,014**	**9,806**	**208**
Other	**2,353**	**2,297**	**56**
Sub-total	**57,115**	**40,404**	**16,711**
Book value not exceeding acquisition cost:			
Equity securities	**1,615**	**1,616**	**(1)**
Debt securities			
Government and municipal bonds	**17,829**	**17,990**	**(161)**
Corporate bonds	**6,361**	**6,404**	**(43)**
Other	**49**	**50**	**(1)**
Other	**1,108**	**1,126**	**(18)**
Sub-total	**26,962**	**27,186**	**(224)**
Total	**¥84,077**	**¥67,590**	**¥16,487**

As of March 31, 2014:

	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	**$367,800**	**$208,929**	**$158,871**
Debt securities			
Government and municipal bonds	**66,984**	**66,051**	**933**
Corporate bonds	**97,299**	**95,278**	**2,021**
Other	**22,862**	**22,318**	**544**
Sub-total	**554,945**	**392,576**	**162,369**
Book value not exceeding acquisition cost:			
Equity securities	**15,692**	**15,702**	**(10)**
Debt securities			
Government and municipal bonds	**173,232**	**174,796**	**(1,564)**
Corporate bonds	**61,805**	**62,223**	**(418)**
Other	**476**	**486**	**(10)**
Other	**10,766**	**10,942**	**(176)**
Sub-total	**261,971**	**264,149**	**(2,178)**
Total	**$816,916**	**$656,725**	**$160,191**

As of March 31, 2013:

	Millions of yen		
	Book value	Acquisition cost	Difference
Book value exceeding acquisition cost:			
Equity securities	¥64,760	¥22,206	¥42,554
Debt securities			
Government and municipal bonds	17,478	17,131	347
Corporate bonds	9,886	9,565	321
Other	1,992	1,918	74
Sub-total	94,116	50,820	43,296
Book value not exceeding acquisition cost:			
Equity securities	607	669	(62)
Debt securities			
Government and municipal bonds	4,812	4,864	(52)
Corporate bonds	2,210	2,226	(16)
Other	1,051	1,054	(3)
Sub-total	8,680	8,813	(133)
Total	¥102,796	¥59,633	¥43,163

(2) Other securities (available-for-sale securities) sold during fiscal years 2014 and 2013:

For the year ended March 31, 2014:

	Millions of yen		
	Sales amount	Total gains	Total losses
Equity securities	**¥49,172**	**¥47,148**	**¥2**
Debt securities			
Government and municipal bonds	**23,566**	**127**	**133**
Corporate bonds	**9,902**	**50**	**21**
Other	**1,972**	**8**	**14**
Total	**¥84,612**	**¥47,333**	**¥170**

For the year ended March 31, 2014:

	Thousands of U.S. dollars		
	Sales amount	Total gains	Total losses
Equity securities	**$477,769**	**$458,103**	**$19**
Debt securities			
Government and municipal bonds	**228,974**	**1,234**	**1,292**
Corporate bonds	**96,211**	**486**	**204**
Other	**19,161**	**78**	**136**
Total	**$822,115**	**$459,901**	**$1,651**

For the year ended March 31, 2013:

	Millions of yen		
	Sales amount	Total gains	Total losses
Equity securities	¥3,615	¥363	¥100
Debt securities			
Government and municipal bonds	8,998	123	22
Corporate bonds	3,251	58	6
Other	1,249	2	13
Other	7	8	1
Total	¥17,120	¥554	¥142

(3)The Company and its consolidated subsidiaries recognized ¥61 million in loss on devaluation of securities for fiscal year 2013.

For the purpose of recording a loss on devaluation of securities, the Company and its consolidated subsidiaries consider all the securities whose fair market values have fallen below 50% of the acquisition cost to be permanently impaired, and record relevant losses on devaluation. For securities whose fair market values have declined by between 30% and 50% in relation to their acquisition costs, the Company and its consolidated subsidiaries specifically consider the probability of recovery of fair market values and record losses on devaluation to the amount deemed permanently impaired.

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

Short-term loans payable as of March 31, 2014 and 2013, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Bank loans with average interest rate of 0.43% and 0.47% per annum as of March 31, 2014 and 2013, respectively	**¥59,193**	¥60,867	**$575,136**

Long-term debts as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Loans principally from banks and insurance companies due through 2024 with average interest rate of 0.93% and 1.05% per annum as of March 31, 2014 and 2013, respectively	**¥196,401**	¥232,220	**$1,908,288**
Unsecured 0.93% bonds due March 31, 2014	**-**	10	**-**
Unsecured 1.62% bonds due July 10, 2014	**4,000**	4,000	**38,865**
Unsecured 0.93% bonds due March 31, 2015	**60**	60	**583**
Unsecured 0.71% bonds due June 13, 2016	**10,000**	10,000	**97,163**
Subtotal	**210,461**	246,290	**2,044,899**
Less-Portion due within one year	**(46,617)**	(45,207)	**(452,944)**
Total	**¥163,844**	¥201,083	**$1,591,955**

Annual maturities of long-term debts as of March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
2015	**¥46,617**	**$452,944**
2016	**44,255**	**429,994**
2017	**43,028**	**418,072**
2018	**42,213**	**410,154**
2019	**30,532**	**296,658**
2020 and thereafter	**3,816**	**37,077**
Total	**¥210,461**	**$2,044,899**

Lease obligations as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Lease obligations due within one year as of March 31,2014 and 2013	**¥882**	¥905	**$8,570**
Lease obligations due after one year as of March 31,2014 and 2013	**1,099**	1,019	**10,678**
Total	**¥1,981**	¥1,924	**$19,248**

Annual maturities of lease obligations as of March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
2015	**¥882**	**$8,569**
2016	**697**	**6,772**
2017	**252**	**2,449**
2018	**110**	**1,069**
2019	**35**	**340**
2020 and thereafter	**5**	**49**
Total	**¥1,981**	**$19,248**

The following assets as of March 31, 2014 and 2013 were pledged as collateral for certain loans:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Property, plant and equipment	**¥41,358**	¥55,185	**$401,846**
Total	**¥41,358**	¥55,185	**$401,846**

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 ¥124,438 million (US$1,209,075 thousand) as of March 31, 2014. 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, 2014 and 2013 was as follows:

Derivative transactions to which hedge accounting is not applied

(1) Foreign currency contracts:

As of March 31, 2014

	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	**¥218,776**	**(¥686)**	**(¥686)**	**$2,125,690**	**($6,665)**	**($6,665)**
Euro	**6,134**	**(36)**	**(36)**	**59,600**	**(350)**	**(350)**
Canadian dollar	**20,782**	**0**	**0**	**201,924**	**0**	**0**

As of March 31, 2013

	Millions of yen		
	Notional Amount	Fair value	Valuation gain (loss)
Foreign exchange forward contracts:			
Sell-			
U.S. dollar	¥166,010	(¥7,083)	(¥7,083)
Euro	15,480	(448)	(448)
Canadian dollar	17,977	(605)	(605)

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, 2014

	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	**¥23,395**	**¥10,105**	**(*)**	**$227,312**	**$98,183**	**(*)**

As of March 31, 2013

	Millions of yen		
	Notional Amount	Over 1 year	Fair value
Interest rate swap contracts:			
Receive floating rate pay fixed rate			
	¥26,610	**¥22,395**	**(*)**

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, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Buildings and structures	**¥327,549**	¥320,042	**$3,182,559**
Machinery, equipment and vehicles	**485,990**	479,312	**4,722,017**
Vehicles and equipment on operating leases, net	**14,666**	17,140	**142,499**
Other	**265,699**	244,580	**2,581,607**
Subtotal	**1,093,904**	1,061,074	**10,628,682**
Accumulated depreciation	**(817,421)**	(786,734)	**(7,942,295)**
Accumulated impairment loss	**(27,717)**	(28,903)	**(269,306)**
Land	**187,931**	185,286	**1,825,991**
Construction in progress	**24,116**	14,232	**234,318**
Total	**¥460,813**	¥444,955	**$4,477,390**

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, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Total overdraft facilities and lending commitments	**¥4,150**	¥4,730	**$40,323**
Less amounts currently executed	**569**	694	**5,529**
Unexecuted balance	**¥3,581**	¥4,036	**$34,794**

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, 2014, 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 20 defined contribution plans, and five defined benefits pension plans. In addition, there are seven 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.

(Fiscal 2013)

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, 2013)

	Millions of yen
	2013
Plan assets	¥154,421
Projected benefit obligation	182,882
Funded status	(¥28,461)

(2) Contributions by the Company and its consolidated domestic subsidiaries as a percentage of total contributions to the multi-employer pension plan (mainly from April 1, 2012 to March 31, 2013): 17%

A reconciliation between the projected pension and severance obligation and accrued pension and severance liability was as follows:

	Millions of yen
	2013
a. Projected pension and severance obligation	¥107,266
b. Plan assets	(66,879)
c. Unfunded pension and severance obligations	40,387
d. Unamortized actuarial loss	(22,867)
e. Unamortized prior service cost	(445)
f. Net amount recorded in balance sheet	17,075
g. Prepaid pension cost	(17,842)
h. Accrued pension and severance liability	¥34,917

Notes: 1. The above amounts include the substitutional portion of the government pension plan funded by social security taxes paid by employees and employers.

2. Certain insignificant consolidated subsidiaries calculated the liability using the simplified method.

Periodic pension and severance costs, consisted of the following:

	Millions of yen
	2013
a. Service cost	¥9,592
b. Interest cost	1,504
c. Expected return on plan assets	(1,446)
d. Amortization of actuarial gain/loss	2,291
e. Amortization of prior service cost	43
f. Pension and severance cost	11,984
g. Gain/loss on transfer of the substitutional portion of the employee's pension fund	81
h. Total	¥12,065

Notes: 1. The above amounts do not include the welfare pension funds paid by employees.

2. The service cost of consolidated subsidiaries using the simplified method is included in the service cost above.
3. The service cost above includes required funding for the multi-employer pension plan amounting to ¥573 million, for which plan assets could not be allocated to each participating employer.
4. The service cost above includes contributions for the defined contribution plans of the Company and certain consolidated subsidiaries amounting to ¥3,086 million.
5. In addition to the pension and severance cost above, additional retirement payments amounting to ¥156 million were made. The entire ¥156 million of additional retirement payments are included in cost of sales and selling, general and administrative expenses. Also, other loss includes ¥366 million, which is paid as additional contribution when some consolidated domestic subsidiaries withdraw from the multi-employer pension plan.

Actuarial assumptions used in computation of pension and severance liability were as follows:

	2013
a. Attribution of expected benefit obligation	The straight-line method
b. Discount rate	0.5%–1.3%
c. Expected rate of return on plan assets	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)
e. Amortization of prior service cost	10 to 18 years

(Fiscal 2014)

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
	2014	**2014**
Balance at April 1, 2013	**¥101,700**	**$988,147**
a. Service cost	**5,565**	**54,071**
b. Interest cost	**1,173**	**11,397**
c. Actuarial loss (gain)	**(1,569)**	**(15,245)**
d. Benefits paid	**(4,049)**	**(39,341)**
e. Other	**(1)**	**(10)**
Balance at March 31, 2014	**¥102,819**	**$999,019**

Movements in plan assets, except plans applied simplified method

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at April 1, 2013	**¥66,714**	**$648,212**
a. Expected return on plan assets	**1,697**	**16,489**
b. Actuarial loss (gain)	**(1,628)**	**(15,818)**
c. Contributions paid by the employer	**23,029**	**223,756**
d. Benefits paid	**(2,743)**	**(26,652)**
Balance at March 31, 2014	**¥87,069**	**$845,987**

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

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Balance at April 1, 2013	**¥5,399**	**$52,458**
a. Increase due to the change of scope of consolidation	**203**	**1,972**
b. Retirement benefit cost	**720**	**6,996**
c. Benefits paid	**(417)**	**(4,052)**
d. Contributions paid by the employer	**(25)**	**(242)**
Balance at March 31, 2014	**¥5,880**	**$57,132**

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
	2014	**2014**
a. Funded retirement benefit obligations	**¥93,446**	**$907,948**
b. Plan assets	**(87,248)**	**(847,726)**
Sub total	**6,198**	**60,222**
c. Unfunded retirement benefit obligations	**15,432**	**149,942**
a+b+c. Total Net liability (asset) for retirement benefits at March 31, 2014	**21,630**	**210,164**
d. Net defined benefit liability	**22,852**	**222,037**
e. Net defined benefit asset	**(1,222)**	**(11,873)**
d+e. Total Net liability (asset) for retirement benefits at March 31, 2014	**¥21,630**	**$210,164**

Retirement benefit costs

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
a. Service cost	**¥5,565**	**$54,071**
b. Interest cost	**1,173**	**11,397**
c. Expected return on plan assets	**(1,697)**	**(16,489)**
d. Net actuarial loss amortization	**2,429**	**23,601**
e. Past service costs amortization	**42**	**408**
f. Additional retirement payments	**311**	**3,022**
g. Retirement benefit cost of the plan applying the simplified method	**720**	**6,996**
Total retirement benefit costs for the fiscal year ended March 31, 2014	**¥8,543**	**$83,006**

Accumulated adjustments for retirement benefit

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
a. Actuarial gains and losses that are yet to be recognized	**¥403**	**$3,916**
b. Past service costs that are yet to be recognized	**20,845**	**202,536**
Total balance at March 31, 2014	**¥21,248**	**$206,452**

Plan assets

Plan assets comprise:

	Percentage
a.Bonds	**54%**
b.Equity securities	**13%**
c.Cash and deposit	**23%**
d.Other	**10%**
Total	**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 at March 31, 2014 follow:

	2014
a. Attribution of expected benefit obligation	The straight-line method
b. Discount rate	0.6%–1.5%
c. Long-term expected rate of return	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)
e. Amortization of past service cost	10 to 19 years

Defined contribution pension plan

The amount required to contribute to defined contribution plans was 4,127 million (US$40,099 thousand), 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, 2014)

	Millions of yen	Thousands of U.S. dollars
	2014	**2014**
Plan assets	**¥91,753**	**$891,498**
Projected benefit obligation	**100,556**	**977,031**
Funded status	**(¥8,803)**	**($85,533)**

(2) Contributions by the Company and its consolidated domestic subsidiaries as a percentage of total contributions to the multi-employer pension plan (mainly from April 1, 2013 to March 31, 2014): 5%

Other than the above, ¥17,403 million (US$169,092 thousand) of postretirement benefit plan obligation 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 37.8% for fiscal years 2013.

A reconciliation of the statutory income tax rates in Japan to the Company's effective income tax rates for fiscal years 2014 and 2013 were as follows:

	2014	2013
Statutory income tax rate in Japan	-	37.8%
Increase (reduction) in taxes resulting from:		
Deduction of research and development expense	-	(2.1)
Entertainment expenses not qualifying for deduction	-	1.3
Changes in valuation allowance and tax benefits realized from loss carry forwards	-	(62.6)
Adjustment to past corporate income taxes payable and corporate income taxes refundable	-	(0.2)
Equity in earnings of affiliates	-	(0.0)
Difference of applicable tax rate in subsidiaries	-	(0.2)
Other	-	(2.6)
Effective income tax rate	-	(28.6%)

Note: The note for fiscal year 2014 is omitted because the difference between the statutory income tax rates in Japan and the Company's effective income tax is 5% or less of the statutory income tax rates.

Significant components of the deferred tax assets and liabilities as of March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Deferred tax assets:			
Accrued expenses	**¥15,409**	¥15,734	**$149,719**
Provision for product warranties	**13,804**	12,470	**134,124**
Accrued pension and severance liabilities	**-**	12,222	**-**
Net defined benefit liability	**15,077**	-	**146,492**
Depreciation and amortization expenses	**10,559**	10,557	**102,594**
Long-term accounts payable-other	**7,069**	6,908	**68,684**
Provision for bonuses	**7,265**	6,797	**70,589**
Unrealized profit on inventories	**15,894**	5,915	**154,431**
Loss on valuation of inventories	**2,011**	3,669	**19,539**
Net operating loss carryforwards	**1,274**	4,943	**12,379**
Other	**32,574**	14,039	**316,498**
Total deferred tax assets	**120,936**	93,254	**1,175,049**
Valuation allowance	**(23,669)**	(15,654)	**(229,975)**
Total deferred tax assets, net of valuation allowance	**97,267**	77,600	**945,074**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**(5,822)**	(14,779)	**(56,569)**
Depreciation and amortization expenses	**(4,821)**	(6,274)	**(46,842)**
Reserve for reduction entry	**(2,389)**	(2,382)	**(23,212)**
Prepaid pension cost	**-**	(6,289)	**-**
Net defined benefit asset	**(441)**	-	**(4,285)**
Other	**(11,075)**	(7,841)	**(107,608)**
Total deferred tax liabilities	**(24,548)**	(37,565)	**(238,516)**
Net deferred tax assets	**¥72,719**	¥40,035	**$706,558**

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
	2014	2013	**2014**
Current assets—Deferred tax assets	**¥64,214**	¥52,947	**$623,921**
Investments and other assets—Deferred tax assets	**18,332**	6,227	**178,119**
Current liabilities—Deferred tax liabilities (Other current liabilities)	**-**	-	**-**
Long-term liabilities—Deferred tax liabilities	**(9,827)**	(19,139)	**(95,482)**
Total net deferred tax assets	**¥72,719**	¥40,035	**$706,558**

(Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates)
On March 31, 2014, amendments to the Japanese tax regulations were enacted into law, and the statutory income tax rate for years beginning on or after April 1, 2014 will be changed. As a result of these amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled for years beginning on April 1, 2014 has been changed from 37.8% to 35.4%.

Due to these changes in statutory income tax rates, net deferred tax assets as of March 31, 2014 decreased by ¥1,861million (US$18,082 thousand) and deferred income tax expense recognized for the year ended March 31, 2014 increased by the same amount.

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 24, 2014, the shareholders approved cash dividends amounting to ¥25,766 million (US$250,350 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2014. 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
¥70 million (US$680 thousand) and minus ¥478 million as "Provision for loss on construction contracts" is included in "Cost of sales" for fiscal years 2014 and 2013, respectively.

15. Selling, General and Administrative Expenses

Selling, general and administrative expenses for fiscal years 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Freightage and packing expenses	**¥26,523**	¥22,033	**$257,705**
Advertising expenses	**64,332**	48,862	**625,068**
Sales incentives	**65,425**	44,147	**635,688**
Salaries and bonuses	**50,274**	44,719	**488,476**
Research and development expenses	**59,896**	49,018	**581,967**
Other	**86,919**	81,969	**844,530**
Total	**¥353,369**	¥290,748	**$3,433,434**

16. Gain on sales of investment securities

(Fiscal 2014)

Gain on sales of investment securities includes ¥47,118 million (US$457,812 thousand), the profit related to the sales of stock of Polaris Industries Inc. owned by FHI.

17. Allowances for doubtful accounts

(Fiscal 2014)

Allowances for doubtful accounts, the loss is associated with initial investment fees related to the AH-64D combat helicopter for the Japan Ministry of Defense as a precaution for the case that the ruling is upheld.

18. Other Income and Loss

(Fiscal 2013)

Other income includes ¥775 million that is mainly the reversal of extraordinary loss (loss on valuation of inventories) recorded in the prior period relating to the sale of inventories in the Aerospace division. In addition, ¥436 million is mainly the exemption from debts relating to the development resulting from the dissolution of contract about a specific project in the Aerospace division.

Other loss includes ¥2,463 million that is miscellaneous expenses related to the restructuring of Chinese sales network in the Automobile business, ¥2,099 million for disposal expenses of inventories related to the discontinuance of a specific project in Aerospace division and ¥1,054 million for the return of funds received for commissioned research and subsidies to the clean robot business in the prior period.

19. Finance Leases

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

Information as Lessee

(1) Transfer of title through finance lease transaction
[1] Leased assets
Mainly implements of production in the automotive business
[2] Depreciation method for leased assets
Leased assets are depreciated by the same method as used for other property, plant and equipment.

(2) Finance leases which do not transfer ownership title
[1] Leased assets
Mainly network equipment and terminal units (Other tangible assets) in the automotive business
[2] Depreciation method for leased assets
Leased assets are depreciated by the straight-line method over the leased period and the residual value is zero.

(3) Those finance lease transactions that had not had their ownership transferred on or before March 31, 2008, are recorded based on the same method as used for regular rental transactions.

[1] Pro forma information of such leases as of March 31, 2014 and 2013, was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Machinery, equipment and vehicles	**¥6**	¥231	**$58**
Other tangible assets	**95**	136	**923**
Intangible assets	**-**	6	**-**
Total	**101**	373	**981**
Accumulated depreciation/amortization	**(86)**	(336)	**(836)**
Net	**¥15**	¥37	**$145**

[2] The future minimum lease/rent payments, excluding the portion of interest thereon, as of March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Finance leases:			
Due within one year	**¥15**	¥28	**$146**
Due after one year	**2**	17	**19**
Total	**¥17**	¥45	**$165**

[3] Pro forma information related to finance leases for fiscal years 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Lease payment	**¥30**	¥79	**$291**
Depreciation and amortization expenses	**23**	71	**223**
Interest expense portion	**¥0**	¥1	**$0**

Information as Lessor

(1) The details of lease investment assets as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Obligation of lease fee receivable	**¥28,363**	¥26,712	**$275,583**
Estimated residual value	**322**	290	**3,129**
Interest expense portion	**(5,052)**	(4,857)	**(49,087)**
Lease investment assets	**¥23,633**	¥22,145	**$229,625**

(2) Lease revenue related to lease investment assets

Amounts of collections on lease receivable after the fiscal year ended March 31, 2014 and 2013, were as follows;

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Within 1 year	**¥8,510**	¥8,461	**$82,686**
1 to 2 years	**6,924**	6,801	**67,276**
2 to 3 years	**5,510**	5,127	**53,537**
3 to 4 years	**4,276**	3,576	**41,547**
4 to 5 years	**2,840**	2,570	**27,594**
Over 5 years	**¥303**	¥177	**$2,944**

20. Operating Lease

Information as Lessee

The future minimum lease/rent payments, excluding the portion of interest thereon, as of March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Operating leases:			
Due within one year	**¥2,130**	¥1,267	**$20,696**
Due after one year	**12,241**	5,409	**118,937**
Total	**¥14,371**	¥6,676	**$139,633**

Information as Lessor

The future minimum lease/rent payments receivable, excluding the portion of interest thereon, as of March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Operating leases:			
Due within one year	**¥212**	¥285	**$2,060**
Due after one year	**101**	136	**981**
Total	**¥313**	¥421	**$3,041**

21. Contingent Liabilities

Contingent liabilities as of March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
As guarantor of third-party indebtedness from financial institutions	**¥40,284**	¥44,543	**$391,411**

22. The Amount of Discount of Export Bill

The amount of discount of export bill as of March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
The amount of discount of export bill	**¥812**	¥1,714	**$7,890**

23. Transfer of Financial Assets to Special Purpose Company

The balance of financial assets transferred to special purpose company as of March 31, 2014 and 2013, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Balance of financial assets transferred to special purpose company(loan receivable of Automobiles and accounts receivable-trade of Aerospace)	**¥7,073**	**¥13,344**	**$68,723**

24. 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, 2014 and 2013 was summarized as follows

	Millions of yen		Thousands of U.S. dollars
Net Sales:	**2014**	2013	**2014**
Automobiles			
Outside customers	**¥2,246,624**	¥1,778,966	**$21,828,838**
Inter-segment	**3,261**	3,168	**31,685**
Sub-total	**2,249,885**	1,782,134	**21,860,523**
Aerospace			
Outside customers	**124,436**	89,148	**1,209,056**
Inter-segment	**-**	-	**-**
Sub-total	**124,436**	89,148	**1,209,056**
Industrial products			
Outside customers	**29,776**	30,148	**289,312**
Inter-segment	**567**	22	**5,509**
Sub-total	**30,343**	30,170	**294,821**
Other (*1)			
Outside customers	**7,293**	14,706	**70,861**
Inter-segment	**14,642**	13,941	**142,266**
Sub-total	**21,935**	28,647	**213,127**
Total	**2,426,599**	1,930,099	**23,577,526**
Adjustment (*2)	**(18,470)**	(17,131)	**(179,460)**
Consolidated total (*3)	**¥2,408,129**	¥1,912,968	**$23,398,066**

	Millions of yen		Thousands of U.S. dollars
Segment income:	**2014**	2013	**2014**
Automobiles	**¥308,973**	¥110,974	**$3,002,069**
Aerospace	**14,148**	6,819	**137,465**
Industrial products	**632**	640	**6,141**
Other (*1)	**2,099**	1,618	**20,394**
Total	**325,852**	120,051	**3,166,069**
Adjustment (*2)	**637**	360	**6,189**
Consolidated total (*3)	**¥326,489**	¥120,411	**$3,172,258**

			Thousands of
	Millions of yen		U.S. dollars
Segment assets:	**2014**	2013	**2014**
Automobiles	**¥1,639,760**	¥1,292,856	**$15,932,374**
Aerospace	**182,123**	179,755	**1,769,558**
Industrial products	**29,692**	67,951	**288,495**
Other (*1)	**53,533**	56,728	**520,142**
Total	**1,905,108**	1,597,290	**18,510,569**
Adjustment (*2)	**(16,745)**	(19,836)	**(162,699)**
Consolidated total (*3)	**¥1,888,363**	¥1,577,454	**$18,347,870**
			Thousands of
	Millions of yen		U.S. dollars
Other Items:	**2014**	2013	**2014**
Depreciation and amortization:			
Automobiles	**¥56,265**	¥56,430	**$546,686**
Aerospace	**3,758**	3,398	**36,514**
Industrial products	**411**	415	**3,993**
Other (*1)	**1,052**	1,301	**10,222**
Total	**61,486**	61,544	**597,415**
Adjustment (*2)	**-**	-	**-**
Consolidated total (*3)	**¥61,486**	¥61,544	**$597,415**
Investment to equity-method affiliates:			
Automobiles	**¥6**	¥242	**$59**
Aerospace	**-**	361	**-**
Industrial products	**520**	912	**5,052**
Other (*1)	**-**	-	**-**
Total	**526**	1,515	**5,111**
Adjustment (*2)	**-**	-	**-**
Consolidated total (*3)	**¥526**	¥1,515	**$5,111**
Increase of property, plant and equipment and intangible fixed assets:			
Automobiles	**¥90,782**	¥88,517	**$882,064**
Aerospace	**4,074**	3,897	**39,584**
Industrial products	**533**	377	**5,179**
Other (*1)	**3,148**	2,195	**30,587**
Total	**98,537**	94,986	**957,414**
Adjustment (*2)	**-**	-	**-**
Consolidated total (*3)	**¥98,537**	¥94,986	**$957,414**

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, 2014 and 2013 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Sales: (*1)			
Japan	**¥672,060**	¥671,819	**$6,529,926**
North America	**1,322,760**	895,986	**12,852,312**
[United States] (*2)	**[1,220,961]**	[815,801]	**[11,863,204]**
Europe	**134,680**	127,188	**1,308,589**
Asia	**154,392**	113,235	**1,500,117**
Other	**124,237**	104,740	**1,207,122**
Consolidated total	**¥2,408,129**	¥1,912,968	**$23,398,066**

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, 2014 and 2013 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Property, plant and equipment: (*1)			
Japan	**¥394,163**	¥390,135	**$3,829,801**
North America	**65,987**	54,216	**641,148**
[United States] (*2)	**[65,233]**	[53,479]	**[633,822]**
Europe	**486**	476	**4,722**
Asia	**-**	-	**-**
Other	**177**	128	**1,720**
Consolidated total	**¥460,813**	¥444,955	**$4,477,391**

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, 2014 and 2013.

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, 2014 and 2013 was summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Impairment loss in fixed assets:			
Automobiles	**¥35**	¥145	**$340**
Aerospace	**-**	-	**-**
Industrial products	**-**	-	**-**
Other	**-**	-	**-**
Total	**35**	145	**340**
Adjustment	**-**	-	**-**
Total	**¥35**	¥145	**$340**

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, 2014 and 2013 was summarized as follows:

Goodwill

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Amount written off of current period:			
Automobiles	**¥258**	¥294	**$2,507**
Aerospace	**-**	-	**-**
Industrial products	**-**	-	**-**
Other	**-**	-	**-**
Total	**258**	294	**2,507**
Corporate and elimination	**-**	-	**-**
Total	**¥258**	¥294	**¥2,507**
Balance at the end of current period:			
Automobiles	**¥2,369**	¥2,415	**$23,018**
Aerospace	**-**	-	**-**
Industrial products	**-**	-	**-**
Other	**-**	-	**-**
Total	**2,369**	2,415	**23,018**
Corporate and elimination	**-**	-	**-**
Total	**¥2,369**	¥2,415	**$23,018**

Information on Negative Goodwill by Reportable segments

No items to be reported.

25. 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 2014 and 2013, fair value at the end of fiscal 2014 and 2013 were as follows:

As of March 31, 2014

	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	**¥30,410**	**(¥67)**	**¥30,343**	**¥36,779**
Properties that include portions used as investment and rental property	**¥6,830**	**¥2,376**	**¥9,206**	**¥13,569**

As of March 31, 2014

	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	**$295,472**	**($651)**	**$294,821**	**$357,355**
Properties that include portions used as investment and rental property	**$66,362**	**$23,086**	**$89,448**	**$131,840**

As of March 31, 2013

	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	¥31,884	(¥1,474)	¥30,410	¥38,923
Properties that include portions used as investment and rental property	¥6,573	¥257	¥6,830	¥10,074

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 2014, principal increases were properties acquisitions etc, which amounted to ¥3,370 million (US$32,744 thousand), and principal decreases were depreciation, which amounted to ¥612 million (US$5,946 thousand), loss on sales and retirement, which amounted to ¥450 million (US$4,372 thousand).

Among changes in the amount of investment, rental property and properties that include portions used as investment and rental property during the fiscal 2013, principal increases were properties acquisitions etc, which amounted to ¥64 million, and principal decreases were loss on sales and retirement, which amounted to ¥1,667 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 2014 and 2013 concerning investment and rental property and properties that include portions used as investment and rental property were as follows:

As of March 31, 2014

	Millions of yen			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	**¥3,476**	**¥2,074**	**¥1,402**	**¥44**
Properties that include portions used as investment and rental property	**¥392**	**¥221**	**¥171**	**¥-**

As of March 31, 2014

	Thousands of U.S. dollars			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	**$33,774**	**$20,152**	**$13,622**	**$428**
Properties that include portions used as investment and rental property	**$3,809**	**$2,147**	**$1,662**	**$-**

As of March 31, 2013

	Millions of yen			
	Rental income	Rental expenses	Change	Other profit and loss
Investment and rental property	¥3,401	¥1,989	¥1,412	¥399
Properties that include portions used as investment and rental property	¥517	¥241	¥276	¥-

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.

26.Subsequent Event

None identified.

27.Other

On January 15, 2010, the Company filed a lawsuit with the Tokyo District Court against the Government of Japan for the payment totaling ¥35,124 million (US$ 341,275 thousand) of uncollected initial investment fees (amount paid for customization to the Japanese specifications) for the manufacture of the AH-64D combat helicopters for the Japan Ministry of Defense. On February 28, 2014, the Tokyo District Court rejected the case. On March 13, 2014, the Company appealed against the Tokyo District Court’s decision to the Tokyo High Court.

The payment totaling ¥29,624 million (US$ 287,835 thousand) of uncollected initial investment fees the Company and its suppliers paid is included in "Other assets" of "Investments and other assets". The claim of the lawsuit includes the uncollected initial investment fees, consumption tax and other amounts paid.

In case that the Tokyo High Court upholds the Tokyo District Court’s decision, ¥29,624 million (US$ 287,835 thousand) of allowance for doubtful accounts was recorded.

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 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

KPMG AZSA LLC
June 25, 2014
Tokyo, Japan